

Economic Conditions Preceding the 1929 Stock Market Crash

Economic circumstances in the United States in the decade prior to the Stock Market Crash set the stage for the economic turbulence which followed. Despite considering itself invincible from the ills of the rest of the world, the United States was setting itself up for an economic collapse. Indeed, the roots of the Great Depression were in the very structure and practices of the American society.

1. The United States populace throughout the 1920s embraced two economic trends:
 1. (everyone:) credit purchases and credit sales
 2. (wealthy mainly:) high luxury spending and investment
2. Advertising spending increased considerably
Pre-World War I it was \$300-\$400 million a year
In 1927: \$1.5 billion In 1929: \$1.8 billion
3. During the global recession of 1924 and 1927, the United States economy was kept buoyant by substantial construction activity and a willingness of consumers to buy durable goods. This construction industry component faced a two-fold problem: (1) a growing surplus caused by overbuilding, and (2) a reduction in the marriage rate. (ie, less demand for family homes)
4. “consumer durables”, were someone buys now but pays it off in installments, is noticeable:
 - 15% of all consumer durables were bought on installment payments;
 - 60% of automobiles were bought on installment payments
 - 80% of all radios were bought on installment payments
5. 50% of industry was controlled by the top 200 corporations in 1929
65% of industry was controlled by the top 600 corporations in 1929
49% of corporate wealth was controlled by the top 200 companies in 1929
22% of all wealth was controlled by the top 200 corporations in 1929
6. There was an absence of corporate competition throughout the 1920s. During World War I, many would-be competitors merged into huge corporations, like General Electric. This concentration of corporate wealth meant that if just a few companies went under, then the entire economy would suffer.
7. The total income of the top 0.1% of the population equaled the total income made by the bottom 42% of the population!
In January 1929, the top 1% of the population had incomes 650% greater than the bottom 11% of the population.
This tremendous concentration of wealth in the hands of a few meant that the American economy was dependant on high investment or luxury spending by the rich.
However, both high spending and high investment are very susceptible to fluctuations in the economy; they are much less stable than peoples expenses on daily necessities like food, clothing and shelter.
(When the stock market collapsed, both high spending and big investment will cease!)
8. Number of business failures in 1926: 22,000
9. There was an absence of anti-trust enforcement by the government
10. Minimum income deemed necessary for a decent family standard of living in 1929: \$2,500
Percentage of families with incomes under \$2,500 in 1929: 71%
11. Farm production in 1919 was worth \$21.4 billion \$11.8 billion in 1929
12. Percentage of national income held by farmers in 1919: 16%
Percentage of national income held by farmers in 1929: 9%
Number of farmers forced to give up their farms in 1929: 436,000
13. United States farmers were caught in a cycle of trends which lead to overproduction and plummeting prices. Farmers could not make enough money to pay off the debts they incurred during the war, when prices were good and investment in new harvesting and production machinery had been made. Few agricultural laws got passed by Congress, and Republican presidents of the 1920s tended to veto farm agricultural assistance, instead preferring to let the free market play itself out.
14. Rise in income for the top 1% of the population, 1920-1929: 75%
Rise in income for the nation as a whole from 1920-1929: 9%
15. 80% of American families had no savings in 1929
34% of savings held by the top 1% of Americans in 1929
67% of savings held by the top 2.3% of Americans in 1929
16. In January 1929, over half of the American population was living in poverty
17. Huge income disparities existed.
For instance, Henry Ford’s personal income was \$14 million, while the average income was only \$750,000
18. A “goofy” Wall Street is evidenced
The stock market boom began in the early-1920s, and by 1924 Wall Street was setting one-day records on a regular basis. With consumer buying up (thanks to overextended credit) and industrial production therefore booming, people began to speculate that the stocks were sound and worth investing in.
This led to ridiculous stock overpricing (because of the demand) and soon people began the dangerous practice of buying stock on credit, or cashing in good solid savings to gamble on the stability of the market.
There was no federal regulation of the Stock Market
19. Presidents Harding, Coolidge and Hoover all supported pro-business policies.
In 1926, Coolidge passed a law which reduced the federal inheritance tax.
20. People were purchasing stock in the Stock Market on credit.
21. In 1923, the Supreme Court decision in Adkin v. Children’s Hospital ruled that minimum wage legislation was unconstitutional.
(So there was no minimum wage!)
22. In the 1920s, banks were opening at a rate of four-to-five each day, but without many federal restrictions to determine how much start-up money a bank needed or how much of its reserves it could lend.
As a result, most of these banks shut down in a short period of time; between 1923 and 1929, banks closed at a rate of two a day.
23. World War I had turned the United States from a debtor nation into a creditor nation.
In the aftermath of the war, the United States was owed more money – from both the victorious Allies and the defeated Central Powers – than it owed to foreign nations.
The Republican Administrations of the 1920s insisted on payments in gold bullion, but the world’s gold supply was limited and by the end of the 1920s, the United States itself controlled most of the world’s gold supply. Besides gold, which was increasingly in short supply, countries could pay off their debts in goods and services. However, protectionism and high tariffs kept foreign goods out of the United States.
This protectionism produced a negative affect on United States exports; if foreign companies couldn’t pay their debts, they had no money to buy American goods.

*****Trigger for the October 1929 stock market collapse:
High interest rates were introduced by the Federal Reserve to curb speculation**