The great crash 1929 by John Galbraith (1954)

Other stock market crashes were 1873, 1907 & 1920. A speculative boom will cause a spectacular crash. The wise in Wall Street are nearly always silent. Tragedy wonderfully reveals the nature of man. A good knowledge of what happened in 1929 remains our best safeguard against its recurrence. Optimism kept Coolidge from seeing that a great storm was brewing. In the fever of speculation sanity is exposed to ridicule, when people want an excuse to believe.

In 1926 the great Florida real estate boon the supply of buyers could not sustain the prices, and it was over. And just to make sure two hurricanes drove the nail in the coffin. Some farmers who originally sold their land to speculators (who doubled or tripled the cost) were able to get it back through a series of defaults.

Britain returned to the gold standard in 1925 (at pre WWI ratio). The overvalued pound made it easy to sell to Britain, but costly to buy from them. Britain asked the US Federal Reserve for an easy money policy and the discount rate was lowered from 4% to 3.5%. The considerable volume of government securities gave the banks a surplus of cash. This resulted in one of the most costly errors committed by any banking system in 75 years. The funds were invested in stocks or loaned to others to buy stocks on margin (this volume is a good indicator of speculation volume).

Our society firmly believed that by affirming solemnly that prosperity will continue, one can help insure that prosperity will in fact continue. Hoover and others became concerned over the “growing tide of speculation” as early as 1925, but no one wants to be fingered as the man who stopped good years. When the supply of people buying for an increase was exhausted, everyone wants to sell and the prices plummet.

The Securities Exchange Act of 1934 gave the Federal Reserve Board the power to fix margin requirements. Some felt that perhaps it was worth being poor for a long time to be so rich for just a little while. Bankers were a source of encouragement to those who wanted to believe in the permanence of the boom. Only about 1% of the population was actively associated with the stock market at the time.

It is far better to be wrong in a respectable way than to be right for the wrong reasons. A well know characteristic of boom times is that the idea of their being terminated in the old, unpleasant way is rarely recognized as possible. The end has come, but it is not yet in sight.

Economic indicators of the Federal Reserve index (steel production, house starts & freight car loadings) reached a peak in June of ’29 (3 months before the stock market crash). Until hind-sight tells us otherwise people assume any down-turn will reverse itself.

On 29Oct 29 often there were no buyers until after wide vertical declines could anyone be induced to bid. One year’s gains were lost in one day. Some organized support tried to keep the balloon up, but it only delayed the inevitable. The man with the smart money was safely out of the market when the first crash came, naturally went back in to pick up bargains.

Some stocks dropped 75-90% over the next two years (some 99% loss). The NYSE had to go into a series of short sessions to give the overworked traders some rest and a chance to catch up.

A few well-timed businessmen were able to get a loan to purchase stocks and sold them that day. Anticipating the price would drop and they could buy them back later at a lower price to pay back the lender in like kind (short sell). The senseless gyrations of the market affected farm prices, land values and loan rates. In 1933 25% were out of work and in 1938 20% were still unemployed. Speculation will most likely break out after a substantial period of prosperity, and a recession will follow speculation. Only when the immunity of a strong memory of bad times wears off can a recurrence become possible.

Productivity per worker grew steadily between 1919 and 1929, but wages and costs remained comparatively stable. These increased profits gave more money to the owners & share holders, which they invested back into the stocks. This bad distribution of wealth caused a problem when 5% received 33% of all personal income, and thus caused more speculation.

The imbalance of foreign trade was also a problem since the US become a creditor during WWI and the next decade had a surplus of exports caused by tariffs. With other countries buying more than they sold, and had debt payments to make, had to somehow find the means for making up the trade deficit. Most were in gold payments or more government loans.

It was difficult for the government to maintain a balanced budget when revenues were down and spending was up. In 1932 they went off of the gold standard.