U.S. Congress Background Guide

Introduction

During the period from October 1929 to 1939, a monumental economic depression swept across the United States and the entire globe. After the stock market crash of 1929, both American and global economies suffered unprecedented losses. This disaster lead to extreme panic among all levels of society, including leaders who cracked under the immense pressure. As members of the United States Congress, delegates will be tasked to devise comprehensive solutions and regulations that help with damage control, recovery, rebuilding, and the eventual strengthening of the United States economy.

Causes

Most analysts believe that several combined factors led to the stock market crash of 1929. Rising bank loans, overproduction, public panic, cynical press, overpriced shares, and high interest rates all made significant contributions to the crash.

In the years leading up to the 1929 crash, people increasingly invested beyond their means with money that they didn't have. Bank credit grew rapidly during the 1920s and loans became easier to acquire. Individuals with little financial acumen were able to investment using mostly borrowed money and they often did not have the means to repay their debts. "Buying on

margin" became popular before the crash, as people with little financial backing were able to borrow money in order to purchase stocks. In some cases, the borrowers were only liable for 10 percent of the share value. By paying only a small portion of the value and borrowing the rest from a bank or stockbroker, many ordinary citizens invested into the market.

While the increased number of investors inflated the stock market, over speculation also created more issues. Throughout the Roaring Twenties, the market continued to rise at groundbreaking rates. Individuals and banks were encouraged by this economic growth and perceived strong in the strong market. The general populace believed that stocks would never cease to go up in value and many people invested without the fear of massive losses. Along with individuals and banks, agricultural and manufacturing industries were overconfident in the growing economy. Seeing frequent demand increases for their products during the 1920s, manufacturers and farmers continued to ramp up production. Unfortunately, overproduction led to surpluses of goods such as steel, farm crops, and iron. Without enough demand to meet their oversupply, many companies were forced to purge significant numbers of their products at losses. As a result, the share prices for those companies plunged.

Many experts claim that the press played a major role in exacerbating the market situation right before the crash. Articles such as "Prices of Stocks Crash in Heavy Liquidation" by the *New York Times* came out days before Black Thursday and induced widespread panic among the public. After hearing news about potential crashes within the market, numerous banks, firms, and individuals pulled money out of stocks and thus created a vacuum for the incoming stock market crash.

Stock prices continually rose in the 1920s. Several economists assert that, like the economy, stock prices peaked and drastically fell in 1929. Prior to the crash, the United States's economy was healthy. In the 1920s, the automobile industry was flourishing and unemployment was down. Overall success led the stock market to peak just before the crash. From August 1921 to September 1929, the Dow Jones Industrial Average expanded six times its size and peaked at 381 on September 3, 1929. During this period, stocks became overpriced and overvalued.

Just weeks before the crash, government intervention created instability in the stock market. Federal Reserve Bank of New York increased the interest rate from 5 to 6 percent. Many investors were not comfortable with this steep increase and began to move money out of stocks. With a single one percent change, the government greatly diminished investor willingness and damaged the stability of the stock market.

Main Events of the Crash

The main events of the stock market crash of 1929 can be summarized through three separate days. The crash began on Thursday, October 24, 1929, when investors traded a then record 12.9 million shares. The situation escalated further on "Black Monday", October 28, when the Dow Jones Industrial Average plummeted almost 13 percent. Finally, the market took its biggest fall the following day on "Black Tuesday", as it fell another 12 percent and over 16 million shares were traded on the New York Stock Exchange. Billions of dollars were lost on Black Tuesday and the industrialized world fell into the deepest and longest economic downturn

in all of history at that time. While the 1929 stock market crash wasn't the only cause of the Great Depression that took place from 1929 to 1939, it certainly accelerated the global economic depression and exacerbated the devastating effects during the aftermath.

Aftermath

The years that followed were some of the worst in American history. Millions of people of all classes and distinctions were affected, losing all of their savings. This caused many major banks and companies to go bankrupt and close. This crash was the primary cause of the notorious Great Depression, sweeping the 1930's and plunging society into a downward spiral of failing economy. Hundreds of banks across the nation lost copious amounts of money. By 1931, everyone was trying to withdraw their savings; however, the banks did not have the money to cover the difference for many people due to the innumerable loans given out by those same banks just years prior, as well as bank officials investing—and losing—money in the stock market during the crash. This caused widespread panic, as people were quickly realizing how bleak the economy was becoming. In 1931 alone, 32,000 banks fell through. Countless people across the nation and the world were hopeless, hungry, and destitute, as their entire life's savings were wiped clean. Unemployment in the United States skyrocketed as industries collapsed, peaking at 24.9% in 1933 at an average of over 14% from 1931 to 1940. Prior to the crash, the rate of unemployment in America never jumped into double digits since it began being recorded. Many families suffered and struggled greatly as they adjusted to their new ways of life, living dollar to dollar, rationing every single item of food, drink, and clothing they could manage in

order to stay afloat. Rates of suicide were also staggering during this time, jumping to 20% from 1929-1933, the highest ever through a four year period.

Recovery Measures

Though many accuse President Herbert Hoover of exacerbating the problem at hand (his presidency had overseen the greatest increase in unemployment in the history of the position), he did actively attempt to stop the profuse economic bleeding brought on by this massive recession. He introduced a new counter-cyclical program of public works spending in order to generate new jobs. Hoover also eased requirements for the issuing of Federal Reserve notes, approved farm subsidy increases, and established the Federal Home Loan Bank Board to assist mortgages. He established the New Reconstruction Finance Corporation in January of 1932, designed to lend tax dollars to straining American banks and companies. The agency's lending powers expanded to include financing local and state public works projects in July 1932 with the Emergency Relief and Construction Act. The problem with these new programs was financial, and Hoover attempted to pay for them through the Revenue Act of 1932, hiking corporate and estate tax rates, as well as the top personal tax bracket rate from 25% to 63%. Federal spending rose an unprecedented 48% during Hoover's presidency. Due to all of this remarkable spending on Hoover's end and very few positive results, Franklin D. Roosevelt easily took the election and was inaugurated in 1933. Once president, he introduced his now-acclaimed New Deal. For a full

breakdown of the extensive New Deal, visit this article here. FDR helped the banks by declaring national bank holidays, allowing the government to determine which banks needed assistance and were worth saving. FDR established the Federal Deposit Insurance Corporation (FDIC) in 1933, which ensured investors that they would get their money back even if the bank itself couldn't cover it, restoring the public's trust in banking.

Questions to Consider

1. What are some policies that could have been added to the Recovery Measures in order to accelerate the recovery process?
2. Is there any policy(s) that could have been redacted for the benefit of the recovery process?
3. How would you adjust national and/or international trade post-stock market crash?
4. What could your particular Senator or Representative do to foster job creation?
5. What further policies would you enact to avoid this particular problem in the future (i.e. adjustment of interest rates to improve the stability of the stock market)?
6. How does the party affiliation of your Senator or Representative affect your position?
7. What immediate measures could be taken in order to alleviate the devastating effects of unemployment?
8. How can your Senator or Representative collaborate within and outside state lines to bolster the recovery process?

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