

## Wall Street Crash of 1929



Crowd gathering on Wall Street.

The **Wall Street Crash of 1929**, also known as **the Crash of '29**, was one of the most devastating [stock market crashes](#) in American history. It consists of **Black Thursday**, the initial crash and **Black Tuesday**, the crash that caused general panic five days later. The crash marked the beginning of widespread and long-lasting consequences for the [United States](#). Though economists and historians disagree on exactly what role the crash had in the subsequent economic fallout, some regard it as the start of the [Great Depression](#). Most historians, however, agree that it was actually a symptom of the Great Depression, rather than a cause. The crash was also the starting point of important financial reforms and trading regulations.

At the time of the crash, [New York City](#) had grown to be a major financial capital and [metropolis](#). The [New York Stock Exchange](#) (NYSE) was the largest stock market in the world. The [roaring twenties](#) were a time of prosperity and excess in the city, and, despite warnings of speculation, many believed that the market could sustain high price levels. In the words of [Irving Fisher](#), "*Stock prices have reached what looks like a permanently high plateau.*"<sup>[1]</sup> The euphoria and financial gains of that great [bull market](#) were shattered on [October 24, 1929, Black Thursday](#), when [share prices](#) on the NYSE collapsed. Stock prices fell on that day and they continued to fall, at an unprecedented rate, for a full month.

In days leading up to Black Thursday the market was unstable. Periods of panic selling and high volumes of [trading](#) were interspersed with brief periods of rising prices and recovery. After the crash the [Dow Jones Industrial Average](#) (DJIA) recovered early in [1930](#), only to reverse again, reaching a low point of the great [bear market](#) in [1932](#). The market did not return to pre-[1929](#) levels until late [1954](#),<sup>[2]</sup> and was lower at its [July 8, 1932](#) level than it had been since the 1800s.<sup>[3]</sup>

“ Anyone who bought stocks in mid-1929 and held on to them saw most of his adult life pass by before getting back to even. ”

—[Richard M. Salsman](#)<sup>[4]</sup>

## Timeline



The trading floor of the New York Stock Exchange just after the crash of 1929.

After an amazing five-year run that saw the Dow Jones Industrial Average (DJIA) increase in value fivefold, prices peaked at 381.17 on [September 3, 1929](#). The market then fell sharply for a month, losing 17% of its value on the initial leg down. Prices then recovered more than half of the losses over the next week, only to turn back down immediately afterwards. The decline then accelerated into the so-called "Black Thursday", [October 24, 1929](#). A record number of 12.9 million shares were traded on that day.

At 1 p.m. on Friday, [October 25](#), several leading [Wall Street bankers](#) met to find a solution to the panic and chaos on the trading floor. The meeting included [Thomas W. Lamont](#), acting head of [Morgan Bank](#); [Albert Wiggin](#), head of the [Chase National Bank](#); and [Charles E. Mitchell](#), president of the [National City Bank](#). They chose [Richard Whitney](#), vice president of the Exchange, to act on their behalf. With the bankers' financial resources behind him, Whitney placed a bid to purchase a large block of shares in [U.S. Steel](#) at a price well above the current market. As amazed traders watched, Whitney then placed similar bids on other "[blue chip](#)" stocks. This tactic was similar to a tactic that ended the [Panic of 1907](#), and succeeded in halting the slide that day. In this case, however, the respite was only temporary.

Over the weekend, the events were dramatized by the newspapers across the United States. On Monday, [October 28](#), more investors decided to get out of the market, and the slide continued with a record 13% loss in the Dow for the day. The next day, "Black Tuesday", [October 29, 1929](#), 16.4 million shares were traded, a number that broke the record set five days earlier and that was not exceeded until [1969](#).

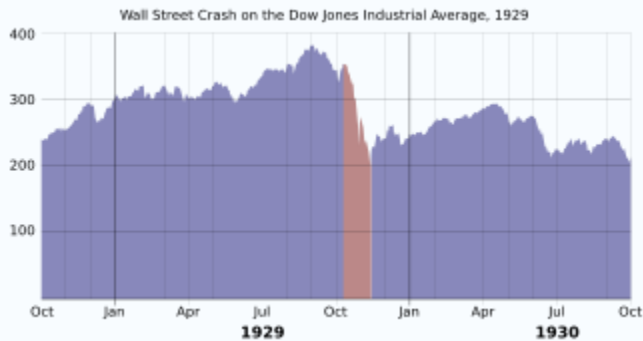
Author [Richard M. Salsman](#) wrote that on [October 29](#)—amid rumors that [U.S. President Herbert Hoover](#) would not veto the pending [Smoot-Hawley Tariff](#) bill—stock prices crashed even further."<sup>[4]</sup> [William C. Durant](#) joined with members of the [Rockefeller family](#) and other financial giants to buy large quantities of stocks in order to demonstrate to the public their confidence in the market, but their efforts failed to stop the slide. The DJIA lost another 12% that day. The ticker did not stop running until about 7:45 that evening. The market lost \$14 billion in value that day, bringing the loss for the week to \$30 billion, ten times more than the annual budget of the federal government, far more than the U.S. had spent in all of [World War I](#).<sup>[5]</sup>

An interim bottom occurred on [November 13](#), with the Dow closing at 198.6 that day. The market recovered for several months from that point, with the Dow reaching a secondary peak at 294.0 in

April 1930. The market embarked on a steady slide in April 1931 that did not end until 1932 when the Dow closed at 41.22 on [July 8](#), concluding a shattering 89% decline from the peak. This was the lowest the stock market had been since the 19th century.<sup>[6]</sup>

Salsman observed that "As late as April 1942, U.S. stock prices were still 75% below their 1929 peak and would not revisit that level until *November 1954*—almost a quarter of a century later."<sup>[4]</sup>

## Economic fundamentals



Dow Jones Industrial, 1928-1930

The crash followed a [speculative](#) boom that had taken hold in the late 1920s, which had led millions of Americans to invest heavily in the stock market, a significant number even [borrowing money](#) to buy more stock. By August 1929, brokers were routinely lending small investors more than 2/3 of the face value of the stocks they were buying. Over \$8.5 billion was out on loan, more than the entire amount of currency circulating in the U.S.<sup>[7]</sup> The rising share prices encouraged more people to invest; people hoped the share prices would rise further. Speculation thus fueled further rises and created an [economic bubble](#). The average [P/E](#) (price to earnings) ratio of S&P Composite stocks was 32.6 in September 1929<sup>[8]</sup>, clearly above historical norms.

On [October 24, 1929](#) (with the Dow just past its [September 3](#) peak of 381.17), the market finally turned down, and panic selling started. 12,894,650 shares were traded in a single day as people desperately tried to mitigate the situation. This mass sale was considered a major contributing factor to the Great Depression. Economists and historians, however, frequently differ in their views of the Crash's significance in this respect. Some hold that political over-reactions to the crash, such as the passage of the [Smoot-Hawley Tariff Act](#) through the [U.S. Congress](#), caused more harm than the Crash itself.

## Official investigation of the Crash

In 1931, the [Pecora Commission](#) was established by the [U.S. Senate](#) to study the causes of the Crash. The U.S. Congress passed the [Glass-Steagall Act](#) in 1933, which mandated a separation between [commercial banks](#), which take deposits and extend [loans](#), and [investment banks](#), which underwrite, issue, and distribute [stocks](#), [bonds](#), and other [securities](#).

After the experience of the 1929 crash, stock markets around the world instituted measures to temporarily suspend trading in the event of rapid declines, claiming that they would prevent such panic sales. The one-day crash of Monday, [October 19, 1987](#), however, was even more severe than the Crash of 1929. On so-called [Black Monday](#) of 1987, the Dow Jones Industrial Average fell a full 22.6% (the markets quickly recovered, posting the largest one-day increase since 1932 only two days later).

## Impact and academic debate

The Wall Street Crash had a major impact on the U.S. and world economy, and it has been the source of intense academic debate—historical, economic and political—from its aftermath until the present day. The crash marked the beginning of widespread and long-lasting consequences for the United States. The main question is: Did the crash *cause* the depression, or did it merely coincide with the bursting of a credit-inspired economic bubble? The decline in stock prices caused bankruptcies and severe macroeconomic difficulties including business closures, firing of workers and other economic repression measures. The resultant rise of mass unemployment and the depression is seen as a direct result of the crash, though it is by no means the sole event that contributed to the depression; it is usually seen as having the greatest impact on the events that followed. Therefore the Wall Street Crash is widely regarded as signaling the downward economic slide that initiated the Great Depression.

Many academics see the Wall Street Crash of 1929 as part of an historical process that was a part of the new theories of [Boom and bust](#). According to economists such as [Joseph Schumpeter](#) and [Nikolai Kondratieff](#) the crash was merely a historical event in the continuing process known as [Economic cycles](#). The impact of the crash was merely to increase the speed at which the cycle proceeded to its next level. According to the economist [Milton Friedman](#), in the immediate aftermath of the crash, the [Federal Reserve](#) did not sufficiently expand the money supply and so turned the recession into a depression.

### See also

- [Great Depression](#)
- [Market trends](#)
- [Stock market crash](#)
- [NYSE](#)
- [Stock Exchange](#)
- [Dot-com bubble](#)
- [Securities regulation in the United States](#)

### Notes

1. [^](http://www.cfo.com/printable/article.cfm/9059304/c_9064230?f=options) [http://www.cfo.com/printable/article.cfm/9059304/c\\_9064230?f=options](http://www.cfo.com/printable/article.cfm/9059304/c_9064230?f=options)
2. [^](#) [DJIA 1929 to Present](#) (Yahoo! Finance).
3. [^](#) [Dow Jones 1900-2000](#)
4. [^](#) [a](#) [b](#) [c](#) [Salsman, Richard M.](#) "The Cause and Consequences of the Great Depression, Part 1: What Made the Roaring '20s Roar" in *The Intellectual Activist*, ISSN 0730-2355, June, 2004, p. 16. Emphasis original.
5. [^](#) [pbs.org](#) – [New York: A Documentary Film](#)
6. [^](#) [Liquid Markets](#).
7. [^](#) [pbs.org](#) — [New York: A Documentary Film](#)
8. [^](#) Shiller, Robert (2005-03-17). "[Irrational Exuberance, Second Edition](#)". Princeton University Press. Retrieved on [2007-02-03](#).

### Further reading

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  - "Part 2: Hoover's Progressive Assault on Business", July, 2004, pp. 10–20.
  - "Part 3: Roosevelt's Raw Deal", August, 2004, pp. 9–20.
  - "Part 4: Freedom and Prosperity", January, 2005, pp. 14–23.
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