Analysis of the Wall Street Crash of 1929 as a Cause of the Great Depression in America

The aim of this research task is to establish to what extent the Wall Street Crash (1929) caused the Great Depression in America in the 1930s. Other than the Wall Street Crash, there were economic, social and political problems in America that played a role in causing the Great Depression such as an unequal distribution of wealth, agricultural problems, unemployment, US tariffs and loans owed to the US.

The uneven distribution of wealth eventually resulted in unemployment and was a contributing factor to the collapse of the US economy known as the Great Depression. Groups such as African Americans, Native Americans and workers did not experience the same benefits of the economic boom in the early 1920s as other Americans such as the high or middle-class Americans. Many workers were exploited resulting in low wages and poor lifestyle. Many African Americans and Native Americans were discriminated against and had a poor standard of living. Many individuals in these groups lived in poverty and this meant they were too poor to buy the goods produced. The demand of goods reduced because people did not have the money to buy these goods, and the decrease in demands resulted in factories producing fewer goods. The reduction of goods produced in factories meant that not as many workers were needed in the factories therefore people lost their jobs.

However, the Stock Market Crash contributed to the Great Depression because it increased unemployment and caused many individuals to lose their savings in bank (Bottaro et al., 2012). Share prices rose steadily in the 1920s but shares were eventually being sold for more than their value. Investors began selling shares to get their money and this resulted in an excess of shares being offered when demand for the shares decreased. The decreasing demand for shares immensely decreased the value of shares. Shares no longer had value and people then stopped investing their money in shares. Those who still had shares were unable to repay loans to banks because they lost their money investing in worthless shares, resulting in bank failures and a further loss of money for individuals who kept their life savings in the collapsing banks. People could no longer afford goods because banks lost their life-savings. The Stock Market Crash resulted in the decrease of demand for goods because people could no longer afford them. Production in factories had to decrease because less people could afford goods produced; resulting in many workers lost their jobs.

Furthermore, standards of living dropped because people became unemployed and could no longer afford basic necessities. Unemployed people could no longer pay their rents and had to be evicted. Many people became homeless and travelled from place to place looking for jobs.

Agricultural problems eventually resulted in the unemployment of many, and this contributed to the economic recession because people were no longer earning money to live off. The farming industry in America was booming during World War 1 because food was in high demand from Europe. American farmers produced a lot of food because of high demands and this high demand brought in much profit for them during the War, but the end of War resulted in a decrease of food demand. The decrease in demand resulted in a surplus of food grown by American farmers, resulting in farmers decreasing the price of their produce in order to sell their excess produce and make some money. Farmers had surplus food and were earning less income for it. The reduction of income for farmers led to farm workers losing jobs because farmers could no longer afford to employ these people.

Furthermore, new methods using by growing industries in the 1920s increased unemployment (Walsh, 2001). Mass production was used in many industries and fewer workers were needed to produce goods. People became unemployed due to a reduction in the demand for labour and those who were unemployed did not earn enough money to live off of or buy necessities. The lack of sales resulted in the demand for goods decreasing and business profits decreased. New industries developed in American used a form of production that negatively affected the economy by increasing unemployment.

In addition, the failure of European countries to repay loans granted to them by private American companies resulted in great money loss for America these companies. (American companies granted loans to Europe during the War and these loans were used to help European military and buy war supplies. After WW1 the loans were used by Europe to strengthen their damaged economy as a result of the War. Millions of dollars were lost by the American Companies because many loans were not repaid. War debts contributed to the Great Depression when European countries did not pay back loans and fortunes from American companies were lost. Unpaid loans contributed to the Great Depression because it resulted in less money being brought into the US economy, limiting development in the economy.

However, the Stock Market Crash resulted in businesses struggling to keep their business afloat. Banks collapsed when the stock market crashed and businesses no longer trusted their money with banks. Bank failures also meant that businesses could not get loans needed for expansion and to maintain business operations, resulting in businesses retrenching workers or reducing employees' wages to keep afloat. The Stock Market Crash led to bank failures which prevented businesses from contributing to the economy because businesses lacked funding to continue or improve their operations and make a profit. The Stock Market Crash also resulted in poor standard of living for those who lost their jobs or earned less money because they had to be fired or their wages had to be reduced in order for businesses to keep afloat.

Furthermore, “millions of wage earners or poorly paid professional workers had invested all or a large part of their accumulated funds in carrying stocks on margin”. This meant that workers were not only affected by wage reductions or being retrenched due to the Stock Market Crash, but those workers also lost their savings due to the Crash of October (1929).

US tariffs contributed to the economic instability in America by indirectly increasing agricultural problems. America’s policy of protective tariffs made imports expensive to protect local business from foreign competition thereby giving local businesses an opportunity to gain profits. US tariffs limited goods being imported therefore European countries did not export many goods to the US. The decreasing exported goods resulted in less money being made by European countries, therefore European countries could not use its funds to purchase America’s surplus food when the sale of the surplus food was essential to reduce America’s agricultural problem.

The Stock Market Crash in America in 1929 was to a lesser extent the cause of the Great Depression. The stock market crash resulted in bank failures, business failures, worsened agricultural problems and unemployment. However, there were many other factors that caused the Great Depression. An unequal distribution of wealth, agricultural problems and unemployment were on-going problem in the US economy prior the Stock Market Crash in October 1929 and these problems were contributing factors of Great Depression in America in the 1930s. US tariffs and loans not being paid back were also contributing factors of the Great Depression.