Why did Wall Street ‘crash’?

During the 1920s, it seemed as if the stock market was an easy way to get rich. Anyone could buy shares, watch their value rise and then sell the shares later at a higher price (see Source A). Banks were more than willing to lend money to these share speculators (another word for an investor) knowing that they would get their money back soon – with interest!

**Source A** Big profits could be made by ‘playing the stock market’.

“If an investor bought 1000 shares in Radio [a company that made radios – obviously!] in March 1928, they would have cost $940. The shares were 94 cents each. If they sold the shares in September 1929, then they would have been able to get $5050 for them because the share price had risen to $5.05 for each one. That’s a profit of $4110.”

However, disaster was just around the corner. Not all Americans had the wealth to buy the goods made by companies and there was a limit to the number of cars, radios, telephones and refrigerators the more wealthy people could buy. After all, a family home is highly unlikely to have more than one oven, vacuum cleaner or refrigerator. American factories were *overproducing* – making goods faster than they could sell them – and profits were beginning to fall!

To begin with, in September 1929, one or two cautious people began to sell their shares. They were worried that they wouldn’t get their share of company profits at the end of the year. As word spread about the falling profits of leading American companies, more and more people began to sell their shares. The result was astonishing. Shareholders realized that their shares (which were only pieces of paper entitling them to a share of company profits) were only worth something if someone was willing to buy them. As they tried to turn their shares into cash, they dropped their share price to attract a buyer. On 24 October 1929, 13 million shares were sold on the Wall Street Stock Exchange (five times as many as on a normal day) and share prices in nearly all companies began to drop. The price of a share in the General Electric Company fell from $3.15 to $2.83 and shares in Radio fell by 24 cents. Some investors called this the ‘crash’.

Once the rush to sell began, the situation got worse and worse. People just didn’t want their shares – they wanted their cash instead – so they dropped their prices more and more to attract a buyer. On Tuesday 29 October, there was another mad panic as overproducing factories were worried that they wouldn’t get their share of company profits at the end of the year. As word spread about the falling profits of leading American companies, more and more people began to sell their shares. The result was astonishing. Shareholders realized that their shares (which were only pieces of paper entitling them to a share of company profits) were only worth something if someone was willing to buy them. As they tried to turn their shares into cash, they dropped their share price to attract a buyer. On 24 October 1929, 13 million shares were sold on the Wall Street Stock Exchange (five times as many as on a normal day) and share prices in nearly all companies began to drop. The price of a share in the General Electric Company fell from $3.15 to $2.83 and shares in Radio fell by 24 cents. Some investors called this the ‘crash’.

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The shares of Union Cigar fell from $113 per share to $4 per share. The president of the company committed suicide by jumping from a top-floor window of a New York hotel.

**Source B** The cost of one share in ten American companies. Imagine if you had borrowed money from a bank to buy $100 Radio shares in September 1929 – and then tried to sell them in November when the bank asked for its money back!

**Source C** Author Geoffrey Pennett talking on the TV series America’s Century.

> “There was a janitor called George Gallies who had $1000 in the Bank of the United States. It had taken Gallies 40 years to save $1000. After spending two nights and two days in the pouring rain outside this shuttered, locked bank, beating on the walls with his hands in frustration, he realized he was never going to see ten cents of his money. So he went back to the basement where he lived and he hanged himself in despair. That’s what bank failures did – they crushed hundreds of thousands of ordinary people like George Gallies.”

**Source D** A photograph of worried investors on Wall Street taken on Black Thursday, 1929.

As the year went on, things got even worse. Many Americans had borrowed money from banks to buy shares, hoping to pay back their loans when the shares rose in price. But when share prices fell, investors couldn’t sell their shares for a high enough price to be able to pay their bank back in full. If enough customers couldn’t pay back their loans, the banks went bankrupt. When this happened, ordinary people who had savings in the bank lost all their money (see Source C). In 1929 alone, 659 banks went bust!

**FACT** Suicide!

The shares of Union Cigar fell from $113 per share to $4 per share. The president of the company committed suicide by jumping from a top-floor window of a New York hotel.

**Source B** The stock market 'crash'?
Luigi Barzini, an Italian immigrant, remembers the Wall Street Crash. He was a schoolboy at the time.

**FACT**

How does a bank work?

American banks in the 1920s, which were often small, one-town operations, worked like this—there were two parts to the bank:

- *Savings*—people put their savings into the bank; the bank rewarded them each year with an interest payment, for example, 5% of what you saved. If you saved $1000, the bank would give you a $50 interest bonus.

- *Loans*—people could borrow money from the bank, but would have to pay the bank an interest payment each year, for example, 10% of the loan. If you borrowed $1000, you would have to pay back $1100.

In 1929, the problems started when people couldn’t pay back their loans because they’d swapped their money for new worthless shares. The bank had loaned out all the ‘savings’ money to those who wanted loans. The money had gone... and banks went bankrupt.

**WORK**

1. a Why did some people begin to sell their shares in September 1929?
   b What happens to share prices as more and more people sell their shares?
   c What happened on ‘Black Thursday’?
   d Why did many banks go ‘bankrupt’ as a result of the Crash?
2. Look at Source B.
   a Imagine you had bought 100 shares in ‘Radio’ in September 1929. How much would you have paid for them?
   b How much would you be able to get if you sold your 100 shares after the Crash, in November 1929?
   c How much money would you have lost on these shares?
3. Look at Source E.
   a What evidence is there in this photograph that the seller of this car made lots of money on the stock market before the Crash?
   b Why do you think the man was trying to sell his car so urgently?
   c Do you think he found a buyer? Give reasons for your answer.
4. What do Sources C, D, E, F and G tell us about the effects of the Crash on some people?

**GCSE Question time**

- What was the Wall Street Crash?