**Historical Investigation**

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**Section A: Identification and Evaluation of Sources**

This investigation will seek to answer the question: To what extent was the proliferation of buying on margin the primary cause of Black Tuesday in the New York Stock Exchange on 10/29/1929? Gene Smiley’s journal article *Margin Purchases, Brokers' Loans and the Bull Market of the Twenties* is relevant and significant because it offers numerical data regarding the proliferation and effects of buying on margin before the crash. Maury Klein’s book *Rainbow’s End: The Crash of 1929* is relevant and significant because it also looks into the role of banks and Federal Reserve policies in perpetuating the crash. Together, these sources investigate not only how important buying on margin was in precipitating the crash of 1929, but also how the situation could have given rise to other factors that were just as important in causing the crash.

Smiley, Gene, and Richard H. Keehn. “Margin Purchases, Brokers' Loans and the Bull Market of the Twenties.” Business and Economic History, vol. 17, 1988, pp. 129–142. JSTOR, www.jstor.org/stable/23702966.

The origin of this article is that it was written in 1988 by Gene Smiley, a Professor Emeritus of Economics at Marquette University who was also past President of the Economic and Business Historical Society. A value is that Smiley's past position as president of the Economic and Business Historical Society, a moderate organization, allows him to take a holistic view on the crash. However, a limitation is that since Smiley specializes more in economics and less in history, he lacks the historical context to successfully analyze the complex forces driving the market in 1929.

The purpose of this article is to reevaluate the widely accepted view that margin purchases and brokers’ loans caused Black Tuesday. The value of the purpose is that since the article is reevaluating, it considers and builds off of existing strong arguments. A limitation is that since Smiley structures his argument around reevaluation of prior interpretations, he brings in little new evidence to support his claims.

The content of this article is analysis discrediting the claim that margin purchases and brokers’ loans caused Black Tuesday, supported by a study of primary accounts. A value is that because a lot of primary sources are cited, there is plenty of direct evidence regarding the situation. The limitation of the content is that because Smiley focuses on the effect of margin purchases and brokers’ loans, other possible factors and their relations to the crash are omitted, while the connection of those causes to margin purchases and brokers’ loans is oversimplified.

Klein, Maury. Rainbows End: The Crash of 1929. Oxford University Press, 2001.

This origin of this book is that it was written in 2001 by Maury Klein, a Professor Emeritus of History at the University of Rhode Island who specializes in American business history. A value of the origins is that since Klein specializes in business history, he can give educated insight on possible causes of the crash by drawing parallels with other historical economic disasters. A limitation is that because the University of Rhode Island is liberal, Klein's analysis reflects liberal economics, and with it, an opposition to governmental intervention in the economy.

The purpose of this book is to defend the notion that a host of varying factors, not simply causes nested within the stock market, prompted the crash of 1929. A value of the purpose is that since Klein defends various non-monetary factors, he poses strong arguments for commonly overlooked possible causes. A limitation is that since Klein is defending other factors, there is lesser focus on the effects of buying on margin.

The content of this book is an investigation of how causes of the crash were not solely economically oriented, as supported by multiple perspectives. A value of the content is that since Klein cites many contemporary and historical sources to support his claims, the writing is relatively moderate and unbiased. A limitation is that since Klein asserts the crash cannot be explained by economics or observable forces but should instead be justified by levels of market optimism, he focuses on more marginal factors such as sports, religion, or other aspects of culture and society which do not have initially clear relations to the crash.

**Section B: Investigation**

Following a postwar recession, the “Roaring Twenties” was fueled by rising consumerism causing overconfidence in the national economy. Easy credit and the proliferation of margin purchases enabled many to get rich quickly, at the cost of corroding market stability. Such deficiencies were overlooked until October 1929, when the New York Stock Exchange went into the most vicious economic downward spiral in history, with the Dow dropping 25% by the end of Black Tuesday. There is uncertainty surrounding the causes of the crash because the emergence of multiple new patterns in the market during the 1920s makes it impossible to isolate a single variable as the sole cause. The proliferation of buying on margin was a primary cause of Black Tuesday to a high extent, but more primarily, Black Tuesday was caused by the presence of easy credit.

The extent to which the proliferation of buying on margin caused Black Tuesday was high, because of unwise speculation. There were no set margin requirements prior to the crash – they were determined by individual brokerages and banks (Rappoport 272). This allowed for the existence of extremely low margins requirements, some as low as 10% from the mid-twenties to 1929 (Smiley 133). A New York Stock Exchange questionnaire found margins averaging around 40% by early 1929 (Rappoport 274). As purchases were not backed by real money, the loan system became precarious when investors and bankers started defaulting on one another. Margin purchases were very common – for example, the number of stockbrokers in the US rose from 29,609 in 1920 to 70,950 by 1930 (Wecter 3). This aided the economic development, but also rooted instability into the economy as it promoted the proliferation of margin purchases. At the same time, rapid growth occurred in loans from private investors, corporations, and foreign banks – bankers’ loans from nonbank sources went from 25-30% in 1922 to 1925 to 78% by October 1929 (White 75) (Smiley 137). Furthermore, investment trusts from 40 in 1921 to over 750 in 1929 (White 69). These increases demonstrate the extent to which margin purchases grew over the course of the 1920s. New listings on the New York Stock Exchange rose from 58 million shares in 1925 to 102 million in 1928 (Klein Rainbow 146). The increasing volume of stocks being issued and exchanged provided more opportunities for speculators to buy on margin, further destabilizing the market. Furthermore, margin transactions went quickly, allowing inexperienced speculators to borrow considerable sums of money (Smiley 130). This accounts for many of the defaults and failures in 1929, which exacerbated Black Tuesday. An estimated 90% of market transactions in the 1920s were such gambling ventures, not permanent transactions (Wecter 5). Thus, the debt structure constructed by the system of loans resulting from margin purchases allowed fluctuations in the market to easily trigger Black Tuesday.

Underlying widespread margin purchases was the presence of easy credit, which was the primary cause of Black Tuesday in 1929. In 1927, an outflow of $500 million in gold led New York city banks to withdraw from the call loan market, to be replaced by corporations, individuals, and foreigners lured by high interest rates (Klein Rainbow 328). This was made possible by a market eager for easy credit as well as sufficient brokers and bankers to provide it. Additionally, even though the Federal Reserve ordered banks to not lend money for speculative purposes in February 1929, private bankers led by Charles Mitchell unlocked millions for speculation in response (Wecter 5). This illustrates how there was always a ready source of easy credit for speculators, regardless of governmental policies. The Dow Jones Industrial Average went from 158.54 in January 1926 to 308.85 in March 1929, peaking at 386.1 in September 1929 (James 133). This promoted investors to use easy credit for margin purchases in hopes of monetary gain. However, easy credit often proved problematic – for example, collateral was often sold before all equity had disappeared (Rappoport 272). This highlights how extreme speculation caused by easy credit often led to lack of confidence on part of the lender, prompting unexpected calls. Such a system of easy credit promoted buying on margin, in turn creating an extremely fragile and interconnected loan structure. On September 20, 1929, Clarence Hatry’s business and financial empire collapsed in Britain, and the New York market responded with a 2.14% drop (James 133). This demonstrates how the looming debt structure in the 1920s, encouraged by easy credit, was highly susceptible to collapse when triggered unexpectedly. Hence, easy credit was the primary cause of Black Tuesday because it promoted margin purchases, which crafted the loan structure leading to the crash.

Actions by the Federal Reserve caused Black Tuesday to a moderate extent. In 1924, the Federal Reserve had 3 objectives: promote high levels of business activity and employment while keeping prices stable, curb speculative use of credit without making it scarcer for business and agricultural purposes, and assist in the reconstruction of monetary stability abroad (Klein Rainbow 78) (Anderson 57). The Board believed economic use of credit was to facilitate production and orderly marketing of goods, not to finance speculative holding of excessive securities (Anderson 33). Thus, the Federal Reserve did not add onto the problem of easy credit and margin purchases in the early 1920s, and hence was not initially a contributing factor to the crash. However, in 1927, the New York reserve bank initiated an easy money policy to encourage domestic business and strengthen European exchanges (Klein Review 326). Because the Federal Reserve promoted easy credit policies, it is accountable for causing Black Tuesday to a considerable extent. Uncertainty regarding the market then led to a policy of “watchful waiting”, and only in 1928 was there a contractionary policy, with restraint through sales of securities and open market sales (Anderson 58). Historians such as Gene Smiley question whether these low margin requirements fostered the boom – because if so, the boom should have happened in years prior to 1929, not at the time of the crash. However, the Reserve’s easy money policies in earlier years had planted instability in the market which facilitated the 1929 crash. There was a rise in the discount rate from 3.5% to 5% in January of 1928, and another rise to 6% in August (White 74) (White 80). The rise in rates before the imminent crash eased the consequences, but the Federal Reserve was widely blamed for not tightening credit fast enough (Klein Review 327). This means the reluctant policymaking by the Federal Reserve failed to effectively curb speculation and hence contributed to Black Tuesday.

To a low extent, overproduction helped lead to Black Tuesday. American manufacturing production jumped by 24% from 1923 to 1929, demonstrating huge increases in the amount of goods being produced in the 1920s (Hillstrom 9). However, most notable was overproduction in the agricultural sector caused by technological improvements – for example, world wheat production increased 80% in 1926-1930 while world rye production averaged 42% more in 1921-1929 than in 1912-1920 (Gray 66) (Gray 64). Such increases illustrate the great extent to which farmers became more productive on a global scale. In the United States, agricultural overproduction caused for an export surplus totaling $2.7 billion for four years in the 1920s, higher than any time period prior to 1914 (Klein Review 329). As agriculture was one of the biggest sectors in the American economy, such a surplus lowered farm prices and resulted in an agricultural recession in the early 1920s. However, the agricultural sector began to recover over the decade, and overproduction hence bears little relation to the stock market crash in 1929. Despite agricultural misfortunes, 2.5 million farming tenants were not subject to heavy land taxes or mortgage indebtedness (Gray 63). This demonstrates how even though overproduction, namely agriculturally, hurt the economy, its results were too limited and distant from the crash of 1929 to have had significant effect in stimulating Black Tuesday.

The proliferation of buying on margin played a considerable role in perpetuating Black Tuesday on the New York Stock Exchange in October 1929, but the primary underlying factor for the crash was the presence of easy credit. Federal Reserve policymaking was a lesser, although still important, cause for the crash, but the commonly suspected factor of overproduction was not as significant as a factor. Had Americans in the 1920s not been so greedy for easy money, the crash of 1929 might have been avoided.

**Section C: Reflection**

This investigation allowed me to practice dealing with causation. The emergence of several new trends in the 1920s and the lack of statistical correlation between any one factor and the crash of 1929 complicated my task – it meant that there were likely multiple causes and I had to take a multifaceted approach to evaluate which factors had greater agency in perpetuating this economic downturn. I also found difficulty in determining the extent to which I should trace causation – for example, buying on margin was a huge factor in causing the 1929 crash, but that was in turn largely motivated by easy credit, which was supported by bank policies in the 1920s. Ultimately, I decided that easy credit was the strongest link and would hence be the primary cause. I now recognize that when investigating causation, historians often struggle with different causes which are distinct yet interconnected, and which offer differing perspectives on the issue at hand.

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