**To what extent was buying on margin the primary cause of Black Tuesday in the New York Stock Exchange on 10/29/1929?**

**Prevalence of Buying on Margin:**

* No set margin requirements prior to the crash; determined by individual brokerages and banks (Rappoport 272)
  + Margins were as low as 10% from mid-twenties to 1929 (Smiley 133)
  + NYSE Questionnaire found margins averaging around 40% by early 1929 (Rappoport 274)
  + Few months prior to crash, brokerages raised margin requirements to 50% (Smiley 134)
* Rapid growth occurred in loans from private investors, corporations, and foreign banks in Europe and Japan (White 75)
  + Bankers’ loans from nonbank sources were 25-30% in 1922-1925 and became 78% in October 1929 (Smiley 137)
* 29,609 stockbrokers in US in 1920; number jumped to 70,950 in ten years (Wecter 3)
* Investment trusts grew from 40 in 1921 to over 750 in 1929 (White 69)
* In 1927, $1474 million of new preferred and common shares were issued; this reached $5924 million by 1929, with $1 billion of shares issued in September (White 78)
* Margin transactions went quickly, which enabled many inexperienced speculators to borrow (Smiley 130)
  + Estimated 90% of market transactions in 1920s were gambling ventures, not permanent transactions (Wecter 5)

**Easy Credit:**

* Brokers’ loans stood at $3.7 billion in March 1928 but reached $4.56 billion by June (Klein Rainbow 146)
* New listings on the NY Stock Exchange rose from 58 million shares in 1925 to 102 million in 1928 (Klein Rainbow 146)
* February 1929 Federal Reserve ordered banks to not lend money for speculative purposes (Wecter 5)
  + Private bankers led by Charles Mitchell unlocked millions for speculation in response (Wecter 5)
* Outflow of $500 million in gold during 1927 led NY city banks to withdraw from call loan market, to be replaced by corporations, individuals, and foreigners lured by high interest rates (Klein Review 328)
* DJIA went from 158.54 in January 1926 to 308.85 in March 1929; peak of 386.1 in September 1929 (James 133)
* Collateral was often sold before all equity had disappeared (Rappoport 272)
* On September 20, 1929, Clarence Hatry’s business and financial empire collapsed and the NY market responded with a 2.14% drop (James 133)

**American Consumerism:**

* The stock market crash altered consumer expectations in a way that caused a decline in consumption (Temin 69)
* Consumer credit rose from $2.6 billion in 1920 to $7.1 billion in 1929 (Hillstrom 11)
* From 1923 to 1929, average annual earnings of American workers increased by more than 15% (Hillstrom 10)

**Federal Reserve:**

* NY Bank’s rate advanced to 4.5% in May 1927; 2 months later joined eight other Federal Reserve banks at 5% (Klein Rainbow 146)
* Federal Reserve had 3 objectives in 1924:
  + Promote high levels of business activity and employment while keeping prices stable (Klein Rainbow 78)
  + Curb speculative use of credit without making it scarcer for business and agricultural purposes (Anderson 57)
  + Assist in the reconstruction of monetary stability abroad (Klein Rainbow 78)
* Board believed economic use of credit is to facilitate production and orderly marketing of goods, not to finance speculative holding of excessive securities (Anderson 33)
* Dilemma on how to proceed led to a policy of “watchful waiting”; not until 1928 was there modest restraint through sales of securities and higher discount rates (Anderson 58)
  + Federal Reserve pursued contractionary policy in January 1928, with open market sales and rise in discount rate from 3.5% to 5% (White 74)
  + Rose rate from 5% to 6% on August 9 (White 80)
  + Federal Reserve widely blamed for not tightening credit fast enough (Klein Review 327)
* Federal Reserve 1927 easy money policy initiated by New York reserve bank to encourage domestic business and strengthen European exchanges (Klein Review 326)

**Overproduction:**

* American manufacturing production jumped by 24% from 1923 to 1929 (Hillstrom 9)
* Technological improvements caused excess in agricultural supply (Gray 66)
  + World wheat production increased 80% in 1926-1930 (Gray 64)
  + World rye production in 1921-1929 averaged 42% above average in 1915-1920 (Gray 64)
* 2.5 million farming tenants are not subject to heavy land taxes or heavy mortgage indebtedness (Gray 63)
* Export surplus totaled $2.7 billion for four years, higher than any prior to 1914 (Klein Review 329)

Word Count: 606