1929: THE CRASH THAT SHOOK THE WORLD

BY *HENRY LEE*

In Boston, it was the daily custom of a vague, amiable old lady to telephone her broker as soon as the stock market opened, listen to his advice, and then buy a sizable list of stocks. She would putter about her bric-a-brac, write letters to the *Transcript* denouncing penny-gambling among street newsboys, and then call her broker again shortly after lunch.

"Sell everything," she'd say without bothering to get the latest quotations. Usually, she made a fat profit, too, though she scarcely knew a bull from a bear. She was just one of the tens of thousands of financial innocents who were riding the Great Bull Market of the late twenties up, up and *up*.

Then there was the young man scarcely out of his teens who put $2000 into an investment trust stock. The same day the stock split two-for-one and then jumped 100 points. As the young man pocketed his $8000, a senior member of the brokerage house respectfully asked his advice on market conditions. The young man murmured bullish generalities; it would have been embarrassing for him to admit that he'd bought solely on a hunch expressed by a *junior* member of the same brokerage firm.

All over the country, in those late twenties, a carnival of speculation swept the staidest and the shrewdest off their feet. The liquor was vile, but everybody was happily betting his shirt on guess-and-gosh. "Be a bull on America!" men said on Boston's once-conservative State Street. "Never sell the United States short!" came the echo from Spring Street, Los Angeles.

In Toledo, the Mudhens, a city team composed largely of senescent big leaguers, batted, fielded and pitched spottily because the whole team was up to its caps in market speculation. "Let me give you a tip," thundered Manager Casey Stengel at batting practice one day. "Buy New York Central — because tomorrow morning a lot of you boys will be taking trains out of here in all directions."

HENRY LEE, *a veteran reporter now on the New York* Daily News, *began his newspaper career covering the aftermath of the stock market crash he describes in this article.*

For the moment, though, Herbert Hoover seemed better informed than did Casey. "The poorhouse is vanishing from among us," he said in his 1928 acceptance speech. And so it seemed. Frederick Lewis Allen, in *Only Yesterday*, has tabulated that last rosy year-and-a-half of prosperity. Between March 3, 1928, and September 3, 1929, American Tel. & Tel. soared from 179½ to 335⅝, General Electric from 128¾ to 396¼, Montgomery Ward from 132¾ to 466½, and Westinghouse from 91⅝ to 313.

It was a different America then, with implicit faith in its heroes, its easy money and its stocks that would go up and up and never come down. In 1928, Al Jolson was opening in *The Jazz Singer*, and men were staring impartially at the new Model A Ford and the knee-length skirt. And in the first nine months of that delirious year, as prices and buying pressure crept near the explosion point, more than $1 billion in new stocks was quickly absorbed.

The men were exclaiming over Babe Ruth and Bobby Jones, the women over a sleepy-voiced crooner named Vallee. Serious-minded people were reading *The Bridge of San Luis Rey* (100,000 copies sold in three months). Those who also read the newspapers found the financial pages as lively as the great pageants of sport and entertainment.

"The tremendous Hoover bull market gained unprecedented momentum yesterday," a newspaper exclaimed on November 13, 1928. "The rush for stocks ushered in with the election outcome reached the proportions of an avalanche." Four days later, according to the sober New York *Times*, there must have been something of a super-avalanche! "Trading . . . reached the greatest heights of confusion in the memory of the oldest members. A milling, gesticulating mob of brokers fought for stocks all day long. . . . The Stock Exchange was a madhouse."

In Des Moines, a corner grocer put his $5000 savings into $15,000 worth of General Electric on margin at 128¾. When he saw it in the 300s the next year, he accounted himself a wise man indeed. Of course, he never bought outright, but became a purely paper-made success. In Dayton, a retired school teacher borrowed on a small inheritance to gamble on margin, quite successfully at first. A bookkeeper in Kansas City was assured by his company that its stock was "pegged" at 100, and so he put his daughter's education savings into it. He couldn't lose, he was assured, and maybe it would go up and up, and he could send her to Paris for her schooling. All over the country, things far more precious than money — homes, schooling for the young, security for the old — hung by the ticker tape.

In 1929, prospects looked better than ever. More than a million margin players, mostly the little people, were in up to their necks. They were holding an estimated 300 million shares of partially bought stock and fought each other to snap up $2.75 billion in new issues. A Stock Exchange seat sold for $625,000, and wives, nagging at timid husbands, said, "There! I told you so." The Federal Reserve was denounced as a meddler with prosperity when it tried to halt the inflation caused by easy bank money. An honest or lucky investment advisor was almost sued when he sold out his clients near the top.

Of course, if you could read between the fine print of the statistics, you could have seen what was coming.

In September 1929, according to the Stock Exchange's own tabulation, brokers' loans made a record gain of $667,764,553. Back in the spring of 1926, they had totaled $2,767,400,-514. Now the total stood at $8,549,-383,979. According to the New York *Herald Tribune*, Wall Street itself attributed this Niagara of credit to "exceptionally heavy financing of new investment trusts which mounted to an all-time record in September, and, secondly, presumed widespread liquidation of stocks by strong holders — the shares passing, according to such accounts, from the strongboxes of genuine investors to the margin accounts of speculators."

Sooner or later, the balloon of crazy speculation, crazy credit and crazy hopes had to blow up. Even today, no one is quite sure *why* it happened when it did, and perhaps the date is meaningless — Thursday, October 24, 1929.

E. H. H. Simmons, Stock Exchange president, was then honeymooning in Honolulu. President Hoover had just disclosed plans to use battleship construction funds for the completion of a vast inland waterways project. The Carnegie Foundation report, shocking millions, charged that one in every seven intercollegiate athletes was "subsidized" to a point verging on professionalism.

In Wall Street, Roger Babson was reported bearish as usual, but Irving Fisher and Charles E. Mitchell were represented as expecting a rally after Wednesday's premonitory selling wave. At 10 A.M. Thursday, the trading gong sounded as usual. Then, quite suddenly, in about the time it is taking you to read these words, a way of life came to an end.

II

There is today an entire generation which knows only vaguely that twenty years ago this month some sort of calamity smote the exchanges. To an older generation, remembering the panic, impoverishment and suicides, the 1929 stock crash is America's worst peacetime disaster.

More than paper fortunes crumbled away that incredible month while Palm Beach boasted kitchen faucets made of gold and New York apartments were advertised at $45,000 yearly. To a greater or less degree, the pricking of the financial balloon which eventually wiped out $55 *billion* in values on the New York Stock Exchange still affects all of us, for it marked the end of free-and-easy, uninhibited America. Thereafter people demanded security and stability, even if it meant increasing government intervention in their lives.

But it was a hard-learned lesson; the toll in death and heartbreak was incalculable. Women were carried screaming out of brokerage offices. Men sat with fixed smiles as the ticker tape carried away profits, stocks, then savings, and finally their life insurance and homes.

In one city, a real estate man scooped up a handful of twisted tape and was last seen walking toward a river, tearing the paper into bits and tossing it over his shoulder. A wholesale merchant jumped to his death in New York, and a Chicago grain broker took gas. In Scranton, a civil engineer soaked himself in gasoline, then lit a match. His wife perished, too, trying to beat out the flames. Only a phrase not yet invented could describe what happened to the hopes and fortunes of America's millions of market players. They had been *hiroshimaed.*

By chance, the conflagration started that October Thursday in 1929 as 6000 shares of Montgomery Ward changed hands at 83. (The year's high had been 156⅞.) Then the selling orders, like tongues of flame, flickered in from Boston, Bridgeport, Memphis, Tulsa, Fresno. The ticker never caught up with the market, even when the incredible occurred at 11 A.M. that Thursday. At that hour, for large groups of stocks, there were *no* bids at any price.

At some of the 1100 branch offices the brokerage houses then maintained throughout the country, storms disrupted communications, adding to the panic. Even in major financial centers, telephones were so clogged with calls to sell that thousands of investors couldn't get through. As they called and called again, their stocks were dropping five, ten, twenty points. One clergyman finally reached his broker for advice, but that harassed man could only advise: "Wait! Wait and *pray!*"

The ticker kept lagging further, and the day's final sale wasn't recorded till 7:08 P.M., four hours and eight minutes after the market had closed. In the blank interim, no one knew what he was worth, except that it was less than it had been an hour before. There was only one sure thing to do: *Sell!*

At Wall and Broad, 10,000 small-time players stormed the Exchange, which had to be roped off by the police. At noon, the city's five biggest bankers, controlling $6 billion in massed resources, met in the offices of J. P. Morgan & Co. with Thomas W. Lamont, senior Morgan partner. The result of their cogitations was a profound understatement. They had found only "a little distress selling."

"It is the consensus of the group," their statement went on, "that many of the quotations on the Stock Exchange do not fairly represent the situation." In other words, there were bargains to be had that Thursday afternoon if you kept your courage up. To dramatize the situation, Richard Whitney stepped to a trading post at 1:30 P.M. and made his bid of 205 for U. S. Steel when it was going at 193. Whitney later went to jail, but not for this futile gallantry.

Slowly, between pluck and greed, the market turned against its downward momentum. To the accompaniment of cheers and whistles, the morning's losses of about $6 billion were halved by the end of that record-breaking, 12,894,650-share Thursday. (It remained a record for almost a week.)

Some 974 issues had been traded with disastrous results. The natural gas stocks, like Dixie Gas & Utilities, Arkansas Natural Gas, and Southern Utilities, skidded only 3 to 17 points. But the higher-priced bank shares, particularly First National of New York and United States Trust, were forced to 300-point declines. Insurance stocks were badly hit. Home was down 70; Globe & Rutgers and Connecticut General Life each off 50 points, Travelers down 100. On the Curb, Electric Bond & Share and Aluminum were down 20 each, Auburn 25, Burroughs 19¼. Between October 11 and October 24 General Electric plummeted 90 points, American Tel. & Tel. 56¾, Montgomery Ward 61⅜, Westinghouse 79, Consolidated Gas 50¼.

III

After Black Thursday, there was a breather. From the White House on down came driblets of consolation for the poor, misguided little investors, who thereupon loyally poured in the last of their dollars to achieve an artificial stability that carried them over one week end of hope and on into the lean years.

President Hoover intoned: "The fundamental business of the country

— that is, production and distribution of commodities — is on a sound and prosperous basis." To which the Treasury Department added, "Business is fundamentally sound." The president of a huge trust company had "no fear of another comparable decline," and Arthur Reynolds, board chairman of Continental Illinois Bank of Chicago, said: "This crash is not going to have much effect on business."

After the week end of October 26–27, brokers sold out their shakier margin customers, and individuals who had stuck by regional favorites — natural gas stocks in the South and Southwest, investment trusts in New York and the Midwest — threw in their shares. The rout was on again.

Tuesday, the twenty-ninth, the Exchange reeled under a buffalo stampede of selling never seen since, and never before all the way back to May 1792, when 24 brokers had met under a buttonwood tree to establish the market. It was a crash heard 'round the world. In London, brokers and jobbers stood in the pouring rain to follow cables of the convulsions. The coffee market closed in Rio de Janeiro, and diamond buyers deserted Amsterdam's Tulpstraat and Saphartistraat.

This was the day of the "millionaires' slaughter," and in blocks of 5000 shares, 10,000 and even 50,000, the cream of America's resources was thrown to any buyer at any price. Utilities, railroads, communications, industries, sold like junk. In the five market hours almost 16,500,000 shares were dumped, their market value shrinking an estimated $10 billion. Counting all the exchanges through the country, the total loss was calculated at $14 billion. Just sixteen representative companies, according to a New York *Times* estimate, lost almost $3 billion in the open-market value of their shares.

That dreadful October, the state of New York was the only winner. Through its two-cent tax on stock transactions it made a killing of almost $5 million. In Minneapolis, three months after the Secretary of War had dedicated the 32-story Foshay Tower Building, Wilbur Burton Foshay's economic empire of utilities, hotels, drugstores, textile factories, and shoe companies, in twelve states and five countries went into receivership.

Buried under the corporate wreckage were the people who would never sell America short — hundreds of thousands of them. They had had a year or two of good going for their money — and the consolation from *Time* that they'd done right. The 1929 low was reached November 13, and five days later *Time* proclaimed: "Speculation is the shadow of industry thrown forward on the wall of the future." Only a very polished mortician could have phrased it more suavely.

In a way, when it came, the little bookkeeper suffered the most merciful financial death. He was sold out early on Black Thursday, so all he lost was the dream of his life to send his girl to college. The teacher was washed out, too, but she had to keep paying interest on the dead horse of her margin loan. The grocer tried to ride the storm by hocking his wife's jewels, then mortgaging his house, finally pledging his life insurance. All these weren't enough, and he had to tell his brokers: "You're in the grocery business now."

From Bangor to Seattle, the doctors reported, they were treating cases of nervous exhaustion. The honeymoon with easy money, the dangerous game of shadow-playing on the wall, the bursting, bullish confidence — call it what you will — was over at last.

It all ended so quickly that some editors didn't have time to stop their presses and make over. In black type on a lush gold cover-panel, the November issue of *World's Work* trumpeted: "How Far We Have Come in 30 Years." Next month, an article was anachronistically entitled, "Why We Are Prosperous." And the week after the crash the *Literary Digest* was solemnly explaining "Why the Railroads Are Doing Better."

Eddie Cantor tried to make the nation laugh with *Caught Short*, the story of his own market troubles. (When he heard that Julius Rosenwald had arranged to protect the margin accounts of Sears Roebuck's 40,000 employees, Cantor said he had wired Rosenwald for an office boy's job.) Will Rogers observed that we were the only nation in history which went to the poorhouse in a limousine.

Mostly the humor was macabre. "Sleep or leap?" the hotel clerks were reportedly asking when guests showed up without luggage. Two men jumped hand-in-hand because, the wags explained, they had a joint account. A New York cop gravely reported he found a parrot which kept crying, "More margin! More margin!"

"The morale of the people must be maintained," Mayor Jimmy Walker exhorted New York's movie exhibitors. "You can help by showing pictures that will reinstate courage and hope in their hearts." This statesmanlike appeal didn't do the job either, and ordinary people crossed fingers, rapped wood, eventually sang *Who's Afraid of the Big Bad Wolf?*

IV

The gestures, plans and panaceas did little or no good. In Washington, President Hoover called in the top industrialists to talk things over, but not much was accomplished. George B. Cortelyou, then president of the Consolidated Edison Company, who was one of those attending, later confided to a friend: "I was never so confused in my life." U. S. Steel and American Can declared extra dividends, but the pawnbroker nearest to Wall Street said that his loans had tripled. The nice-Nellyism of press agents in avoiding words like "depression" was remarkable. In the 1932–33 issue of the Stock Exchange's yearbook, the only reference to the crash read: "Oct. 29, 1929 — Record volume of stock shares traded in. (Reported volume: 16,410,030 shares.)"

But the graveyard-whistling was futile. At its all-time, 1932 low Anaconda Copper had dropped from a high of 140 to 3, General Electric from 403 to 8½, General Motors from 91¾ to 7⅝, Montgomery Ward from 156⅞ to 3½, New York Central from 256½ to 8¾, Westinghouse from 292⅝ to 15⅝. That's how bad things were.

In the face of such contrasts, all the Monday quarterbacking in the financial pages and magazines was unavailing. Vainly the optimists pointed out that there had been four previous bear markets in a quarter of a century, and that all along the line, despite panics and depressions, our national wealth had been increasing steadily. The public was little comforted.

What had happened, so brutally and rapidly? Broadly speaking, there were these three basic causes:

(1) In the six years of the Golden Bull, with the encouragement of the Coolidge-Hoover "business" administrations, stock prices had been allowed to soar out of all sane relation to their actual worth. The credit for buying them had become tremendously overextended as well, and the easy money shot the prices up. Beneath the mountain of paper and debt there just wasn't the ore in the form of physical assets.

(2) For some time, there had been technical, but plain, indications that the market was sliding. Steel output had been cut and auto production was sagging. In the market fluctuations, the *downs* went heavier than the *ups*, leaving a general decline. Foreign interests had a rôle in the débâcle, too. After the Bank of England money rate was advanced to 6.5 per cent, huge sums being loaned out here on call were suddenly withdrawn. Heavy selling of American securities resulted. In addition, London interests which were heavy holders of key issues unloaded quickly when the Clarence Hatry financial failure at home pinched them.

(3) Without the restraint subsequently exerted by SEC, the bulls and bears frolicked in pools and rigged sales with wanton disregard of the public interest. Holding companies and investment trusts, in most of which stockholders had no management voice, spread web-like. Even so conservative a banker as Otto H. Kahn later denounced them as "inventions of the devil."

Can these things occur again? Not in the old ways, certainly. Today the banks are policed and insured, the markets watched by SEC, the investors wary. Wall Street is on almost painfully good behavior. Americans just won't go down to the Street again in such numbers with such ebullience, and today you can buy a $625,000 Stock Exchange seat for less than $50,000 — or about what it was back at the turn of the century.

In *Only Yesterday*, Allen caught it well:

> The Big Bull Market had been more than a climax of a business cycle; it had been the climax of a cycle in American mass thinking and mass emotion. There was hardly a man or woman in the country whose attitude toward life had not been affected by the sudden and brutal shattering of hope. With the Bull Market gone and prosperity going, Americans were soon to find themselves living in an altered world which called for new adjustments, new ideas, new habits of thought and a new order of values.

AND TO HOLD

BY DOROTHY WAUGH

We long for immortality
In dread at death's finality;

Not that we find this life too dire;
Not that toward heaven our hearts aspire;

Perhaps to redeem some trenchant loss;
Perhaps to proceed without the cross;

But most that we suffer to let go
Of all we have and all we know.