UNIVERSITY OF CALIFORNIA PRESS
Advancing Knowledge, Driving Change

1929: The New York Stock Market Crash

Author(s): Harold James

Source: *Representations*, Vol. 110, No. 1 (Spring 2010), pp. 129-144
Published by: University of California Press
Stable URL: https://www.jstor.org/stable/10.1525/rep.2010.110.1.129

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at https://about.jstor.org/terms

University of California Press is collaborating with JSTOR to digitize, preserve and extend access to *Representations*

This content downloaded from
149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

REP110_06 3/24/04 2:07 PM Page 129

HAROLD JAMES

1929: The New York Stock Market Crash

The U.S. stock market crash of October 1929 is indisputably history's most famous financial collapse. It is evoked wherever and whenever financial sentiment becomes nervous. And policy recommendations for the following eighty years have consistently been made on the basis of analyses or presumptions of what went wrong in 1929.

In particular, John Maynard Keynes's *General Theory of Employment, Interest, and Money* (1936) has at the heart of its diagnosis a critique not of the general operation of the stock exchange but specifically of the American market and its peculiar experience: its propensity to destabilizing and irrational speculation, which followed from the obsession of market participants with psychological rather than economic dynamics and expectations. The problem for Keynes lay fundamentally in a system of valuation in which values had no necessary or direct correspondence to long-term productivity. As a result, the American market became a casino with an inherently destabilizing quality. It was uniquely volatile because of the extent of popular participation, while more exclusive or "aristocratic" markets were less vulnerable. "A conventional valuation which is established as the outcome of the mass psychology of a large number of ignorant individuals is liable to change violently as the result of a sudden fluctuation of opinion due to factors which do not really make much difference to the prospective yield; since there will be no strong roots of conviction to hold it steady. . . . The actual, private object of the most skilled investment today is 'to beat the gun,' as the Americans so well express it, to outwit the crowd, and to pass the bad, or depreciating, half-crown to the other fellow. . . . Even outside the field of finance, Americans are apt to be unduly interested in discovering what average opinion believes average opinion to be; and this national weakness finds its nemesis in the stock market."[1] Extreme financial turmoil was, in other words, a specifically American malaise.

ABSTRACT Stock market panics involve major psychological elements, and fear appears in the form of a reference to past events that seem to have analogies. Not only was 1929 an example of this process, in that the participants thought in terms of previous crises, but 1929 has also become the standard against which subsequent events are judged. /Representations 110. Spring 2010 © The Regents of the University of California. ISSN 0734–6018, electronic ISSN 1533–855X, pages 129–44. All rights reserved. Direct requests for permission to photocopy or reproduce article content to the University of California Press at http://www. ucpressjournals.com/reprintinfo.asp. DOI:10.1525/rep.2010.110.1.129.

This content downloaded from
149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

REP110_06 3/24/04 2:07 PM Page 130

Keynes's analysis became the most influential policy prescription for the middle of the twentieth century: it required government action (on fiscal policy) to stabilize overall expectations and in this way establish a predictable or, as Keynes would have called it, "conventional" framework for the valuation of economic activity, and thus for the functioning of a market economy. In the 1960s, President Johnson's advisers repeatedly justified the combination of tax cuts and expansion of social spending as necessary in order to avoid a repetition of the 1929 disaster. In the mid-1970s, in the aftermath of stagnation and the first oil price shock, the world again relearned a Keynesian lesson from the experience of the Great Depression.

In 1987 a seemingly exact replication of the stock market panic led to a different lesson, but again one that was historically derived: that a massive liquidity injection was needed to stop a stock market crash from becoming a generalized business depression because of the danger of a destabilization of financial institutions and of credit intermediation. This was the monetarist or Friedmanite conclusion. Again, like Keynes's analysis, it was derived from a very detailed empirical historical study of what Milton Friedman and Anna Schwartz, in their monumental *Monetary History of the United States*, termed the "Great Contraction."[2] Their emphasis was on how a stable monetary framework created the sole basis on which expectations could be reliably and predictably formulated. The Chicago or monetarist interpretation played down the significance of the October 1929 panic and explained the Great Depression in terms of the Federal Reserve's mistaken policy after 1930 in not reacting to bank failures, which produced a colossal monetary contraction (deflation).[3] The year 1929 has, in short, become a standard part of the (theoretically contradictory) justifications offered by central banks for stabilizing monetary policy and by governments for stabilizing fiscal policy.

More recently, the volatility of financial markets has increased due to the globalization of markets. The memory of 1929 is now invoked with each financial crisis (whatever the origin) as part of a call for a fundamental rethinking of policies aimed at financial liberalization. Helmut Schmidt, for instance, who as German Chancellor in the 1970s had been obsessed by the possibility of a repeat of the Great Depression, in 1997, after the East Asia crisis, stated that "the main parallel lies in the helplessness of many governments, which had not noticed in time that they had been locked in a financial trap, and now have no idea of how they might escape."[4] The financial speculator George Soros at the same time warned of "the imminent disintegration of the global capitalist system," which would "succumb to its defects."[5] The aftermath of the 2007 subprime crisis has produced similar reactions. Again, George Soros opined, "This is not a normal crisis but the end of an era."[6] The chairman of the Swiss bank UBS, while defending himself from criticism after an $18 billion write-down, noted that the world was experiencing

This content downloaded from 149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

REP110_06 3/24/04 2:07 PM Page 131

the “most difficult financial circumstances since 1929.”[7] The statement is quite typical of much market sentiment in the midst of bad times, but it is also curiously erroneous. Most of the world, and particularly European countries, still had considerable financial stability in 1920, and the really severe jolt, the *annus terribilis*, came in 1931.

The Mystery of 1929

The crash of 1929 is a substantial curiosity in that it is a very major event, with really world-historical consequences (the Great Depression, even perhaps the Second World War), but no very obvious causes. Above all, the supposed causes can only be very poorly fitted (if at all) into the still prevailing paradigm of social-science explanations in the “efficient markets hypothesis.” According to the “efficient markets” view, stock prices accurately reflect all the publicly available information about a security; they will not change without the availability of new information.[8] Panics in which prices change very abruptly cannot easily be conceptualized in the terms of this hypothesis, especially if there appears to be little in the way of new information driving the panic. In consequence, financial crises have become a major rhetorical resource for critics of efficient markets.[9]

Belief in the rationality or nonrationality of the 1929 crash can thus be a proxy for the extent to which there is popular acceptance of a theory about market behavior. There exists a continued fascination for 1929, and for books that tell its story, notably Frederick Lewis Allen’s *Only Yesterday*, John Kenneth Galbraith’s *The Great Crash*, John Brooks’s *Once in Golconda*, and Charles Kindleberger’s *Manias, Panics, and Crashes*.[10] All are frequently republished and seem to be widely consulted as guides to contemporary financial panics. It might be plausible to think that this is one area where historical study has a really formative impact on the behavior of a very large number of market participants.

The U.S. experience is quite unique in this regard, and this is one of the reasons why 1929 is exemplary and why it plays such a large part in Keynes’s story. There were equivalent financial disasters in other large industrial countries, which in each case contributed to a worsening of economic fundamentals and to the severity of the Great Depression. In April 1927, Japan was shaken by a series of bank panics after the Bank of Taiwan suspended operations. Germany was brought down by the failure, on July 13, 1931, of the Darmstädter und Nationalbank. Britain was pushed off the gold standard on September 21, 1931. But in each case, it is possible to give a relatively clear account of what caused the panic. The Japanese failures were the result of a political controversy over the “earthquake bills” held by the Bank of Taiwan that had been given special treatment after the disaster of the 1923 Great Kanto Earthquake. The German banking crisis followed from a

This content downloaded from
149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

coincidence of a political crisis following the announcement of plans for the Austro-German Customs Union and the difficulties of a major textile producer, Nordwolle. Britain was propelled into a crisis by a deep split within the government over fiscal policy and unemployment benefits and by an unprecedented naval mutiny that nervous commentators saw as the beginning of a British Bolshevik revolution.

The unique feature of the American panic is that no one has ever been able convincingly to explain what caused it, or even what the specific trigger for the panic might have been. There are two potential "rational" explanations, but they do not look very satisfying.

One is that investors were able somehow to guess that there would be a Great Depression.[11] There were certainly some signs of slowing down in the U.S. economy, and construction had peaked several years before, in 1926, and had fallen off (in part perhaps because of declining flows of immigrants). But there was no evidence of a general downturn. For this time, there exist no direct measures of consumer confidence. Up to the last quarter of 1930, when there was a distinct change of tone, most surveys of business confidence were relatively upbeat. Periodicals such as *Business Week* were talking about an upturn in the summer of 1930. Peter Temin has identified as the most significant business indicator the change of classifications by bond rating agencies (Moody's and Standard and Poor's) and shown that in 1929, and even in 1930, a smaller proportion of corporate bonds were downgraded than either before, in 1921, or after, in 1937.[12] In other words, there is no hard evidence that anyone in 1929 could or should have expected a significant fall in American output or employment.

Perhaps, however, people experienced in political economy might have seen the likely effects of a big policy mistake: the tariff bill that became known as Smoot-Hawley?[13] It had its origins in an election promise of Herbert Hoover's in October 1928 to address the plight of the farming population. In the course of congressional debate, first in committee and then in the full House, large numbers of nonagricultural tariffs were added, so that the eventual act included some 21,000 tariff items. In the course of October 1929, the likelihood that Congress would pass the bill increased significantly. Financial prophets would then have had to think about the possible or likely forms of trade retaliation by other countries. But there is no real sign of such discussion of the probable path of world trade. The consequences of the new tariff may, however, have been reflected in some market responses, and the immediate outside price signal given to the financial markets on October 24 was a sharp drop in some commodity prices.[14]

The inability to find a precise cause of the 1929 panic is baffling and intriguing. Paul Krugman has asked: "Could a small cause have large effects? Yes, it could. After all, the Great Depression had no obvious cause at all."[15]

This content downloaded from 149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

REP110_06 3/24/04 2:07 PM Page 133

Ben Bernanke has put the point even more vigorously, stating that "to understand the Great Depression is the Holy Grail of macroeconomics."[16] Social scientists (and maybe also policy makers) are thus on an endless quest. Is it—like the Grail quest—fundamentally a futile one? Are the participants simply buffeted by wildly unpredictable psychic upheavals?

The Development of Stock Prices

Between early 1926 and the spring of 1929, the Dow Jones Industrial Average (DJIA) index almost doubled, from 158.54 at the beginning of 1926 to 308.85 at the end of March; then it moved ahead even faster during the summer, with a peak of 386.1 on September 3.

The first signs of weakness in the market appeared on September 3, but small drops tempted many new investors into the market, so that volatility and trading quantities rose. On September 20, in England, the conglomerate built up by Clarence Hatry collapsed, and the New York market responded with a 2.14 percent drop. In the week of October 14, the decline in stock prices accelerated, with dramatic drops on October 16 (3.20 percent), October 18 (2.51 percent), and October 19 (2.83 percent), though punctuated by a rise on October 17 (1.70 percent). But the first day of real panic was Thursday, October 24, when the market fell very abruptly from an opening of 305.85 to a low of 272.32. Major New York bankers assembled at the offices of J. P. Morgan, as they had on a famous occasion in the panic of 1907, and a senior Morgan banker, Thomas W. Lamont, told the press that "due to a technical condition of the market," there "had been a little distress selling on the Stock Exchange."[17] The public outcome of the meeting was that the vice president of the New York Stock Exchange, Richard Whitney, whose brother was a Morgan partner, went onto the floor of the exchange and made a series of bids aimed at stabilizing the market. The first of these, a bid at a price of $205 per share for 10,000 shares of U.S. Steel, became one of the central collective memories of the New York market. The market indeed went up again, although in the afternoon selling orders from across the country continued to stream in, and the DJIA closed at 299.47—in other words, down only 1.78 percent on the day. The volume of share transactions, which earlier in the year had been in the one- to two-million range, was 12,895,000.

An initial press comment for Thursday, October 24, emphasized the irrationality of imagination. The *New York Times* wrote: "At the climax of such a movement, the speculative imagination runs as wild as it does on the crest of an excited rise. Whereas it pictured impossible achievement in prosperity and dividends last August and last February, it now looks for equally impossible disasters."[18] Impossible? Sometimes it becomes possible.

This content downloaded from
149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

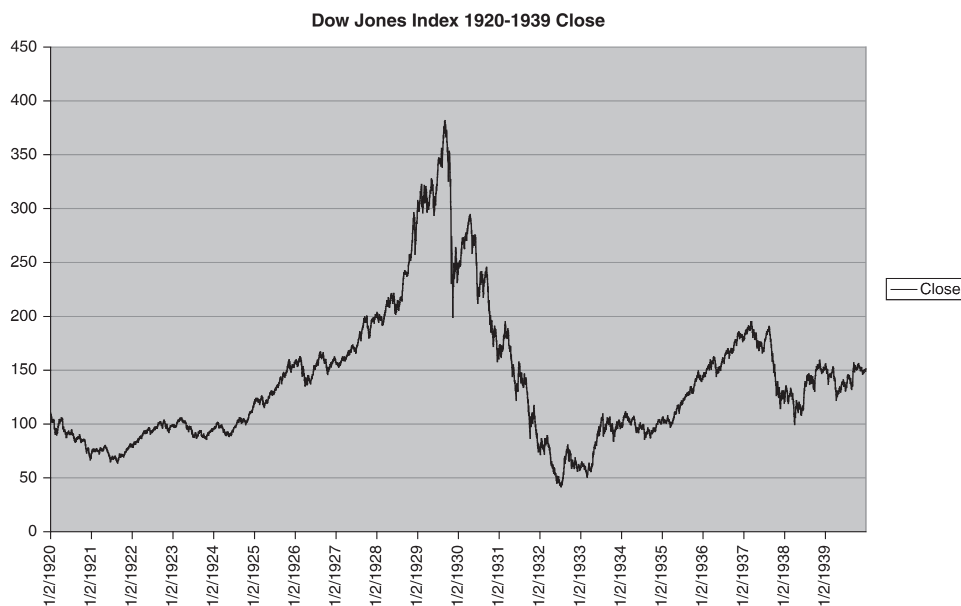

FIGURE 1. Stock Price Movements, 1920–1939: Dow Jones Industrial Average. Source: Global Financial Data.

Over the weekend, there was a brief pause for reflection, as commentators commented and moralizers moralized. The result was an even more extreme panic on the following Monday (October 29), which continued on the Tuesday, with very high trading volumes (9,213,000 and 16,410,000 shares respectively; see fig. 1).

On Monday, there was no repeat of Richard Whitney's appearance and his stabilizing bid for U.S. Steel. Instead, rumors about the continued bankers' meetings suggested that they had agreed to a concerted *selling* of stock, and Thomas Lamont was obliged to issue a formal rebuttal. In fact, New York banks did increase their lending to brokers dramatically at a time when out-of-town banks were calling in loans and foreign institutions were undertaking massive withdrawals.

But on Wednesday, October 30, there was a dramatic bounce, with a gain of 12.34 percent and again exceptionally high trading volumes (10,727,000 shares). After that, however, bad news continued. On November 2, the failure was announced of the Foshay utilities company of Minneapolis, which owned companies in twelve states. Again, the weekend was filled with rumors of the bankers' committee liquidating stocks. The market slid down until, on November 13, the DJIA close was 198.69. This was followed by a quite spectacular (but incomplete) recovery to 294.07 on April 17, 1930. After this,

This content downloaded from 149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

REP110_06 3/24/04 2:07 PM Page 135

there was a long slide, with fewer bounces, until the trough of July 1932, with a low of 40.56 on July 8.

The panic of October 1929 was immediately exacerbated by the interruptions to communications caused by the extent of the panic. Phone lines were swamped; in addition, the technical mischance of escaping steam in the Equitable Life Building at 120 Broadway put phones out of action. Lines between New York and Boston, Montreal, Chicago, Detroit, Cleveland, and Toledo were overwhelmed; the transatlantic phone lines had twice their normal business.[19] The high volume of orders meant that some were simply overlooked. Clerical workers continued to process orders until after midnight; downtown restaurants remained open, with every table occupied until early in the morning.

In the longer term, policy failures also exacerbated the impact of the stock market crisis. The first reaction of the New York banks had been to replace the credits that had been called by out-of-town banks, but this left them with an increasing vulnerability as lenders worried about the quality of loans. The Federal Reserve Bank of New York immediately stepped in to provide liquidity to the market by open market operations (purchases of government securities) that increased bank liquidity, and the Federal Reserve System also bought securities in the last three months of 1929. But New York's operations had not been approved by the Washington Board or its Open Market Investment Committee, and they became the subject of increasing criticism in Washington, which eventually succeeded in suspending the New York actions.

Why did the Washington federal institutions behave in this damaging way? Its actions were based on an erroneous theory, in which it had the responsibility to respond to the needs of the economy by discounting bills, but only "sound" bills that related to actual physical sales of goods, not to financial or speculative transactions. This "real bills doctrine" produced catastrophic monetary destabilizations in the early twentieth century: inflation in Germany and central Europe, where the central banks insisted that they were just responding to an exceptional but real business demand; and deflation generally in the early 1930s, when real transactions simply seemed to dry up.

Some explanations go further, and suggest that the U.S. central bank was gripped by the liquidationist doctrine that was memorably formulated by Treasury Secretary Andrew Mellon, "liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate, . . . purge the rottenness out of the system."[20] This was certainly the view of some influential economists of the time, who saw, as did Lionel Robbins, the problems of the 1920s as lying in an inflationary overextension of credit. It is striking that Robbins's sharpest formulation of the view actually directly draws on Keynes, whose apparent retraction of his earlier (and later) views in the *Treatise on Money* Robbins

This content downloaded from
149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

REP110_06 3/24/04 2:07 PM Page 136

cites: "For my part I [Keynes] took the view at the time that there was no inflation in the sense in which I use this term. Looking back in the light of fuller statistical information than was then available, I believe that whilst there was probably no material inflation up to the end of 1927, a genuine profit inflation developed some time between that date and the summer of 1929."[21] The idea of purging the ills out of the system that was at the heart of the outlook of Robbins, and of Mellon and the Federal Reserve policy makers, depended on an extensive moral and psychological theory of what had gone wrong with the American economy.

The Macro-Economic Effects of the Stock Market Crash

From 1929 to 1932, U.S. gross domestic product (GDP) fell by a third, from $103.1 billion to $58.0 billion. How much of the collapse was the result of the stock market collapse? The Dow reached its low (40.56 points) in July 1932. The result of the long decline was a substantial loss of wealth, which had an immediate impact on consumption. Investors (sometimes described as 600,000 widows and orphans) lost more than $20 billion as a result of the stock exchange collapse.[22] This is a vast amount of wealth, but it still does not account for the extent of the collapse of GDP. In a detailed investigation, Peter Temin showed how at the beginning of the slide into depression in 1930, only $1.3 billion of the $3 billion drop in consumption could be explained.[23]

Another transmission channel was probably more important. The reduced wealth as a consequence of the stock market panic reduced the collateral on which individuals and corporations could borrow, and thus pushed the process of credit disintermediation that characterized the Great Depression.[24] The effects of wealth reduction were thus magnified and augmented through their impact on the structure of credit.

Clearly, the Great Depression was the result of more than one chain of causation, and other independent influences made the crisis more intense and spread it across national boundaries, making it hard to isolate the impact of the stock price move on its own. Such autonomous causes included the long slide in commodity prices since the mid-1920s; the political disputes over war reparations and Inter-Allied debts; the beggar-thy-neighbor trade policy that ricocheted across the world after the Smoot-Hawley tariff; and the fixed-exchange-rate regime of the international gold standard, which proved to be a ready mechanism for the transmission of monetary deflation from one country to another. But of course, in one sense, all these provided information that might be expected to inform the action of the multitude of market participants.

This content downloaded from
149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

The Effects of the Panic on Well-Being

A great deal of the early fascination with the stock market crisis focused on its psychological effects. Newspaper comments immediately picked up on suicides as a result of the market, such as John G. Schwitzgebel of Kansas City, who had shot himself in the chest at the Kansas City Club on October 29. Crowds formed expecting to see distraught investors and brokers jumping from the Wall Street skyscrapers. Every popular history of 1929 picks up this focus. John Kenneth Galbraith tells us how "Two men jumped hand-in-hand from a high window in the Ritz. They had a joint account."[25] But he goes on to show that there were actually fewer suicides nationwide in October and November than in the summer months, when the market "was doing beautifully."

The press also reported incidents of heart attacks, such as that suffered by David Korn while watching the stock ticker in his broker's office in Providence.[26] It is easy to imagine how exposure to intense stress and fear would be reflected in temporarily increased blood pressure. Research published in 2008 has tried to link coronary disease and bank failures in a more rigorous and systematic way. A study at Cambridge University used historical data to show how a systemwide financial crisis increases deaths from heart disease by an average 6.4 percent in wealthy nations and more in developing countries. The lead author of the survey, David Stickler, told the press: "Our findings show that financial crises aren't just about money—they also impact on people's health. This report shows that containing hysteria and preventing widespread panic is important not only to stop these incidents leading to a systemic bank crisis but also to prevent potentially thousands of heart disease deaths."[27]

In this regard, there is a significant difference between financial and political crises. The unhealthy effects of financial crisis do not usually appear in moments of political stress. It is tempting to think that political upheavals are indicative of increased levels of hope about a better future. The result is a general decrease in levels of mortality related to physical stress and distress: thus, in Poland during the Solidarność crisis of 1980–81, deaths from heart disease and cancers (as well as from violence) fell, as they did in 1989–90 when the communist system collapsed.[28] In each case, a plausible working assumption is that political turmoil was accompanied by a sense of optimism and the possibility of change for the better. By contrast, the rise in fatal cases of heart disease and cancers in New York City during the Great Depression is much more striking than the much oftener commented-on suicide statistics, with deaths from heart disease per 100,000 rising from 257.4 in 1928 to 264.9 in 1929 and then to 275.5 in 1932, and then falling from 1933 (see fig. 2). It is clear that the financial panic was accompanied by

This content downloaded from
149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

REP110_06 3/24/04 2:07 PM Page 138

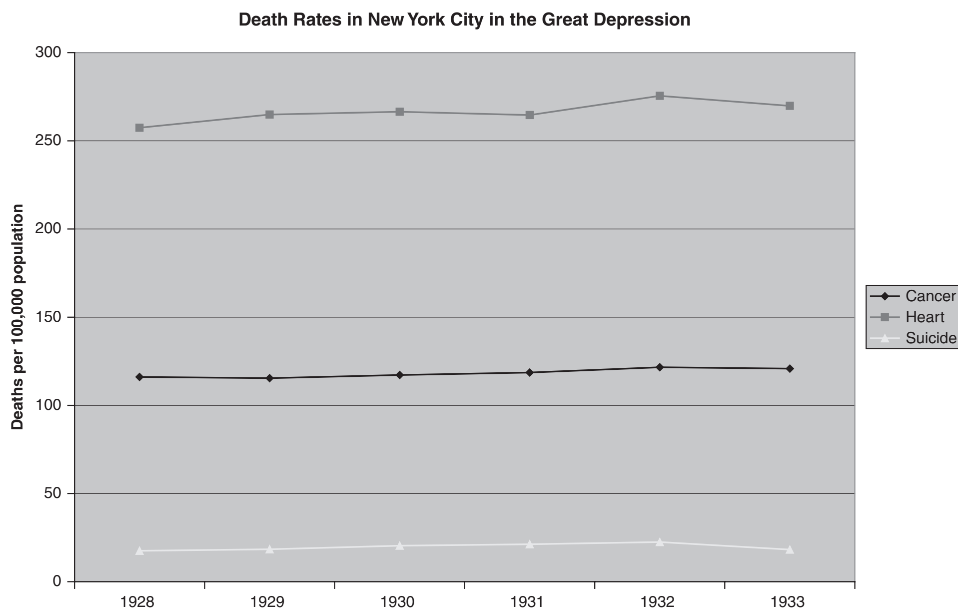

FIGURE 2. Depression-Era Mortality in New York City, 1928–1933. Source: U.S. Department of Commerce and Bureau of Statistics, *Mortality Statistics* (annual publication).

a rise in physiological stress, which was a reaction to the sense that the future consisted literally and psychically of loss and renunciation.

Interpreting the Crash

The newspapers on October 24 emphasized simply the abnormality of the market responses over the past days, especially the Monday and the Wednesday, with their massive trade volumes: "It was very manifest on both occasions, to experienced Wall Street watchers, that the market was not acting as it had usually done when causes of special weakness had been eliminated."[29]

A striking feature of the reporting on the crisis was how much reference was made to the past history of crises as the only guide to current experience. The day after the October 24 collapse, the *New York Times* carried on page three an article entitled "Breaks of the Past Recalled on Street": "Many reminiscent comparisons were made yesterday with other periods of critical readjustment on the stock market. It was generally agreed that no previous decline this year and in 1928 compared in either scope or violence with the break of this month. . . . Comparisons most frequently made by older members of the Stock Exchange yesterday were with 1920, 1907 (the 'panic years'),

This content downloaded from
149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

REP110_06 3/24/04 2:07 PM Page 139

1903 and 1901."[30] In other words, history was the major reason why individuals suddenly felt that there might be a broad range of alternative, much lower, valuations of stock. History actually induced the sense of crisis.

Exactly the same historical parallels, but this time to 1929, have been the stock-in-trade of commentary in every subsequent stock market panic. The most obvious parallel to October 1929 was the global stock market collapse of October 1987, with very similar percentage declines (22.61 percent in the DJIA on October 19), though a significantly different outcome: there was no world great depression of the interwar type. Again, market weakness in the preceding week was followed by a weekend replete with doom-laden journalistic prophecies. Again, as in 1929, there was no obvious trigger or news item, with the possible exception of the news that the United States had attacked an Iranian oil station (announced in the early morning of October 19).

In the immediate aftermath of the October 1987 crash, surveys of individual investors and institutional agents were conducted to attempt to judge whether their motivation could be explained by reference to economic fundamentals, or rather to an endogenous determination because of some psychological theory of panic based on historical comparisons. On the basis of surveys, Robert Shiller concluded that "investors had expectations before the 1987 crash that something like a 1929 crash was a possibility, and comparisons with 1929 were an integral part of the phenomenon. It would be wrong to think that the crash could be understood without reference to the expectations engendered by this historical comparison. In a sense many people were playing out an event again that they knew well."[31] The historical reference is, in other words, a continuous and necessary driver of financial crises: in euphoric states, people are prepared to imagine futures that they can paint in utopian terms; when the euphoria collapses, they pick up memories of past disasters (that they may never have personally witnessed).

One point repeated very early in commentaries on the panic—whether in 1929 or 1987—was that there were historical precedents to the speculative boom. Past experience seems to contradict the repeated claims made during the period of market euphoria that there existed some entirely novel phenomenon that transformed business relations and hence was likely to bring a permanent prosperity. The following report, from 1929, is thus a perfectly characteristic postcrisis diagnosis, with its strong dependence on historical reminiscence: "Indeed, the favorite principle that times have so far changed that nothing of pre-war finance could nowadays be repeated, ignored rather singularly the fact that all these eccentric notions were recurrently in absolute control of the speculative Wall Street mind as far back as 1901. They were dispelled and discarded then, as they have been on the present occasion, through contradiction of all of them by the emphatic action of the stock market itself."[32] Looking back into a distant past was the way of inducing a giddiness about the

This content downloaded from
149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

REP110_06 3/24/04 2:07 PM Page 140

heights that had been reached. This was indeed how the increasingly common but erroneous recall of "Black Friday" came about: it was a reference to the collapse of (Friday) September 24, 1869, that was conflated with (Thursday) October 24, 1929.

In this regard, reassurances from experts or authorities were irrelevant or counterproductive. Government officials—from the president down—and financial institutions emphasized that the markets were fundamentally sound. In a radio address on October 29, the Assistant Secretary of Commerce reminded his audience that President Hoover had said that the "fundamental business of the country is sound." (There were echoes of this in 1987, when President Reagan shouted to reporters, "There is nothing wrong with the economy. . . . All the business indices are up. Maybe some people see a chance to grab a profit.")[33] John D. Rockefeller broke a long public silence to issue a statement: "Believing that fundamental conditions of the country are sound . . . my son and I have for some days been purchasing sound common stock."[34]

On October 30, with further declines in the market, the leading stockbrokers all went out of their way to reassure their clients. Hornblower and Weeks said, "Yesterday's amazing volume would seem to indicate that the process of liquidation was in its final stages." Jackson Brothers, Boesl and Company concluded that "yesterday's record-breaking market" meant "that forced selling had been practically completed and that the stock market had touched its natural bottom." Clucas and Company was more modest: "We do not expect an immediate turn in the market for quick profits, but do believe that purchase of sound securities around current levels will prove a profitable investment over a period of time."[35]

While the experts tried in vain to sound reassuring, a different sort of opinion was articulated with increasing fervor. Moralistic commentators from outside the financial world attributed the crisis to the wages of sin. The *New York Times* extensively reported Protestant, though not Catholic or Jewish, responses to the stock market turmoil. The Bishop of Winchester (England) was, by coincidence, preaching on the Sunday after the Thursday crash at Grace Episcopal Church on Broadway: "Whatever this financial crisis in Wall Street means, it means distress to many innocent persons. But I shall not be sorry it has come if it has administered a severe blow to that gambling spirit which attempts to get something for nothing, to obtain large profits at the ruin of others." The Reverend Trowbridge of All Angels Episcopal Church tried to express some sympathy: "Though I do not believe it is morally or economically sound to gamble as men and women have been doing with ever increasing fervor, and though I cannot help but feel that they have in a sense received their just deserts, nevertheless one feels desperately sorry that they should have to suffer such humiliation and defeat." The

This content downloaded from
149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

Reverend Overlander of St. John's Evangelical Lutheran Church on Christopher Street called for a more philosophical approach: "True, a lot of money was involved and in some cases, I suppose, some men and women were literally wiped out. Yet I wonder how many of those persons stopped to think, even with that hard blow, how many things they should be thankful for."[36]

The Governor of New York, Franklin D. Roosevelt, criticized the "fever of speculation."[37] When, in 1933, Germany defaulted on its international debt, he slapped his thigh and said that it "served the bankers right." Roosevelt's Treasury Secretary, Henry Morgenthau, explained his vision of Bretton Woods agreements as "driving the usurious money lenders out of the temple of international finance." This tone spilled over into the general interpretation of the character of the crisis. Keynes, whose background in prewar Bloomsbury and the philosophical school of G. E. Moore made him unlikely to think in theological terms, concluded in *The General Theory* that "the sins of the London stock exchange are less than those of Wall Street."[38]

The Great Depression was also accompanied by inquiries and court cases aimed at punishing the evildoers. Beginning in April 1932, Ferdinand Pecora pushed the Senate Committee on Banking and Currency into an examination of the actions of the bankers. The chief executive of Chase, Albert Wiggin, was attacked for short selling the stock of his own bank during the panic of 1929. Charles E. Mitchell, the chief executive of National City Bank, was arrested for tax evasion on share deals in March 1933. Richard Whitney, the temporary hero of October 24, 1929, was arrested and imprisoned for embezzlement.

There remains today a strong religious tone to comments on the financial crisis in its aftermath. Some characteristic examples: In 1998, the middlebrow London *Daily Mail* thought that "investors are possessed by a demon of self-destruction and, like the Gadarene swine of the New Testament, they rush over the cliff and are dashed to pieces."[39] At the beginning of 2008, the founder and chief promoter of the Davos World Economic Forum, Klaus Schwab, announced, "We have to pay for the sins of the past."[40] And Paul Krugman wanted to discuss the credit crunch in terms of a "crisis of faith."[41]

Theological perspectives can of course be used to derive insights into market behavior. The most striking example is the "fear and greed" index pioneered in 1986 by the analyst James Montier at Dresdner Kleinwort, in which sentiment is driven entirely by a bipolar opposition of greed as the market moves ahead and fear of loss when it stalls. *Greed, measured in this way, reached an all-time peak in early 2007, just on the eve of the most devastating financial crisis since the Great Depression.* The insight behind the analysis is that the potential for fear increases with the extent of greed. Fear is the historically determined—or perhaps the moral—answer to greed: the wage of greed

This content downloaded from
149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

REP110_06 3/24/04 2:07 PM Page 142

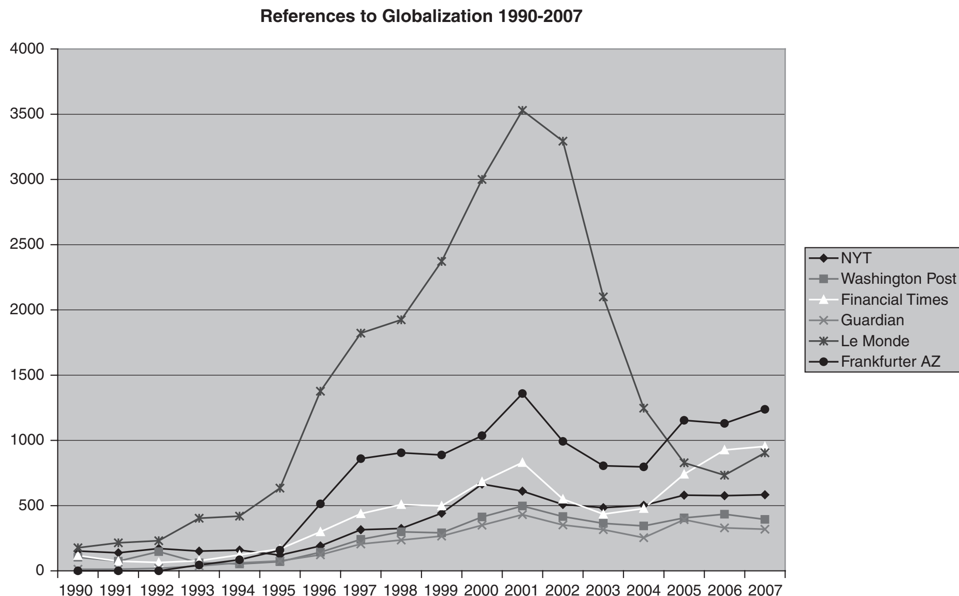

FIGURE 3. Newspaper References to Globalization, 1990–2007. Source: LexisNexis database.

and sin. Fear arises when deep historical experience suddenly reemerges and becomes alive as a possible version of the present.

The volatile fluctuations of this index conceal a long-term trend, with a tendency toward optimism in the period 1990–2000, followed by a severe swing to the "end of the world" standpoint with the collapse of the dotcom boom, and a new optimism after 2003. We can find the same from other analyses of prevalent modes of thought. Strikingly, references to "globalization" in the world's major newspapers show the same increase in the 1990s, and the same decrease until 2003 (fig. 3).

The prominence of fear, and a resurgence of thinking in terms of sin, seem in the modern era to be accompaniments to a turning away from internationalism (or globalization). These sentiments are an integral and causative part of the mechanism by which severe financial crises is propagated. But we should recognize that this is not simply a phenomenon of the twentieth or twenty-first century. The emphasis on fear is part of a broader package, a worldview that has its historical antecedents in figures such as Girolamo Savonarola or Martin Luther at the height of Renaissance euphoria, or John Dickinson during the American Revolution. The 1929 panic remains a major monument to twentieth-century fear: the fear that President Franklin D. Roosevelt tried to exorcise in what is probably still his best-remembered phrase: "The only thing we have to fear is fear itself."

This content downloaded from
149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

REP110_06 3/24/04 2:07 PM Page 143

Notes

1. John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (London, 1936), 154, 155, 159.
2. Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States* (Princeton, NJ, 1963).
3. See Michael D. Bordo, Ehsan U. Choudhri, Anna J. Schwartz, "Could Stable Money Have Averted the Great Contraction?" *Economic Inquiry* 33, no. 3 (1995): 484–505.
4. Helmut Schmidt, "Vorsicht Finanzhaie," *Die Zeit*, October 8, 1997, 2.
5. George Soros, *The Crisis of Global Capitalism: Open Society Endangered* (New York, 1998), 103, 134.
6. "Ins and Outs of the Ups and Downs," *Financial Times*, January 25, 2008.
7. "In UBS Vote a Mixed Message," *Wall Street Journal*, February 28, 2008.
8. Eugene Fama, "The Behavior of Stock Market Prices," *Journal of Business* 38 (1965): 34–105. Paul Samuelson, "Proof That Properly Anticipated Prices Fluctuate Randomly," *Industrial Management Review* 6 (1965): 41–49. The theory goes back to the 1900 dissertation of Louis Bachelier, "Théorie de la Spéculation." The most important popular presentation of the theory is Burton Malkiel's best-seller, *A Random Walk Down Wall Street* (New York, 1981). See also Burton G. Malkiel, *The Efficient Market Hypothesis and Its Critics* (Princeton, NJ, 2003).
9. Shiller's bestseller, which was fortuitously but advantageously published on the eve of the dotcom crash, uses history to show the vulnerabilities of market assumptions; Robert J. Shiller, *Irrational Exuberance* (Princeton, NJ, 2000).
10. Frederick Lewis Allen, *Only Yesterday: An Informal History of The Nineteen-Twenties* (New York, 1931); John K. Galbraith, *The Great Crash, 1929* (1955; reprint, Harmondsworth, 1975); John Brooks, *Once In Golconda: A True Drama of Wall Street, 1920–1938* (New York, 1969); Charles P. Kindleberger, *Manias, Panics, and Crashes: A History of Financial Crises* (New York, 1978).
11. Eugene White, "The Stock Market Boom and Crash of 1929 Revisited," *Journal of Economic Perspectives* 4, no. 2 (1990): 67–83, argues more moderately that economic data was predicting a (relatively mild) recession and that the stock market reacted to this.
12. Peter Temin, *Did Monetary Forces Cause the Great Depression* (New York, 1976), 78–83.
13. The most explicit account of 1929 that offers this explanation is Irving Fisher, *The Stock Market Crash—and After* (New York, 1930).
14. "Cotton Futures Decline Sharply," *New York Times*, October 24, 1929, 53.
15. Paul Krugman, "Fear Itself," *New York Times Magazine*, September 30, 2001, 36.
16. Ben Bernanke, "The Macroeconomics of the Great Depression: A Comparative Approach," *Journal of Money, Credit and Banking* 27 (February 1995): 1–28.
17. Allen, *Only Yesterday*, 330; Galbraith, *Great Crash*, 123.
18. "Panicky Liquidation on Stock Exchange Partly Checked," *New York Times*, October 25, 1929, 45.
19. "Phones, Radio, Cable Beat All Records," *New York Times*, October 30, 1929, 3.
20. See Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939* (Oxford, 1992), 251.

This content downloaded from
149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms

REP110_06 3/24/04 2:07 PM Page 144

21. John Maynard Keynes, *A Treatise on Money* (London, 1930), 2:190; Lionel Robbins, *The Great Depression* (London, 1934), 49.
22. Thomas E. Hall and J. David Ferguson, *The Great Depression: An International Disaster of Perverse Economic Policies* (Ann Arbor, 1998), 66.
23. Temin, *Monetary Forces*, 72.
24. See Ben Bernanke and Mark Gertler, "Inside the Black Box: The Credit Channel of Monetary Policy Transmission," *Journal of Economic Perspectives* 9 (Winter 1995): 27–48.
25. Galbraith, *Great Crash*, 147.
26. "Falls Dead at Ticker as Stocks Decline," *New York Times*, October 30, 1929, 3.
27. "Bank Crises Kill, Says Study," *Financial Times*, February 26, 2008, 3.
28. Marek Okólski, "Demographic Processes Before and During the Ongoing Transition in Poland," *International Journal of Sociology* 34, no. 4 (Winter 2004–5): 3–37; see also Marek Okólski, *Reprodukcja ludności a modernizacja społeczeństwa. Polski syndrom* [Population Reproduction and Modernization] (Warsaw, 1988).
29. "Heavy Break in Stocks," *New York Times*, October 24, 1929, 43.
30. "Breaks of the Past Recalled in Street," *New York Times*, October 25, 1929, 3.
31. Robert J. Schiller, "Investor Behavior in the October 1987 Stock Market Crash: Survey Evidence" (working paper 2446, National Bureau of Economic Research, Cambridge, MA, November 1987), 24.
32. "The Wall Street Readjustment: Its Present Meaning and Significance for the Future," *New York Times*, October 25, 1929, 36.
33. William Safire, "Fear Itself," *New York Times*, October 21, 1987, A35.
34. Galbraith, *Great Crash*, 140.
35. "Brokers Believe Bottom is Reached," *New York Times*, October 30, 1929, 7.
36. "Calls Stock Crash Blow at Gamblers," *New York Times*, October 29, 1929, 23.
37. Galbraith, *Great Crash*, 128.
38. Keynes, *General Theory*, 159.
39. "The Wall Street Crash A Devastating Slump," *Daily Mail*, May 30, 1998, 12.
40. "Ins and Outs of the Ups and Downs."
41. Paul Krugman, "A Crisis of Faith," *New York Times*, February 18, 2008.

This content downloaded from
149.10.125.20 on Fri, 04 Mar 2022 04:38:12 UTC
All use subject to https://about.jstor.org/terms