The Big Stock Market Crash

Americans awoke to new values when a lush era of speculation came to a sudden end

by FREDERICK LEWIS ALLEN

Seventeen years ago this October, the greatest financial disaster in history occurred. It was the forerunner of the great Depression, the forerunner of the New Deal and Franklin D. Roosevelt. Today, some of the conditions which brought about the '29 collapse in Wall Street have been corrected by Federal legislation. But the Big Crash of 17 years ago emphasizes the age-old truism that catastrophe always follows unbridled speculation in any field of human endeavor.

—THE EDITORS

HOW MANY AMERICANS actually held stocks on margin during the fabulous summer of 1929 there seems to be no way of computing, but there were probably more than 1,000,000.

As one walked up the aisle of the 5:27 commuters' local, or found one's seat in the trolley, two out of three newspapers were open to the stock-market quotations. Branch offices of big Wall Street houses blossomed in cities and villages everywhere. The broker found himself regarded with new wonder and esteem; ordinary people hung upon his every word. Let him but drop a hint of a possible split-up in General Industries Associates and his neighbor was off hot-foot to place a buying order.

Stories were told of a broker's valet who had made $250,000 in the market, of a trained nurse who cleaned up $30,000 on tips from grateful patients.

Everywhere one heard fantastic stories of sudden fortune. Thousands speculated—and won—without the slightest knowledge of the company upon whose fortunes they were relying, like the people who bought Seaboard Air Line under the impression it was an aviation stock. Grocers, motormen, plumbers, seamstresses and speakeasy waiters were buying on margin. The Big Bull Market had become a national mania.

In September the market reached its glittering peak. It was six months, now, since Herbert Hoover had taken office as President. Colonel Lindbergh, true to his role as national super-hero, had married Miss Anne Morrow. Commander Byrd was waiting in "Little America" for his chance to fly to the South Pole. On American beaches, girls pulled down the straps of their bathing suits to acquire fashionably tanned backs, and wondered whether it would be all right to leave their stockings off when they drove to town.

This was the season when Bill Tilden won his seventh and last American amateur tennis championship; Bobby Jones was monarch of amateur golfers; Babe Ruth was still hammering home runs; Dempsey had lost his crown to Tunney. Everybody was reading *All Quiet on the Western Front* and singing the songs which Rudy Vallee crooned over the radio. But all this made dull talk compared with the Big Bull Market.

EARLY IN SEPTEMBER the market broke. It recovered briefly, then slipped farther and faster until, by October 4, the prices of many stocks had coasted to what seemed first-class bargain levels. The disaster impending was destined to be as bewildering and frightening to the rich and sagacious as to the foolish and unwary holder of 50 shares on margin.

The expected market recovery did not come. On Wednesday, the 23rd, there was a Niagara of liquidation. Everybody realized that the situation at last was getting serious, but perhaps the turn would come tomorrow. Surely it would not go on much longer.

The next day was Thursday, October 24. Kennecott appeared on the tape in a block of 20,000 shares, General Motors in another of the same amount. Almost at once the ticker began to lag. Prices were going down, going down with rapidity. Before the first hour of trading was over, it was apparent that they were going down with unprecedented violence. In brokers' offices all over the country, tape-watchers looked at one another in astonishment and perplexity. Where was this torrent of selling orders coming from?

The exact answer will probably never be known. But it seems probable that the principal cause was not fear. Nor was it short selling. It was forced selling, the dumping of hundreds of thousands of shares held in the name of miserable traders whose margins were exhausted or about to be exhausted. The gigantic Bull Market edifice was honeycombed with speculative credit and now was breaking under its own weight.

As the price structure crumbled

there was a stampede to get out from under. By 11 o'clock, Exchange traders were in a scramble to "sell at the market." Word had gone out by telephone and telegraph that the bottom was dropping out of things. Down, down, down. . . .

Where were the bargain-hunters who were supposed to come to the rescue at times like this? Where were the big operators who had just yesterday declared they were still bullish? Where were the powerful bankers who were supposed to be able at any moment to support prices? Down, down, down. The roar of voices from the floor became a roar of panic.

Leaders like United States Steel, General Electric, Radio, Montgomery Ward—all dropped headlong. In two hours, dozens of stocks lost ground which it had required many months of the Bull Market to gain. But even this decline might not have been terrifying if people could have known precisely what was happening at any moment. It is the unknown which causes panic. . . .

Suppose a man walked into a broker's branch office between 12 and 1 o'clock on October 24. First he glanced at the big quotation board: the low figures took his breath away. But soon he was aware that they were unreliable: even with wild scrambling, the boys who slapped into place the cards which recorded the last prices shown on the ticker could not keep up with the changes. And presently he heard the ticker was an hour and a half late; at 1 o'clock it was recording the prices of 11:30! All this that he saw was ancient history. What was happening on the floor?

In that broker's office, as in hundreds of other offices across America, white-faced men looked defeat in the face. One of them was slowly walking up and down, mechanically tearing a piece of paper into fragments. Another was grinning shamefacedly, as a small boy giggles at a funeral. And still another was sitting motionless, as if stunned, his eyes fixed upon the moving figures on the illuminated ticker screen, figures that meant the smashup of the hopes of years. . . .

A few minutes after noon, a crowd outside the Exchange recognized Charles E. Mitchell, erstwhile defender of the Bull Market, slipping into the offices of J. P. Morgan & Co. Mitchell was followed shortly by Albert H. Wiggin, head of the Chase National Bank; William Potter, head of the Guaranty Trust Company; Seward Prosser, head of the Bankers Trust

Company. They came to confer with Thomas W. Lamont of the Morgan firm.

In a few minutes these five men, with George F. Baker, Jr., of the First National Bank, agreed to put up $40,000,000 apiece to shore up the market. Their first action would be to try to steady the prices of leading securities. It was a dangerous plan, for with hysteria spreading there was no telling what sort of catastrophe might be impending. But this was no time for any action but the boldest.

The bankers separated. Lamont faced reporters, his face grave, his words soothing. His first sentence was one of the most remarkable understatements of all time: "There has been a little distress selling on the Exchange," said he, "and we have held a meeting to discuss the situation. We have found there are no houses in difficulty and reports indicate that margins are being maintained satisfactorily."

As the news of the bankers' meeting circulated on the floor of the Exchange, prices began to steady. But the bankers had more to offer the dying Bull Market than a Morgan partner's best bedside manner. Richard Whitney, vice-president of the Exchange and floor broker for the Morgan interests, went into the "Steel crowd" and put in a bid of 205—the price of the last previous sale—for 10,000 shares of Steel.

Then he went to various other points on the floor, until within a few minutes he had offered to purchase 20 to 30 million dollars' worth of stock. The desperate remedy worked. Prices held for a while; and though many of them slid off once more in the final hour, the net results for the session might have been worse.

All the same, it had been a frightful day. Incredible rumors had spread during the afternoon—that 11 speculators had committed suicide, that the Buffalo and Chicago exchanges had been closed, that troops were guarding the New York Exchange against an angry mob. The country had known the bitter taste of panic: the economic structure had cracked wide open.

Things looked somewhat better on Friday and Saturday. But on Monday, the terrific rout was under way once more. The prices at which Whitney's purchases had steadied leading stocks on Thursday were so readily broken that it was clear the bankers' pool had made a strategic retreat. Even six great banks could not stem the flow of liquidation from the entire United States. But the worst was still ahead. It came the next day, Tuesday, October 29.

The big gong had hardly sounded in the Exchange at 10 A.M. before the full storm broke. Huge blocks of stock were thrown upon the market for what they would bring. Not only were innumerable small traders being sold out, but big ones, too, protagonists of the New Economic Era who a few weeks before had counted themselves millionaires. To give one example: during the Bull Market the common stock of White Sewing Machine Company had gone as high as 48; on Monday, October 28, it had closed at 11 1/8. On black Tuesday, somebody had the bright idea of putting in an order to buy at 1—and actually got his stock!

The scene on the floor was chaotic. Despite jamming of the communication system, orders came in faster than human beings could handle them. So complete was the demoralization that when the panic was at its worst, the 40 governors met secretly to decide whether to close the Exchange. But after deliberation, they finally decided against it.

It was a critical day for the banks, that Tuesday. That a money panic was not added to the stock panic, and that several Wall Street institutions did not go into bankruptcy, was due largely to the nerve shown by a few bankers.

The story is told of one who went grimly on authorizing the taking over of loan after loan until a subordinate came in with a white face and told him the bank was insolvent. "I dare say," said the banker, and went ahead unmoved. He knew that if he did not, more than one concern would face insolvency.

The next day the outlook brightened. Steel declared an extra dividend; American Can raised the regular dividend. John D. Rockefeller poured Standard Oil upon the waters: "Believing that fundamental conditions of the country are sound . . . my son and I have for some days been purchasing sound common stocks."

Prices rose steadily. Now at last the time had come when the strain on the Exchange could be relieved without causing undue alarm. At 1:40, Whitney announced the Exchange would not open until noon the following day and would remain closed Friday and Saturday. The financial community breathed more easily; now they had a chance to set their houses in order.

True, the worst of the panic was past. But not the worst prices. There was too much forced liquidation still to come, and next week prices receded once more—until at last on November 13 the bottom was reached.

In short, the Big Bull Market was dead. Billions of dollars' worth of profits — and paper profits — had disappeared. The grocer, the window-cleaner and the seamstress had lost their capital. In every town families had dropped from affluence into debt. Investors who had dreamed of retiring to live on fortunes now found themselves back at the very beginning. Day by day the newspapers printed grim reports of suicides.

Coolidge-Hoover Prosperity was dying. Under the impact of panic, a multitude of economic ills, which hitherto had passed unnoticed or had been offset by stock-market optimism, began to beset America. No matter how many soothsayers of high finance proclaimed that all was well, no matter how earnestly President Hoover set to work to repair the damage, a major depression was inevitably under way.

The Big Bull Market had been more than the 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. With the Big Bull Market gone, Americans were soon to find themselves in an altered world which called for new adjustments, new ideas, new habits of thought, a new order of values. The Post-War Decade had come to its close. An era had ended.

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