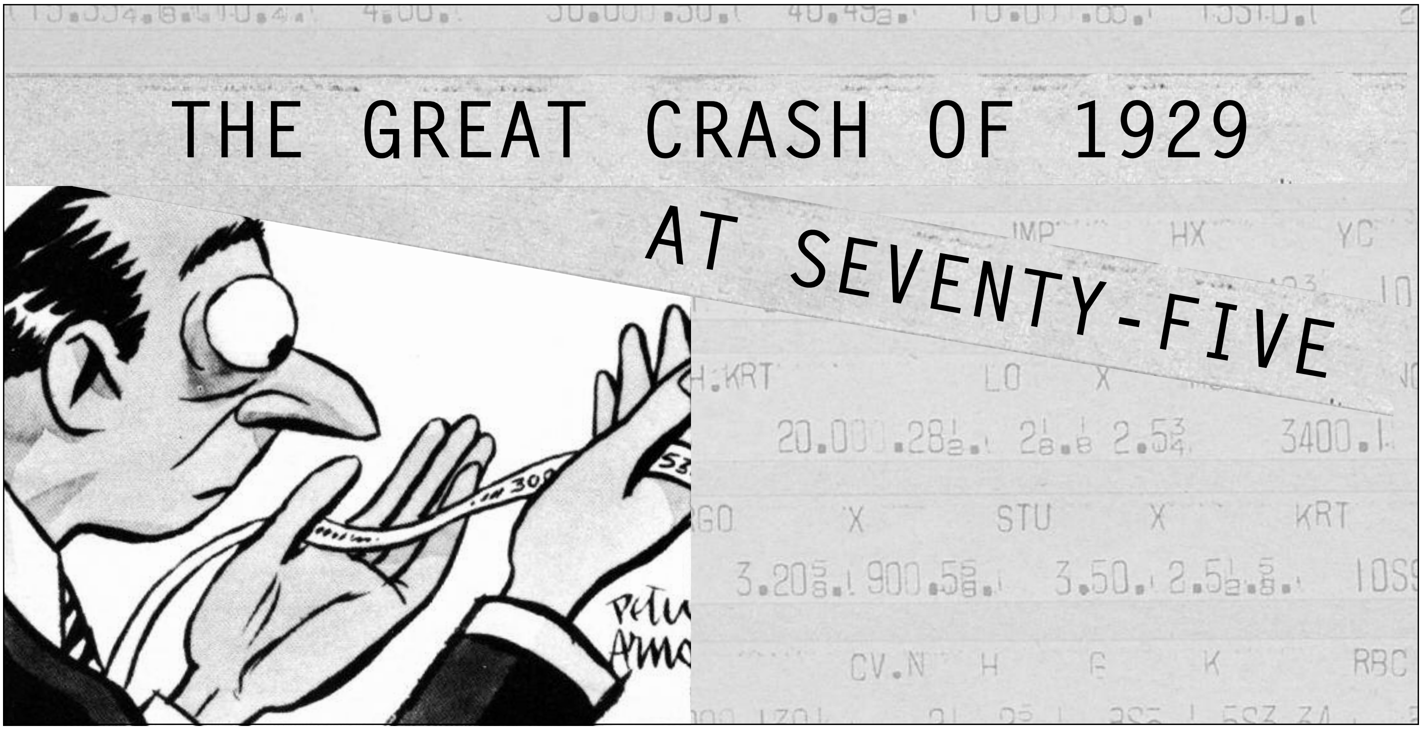
THE GREAT CRASH OF 1929 AT SEVENTY-FIVE



By Richard Sylla

IN 2004 AMERICANS CELEBRATE, if that is the right word, the 75th anniversary of the Great Stock Market Crash of 1929. There had been market crashes before 1929. And there were crashes after 1929. But 1929 is still considered THE BIG ONE.

How did the Great Crash develop in 1929? What did we think of it at its 25th and 50th anniversaries in 1954 and 1979? And how might we view it now, at its 75th? Exploring these questions, I conclude that we need to forget some of what "everyone knows" about the Crash of '29.

1929. Stocks, as measured by the Dow Jones Industrial Average (the Dow), reached a peak close of 381 on September 3, 1929, and the average closed at 351 on October 15, a modest decline from the peak. From its close of 96 at the end of 1923 to the peak of September 1929, the Dow increased at a compound rate of 24 percent per year.

After the September peak, the Dow declined moderately to 351 on October 15. During the month after October 15, all hell broke loose. From an intra-day high of 330 on October 23, the Dow reached an intra-day low of 272 the next day, Black Thursday, on record volume of 12.9 million shares. Well-publicized and large-scale stock purchases organized by a New York bankers' pool during the day on Black Thursday moved the close up to 299. Prices stabilized at that level the next two days — the New York Stock Exchange had Saturday sessions then.

Then on Black Monday, October 28, the Dow fell from the 299 close on Saturday to a close of 261. The next day, Black Tuesday, the Dow crashed to a low of 212 and a close of 230 on new record volume, 16.4 million shares. Those two late October days in 1929, when the Dow lost 23 percent of its value from Saturday's close to Tuesday's, define for many the Great Crash.

The price slide on Wall Street continued after Black Monday and Black Tuesday, just as it had begun before those two defining days. Continuing weakness in early November pushed the Dow down to the crash-period closing low of 199 on November 13. From the September peak, stocks had lost 48 percent of their value in a little over two months. Nonetheless, the Dow was still twice as high as it had been six years earlier.

Those are the essential facts of the Great Crash. But how are we to interpret them? Why, of all of financial history's crashes, was this crash THE BIG ONE?

Without a doubt it is because the Crash of 1929 came at the beginning of an economic downturn that lasted longer than all other downturns in American history, from 1929 to 1933. This Great Depression was the greatest economic crisis in America's history. By the time the Dow reached its Depression low of 41 in mid-1932, it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89th YEAR—No. 295. ★ NEW YORK CITY, THURSDAY, OCTOBER 24, 1929. ★ REISSUE 32 PAGES THREE CENTS

WALL ST. IN PANIC AS STOCKS CRASH

Attempt Made to Kill Italy's Crown Prince

STOCKS CRASH IN RUSH TO SELL; BILLIONS LOST

ASSASSIN CAUGHT IN BRUSSELS MOB;

Hollywood Fire Destroys Films

FEAR 52 PERISHED IN LAKE MICHIGAN;

PIECE OF PLANE LIKE DITEMAN'S

High Duty Group Gave $700,000 to

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Front page of the Brooklyn Daily Eagle *from Black Thursday, October 24, 1929.*

was off almost 90 percent from the 1929 peak, and less than half of where it had been at the end of 1923. And since the Crash came at the beginning of the Great Depression, the crash must have been a major cause of the Depression.

At least this is what many began to believe as economic conditions got worse and worse during 1930-33. As the idea worked its way into textbooks, it is what Americans continued to believe for decades. The Great Crash-Great Depression connection is what many of our history textbooks still teach us. Most of us still believe it. Nonetheless, from the perspective of 75 years, it is likely a flawed lesson.

1954. From the perspective of 25 years, the Crash-Depression nexus seemed anything but a flawed lesson. In 1954, the Dow opened the year at 283 and closed it at 404. It was the first time the index had reached and surpassed its peak of September 1929, a quarter century before. That set off alarm bells in the country, if not on Wall Street.

Sensing opportunity, economist and author John Kenneth Galbraith of Harvard produced a small book, *The Great Crash, 1929,* a witty and sardonic treatment of the subject still worth reading half a century later. Hearing some of the alarm bells, Congress invited Professor Galbraith to testify in early 1955 at hearings intended to probe into whether the 1950s boom and the surpassing of 1929 stock prices portended another bust.

"Toward the end [of his testimony]," Galbraith reported in the introduction to a later edition of the book, "I suggested that history *could* repeat itself, although I successfully resisted all invitations to predict when. I did urge a stiff tightening of margin requirements as a precautionary step."[1] After referring to "the suicidal tendencies of the economic system," one of which is "the recurrent speculative orgy," Galbraith added, "The Great Crash of 1929 contracted the demand for goods, destroyed for a time the normal machinery for lending and investment, helped arrest economic growth, caused much hardship and, needless to say, alienated countless thousands from the economic system. The causes of the crash were all in the speculative orgy that preceded it."[2]

That is how the 1929 crash looked to an informed observer 50 years ago.

1979. When the Great Crash had its 50th anniversary, no one seemed to care. The Dow opened that year at 811 and, after reaching a high of 898, it closed at 839. Although the averages had doubled since the mid-1950s when Galbraith drew his lugubrious lessons, no one in 1979 was happy about that. The Dow had reached those 1979 levels much earlier, in 1964, and even surpassed them in 1965. In a sense, by 1979 stocks—at least the Dow stocks as a group—had not gained in 15 years.

The intervening period had been terrible, with Vietnam, the collapse of the Bretton Woods system of fixed exchange rates, wage and price controls, oil price shocks, Watergate, rampant inflation, and ever-rising interest rates. In the midst of all this came the worst bear market since the 1930s. From a peak of 1,051 in January 1973, the Dow fell to 585 in October 1974. This was a loss of 45 percent, almost as great a loss as the 48 percent drop from September to November in 1929. Since the decline was spread over 21 months, few termed it a crash. It was just a bear market, if maybe worse than most bear markets. Although the economy was hardly in good shape, the 1973-74 bear market was not followed by a depression, just a recession that ended in 1975.

By 1979, the first of three consecutive years of double-digit inflation, no one expected a crash because it seemed that stocks had already crashed, at least in real (inflation-adjusted) terms, since the mid 1960s.

It took three years to turn around this long chain of awful events. But the turn-around began in 1979 with the elevation of Paul Volcker to head the Federal Reserve. Volcker started the process of ending inflation by allowing interest rates to rise to unprecedented levels in U.S. history. The result was a mild recession in 1980, and the worst recession since the 1930s in 1981-82. Ronald Reagan, who passed on earlier this year, became president in 1981. To his credit, President Reagan supported the Volcker Fed's efforts to control inflation when politics might have dictated blaming the Fed for the 1981-82 recession. But it took a while for Reagan, Volcker, and others to make it "morning in America" again. In August 1982, the Dow hit a low of 777, a bit lower than the 1979 low.

2004. From the 1982 low to the all-time peak of 11,723 in January 2000, the Dow increased 15-fold. This really was "morning in America." For investors, happy days were here again.

But not every day was a happy one, especially October 19, 1987. On that day, the Dow fell from 2,247 to 1,739, a 23 percent decline that matched the two-day decline on Black Monday and Black Tuesday in 1929. From the August 1987 peak of 2,722 to the October crash low, the Dow lost 36 percent of its value. This was less than the 48 percent loss in two months in 1929. But the psychological impact was not substantially different. Some saw portents of another Great Depression.

Today, the 1987 crash is all but forgotten. Why? Most likely it is because it was not followed by a depression, much less another Great Depression. That should make us think about 1929. Perhaps the crash-depression nexus is not as warranted as our teachers and our textbooks taught us.

After the turn of the year 2000, the stock market experienced another major bear market. From the January 2000 peak of 11,723, the Dow slid to 7,286 by October 2002, a drop of 38 percent. That is remindful of the 1973-74 bear market. The Nasdaq composite index, which was not around in 1929, fared far worse. It peaked at 5,049 in March 2000, and hit a low of 1,119 in October 2002. That decline of 78 percent, nearly as bad as the 89 percent decline of the Dow from 1929 to 1932, is remindful of what happened to stocks during the Great Depression.

Yet there was not a Great Depression after 2000, only a mild recession in 2001. In 2004, the Dow is above 10,000 again, and the Nasdaq is in the vicinity of 2,000. These represent pretty good gains from the October 2002 lows. And the economy in 2004 appears quite healthy. Like 1987, recent experience provides further grounds for questioning the conventional wisdom that the Crash of 1929 caused the Depression of the early 1930s.

Back to 1929. In Galbraith's account of the Great Crash of 1929, there is only one sentence indicating what the market did in the period immediately following the crash: "In January, February, and March of 1930 the stock market showed a substantial recovery."[3] That at least is more accurate than most accounts, which do not mention a price recovery at all, much less a substantial one. Such a mention might muddy up the popular storyline that the Great Crash caused the Great Depression.

What did happen in those months? From its low of 199 in November 1929, the Dow recovered to 294 by mid-April 1930. Its close on Wednesday, October 23, 1929, before Black Thursday, Black Monday, and Black Tuesday, had been 306. In other words, during the five months after the November 1929 lows, the Dow had recovered 96 percent of its losses in what most historians call the Great Crash. At its April peak the Dow was still at only 77 percent of its pre-crash peak in September 1929, so it was still a bear market. But the Great Crash itself was almost entirely reversed in five months. By way of comparison, it took 15 months to reverse the similar crash of October 19, 1987.

So in 2004 the case for making the Great Crash a prime cause of the Great Depression is far weaker than it was in 1979 or 1954. What then did cause the Depression? That is a long story, and there is not agreement on all of its details. But there is consensus that economic policymakers made many mistakes as the slide from recession into depression took place after 1929. They raised taxes and duties on imports. They tried to balance the budget by cutting government spending. They made money tight and let banks fail by the thousands, causing consumer and business spending to drop as well. The price level collapsed, and unemployment rates rose to record levels.

Nothing like that happened after the crash of 1987, or during the bear market of 2000-02. And there were no depressions. Today's economic policymakers have learned from the mistakes of their predecessors. Now that we know that major stock market crashes and bear markets need not cause depressions, perhaps it is time that we stopped making the Crash of 1929 the scapegoat for the misguided economic policies in 1930-32 that were the real causes of the severity of the Depression. We need to "unlearn" some flawed history. FH

Notes

1 John Kenneth Galbraith, *The Great Crash, 1929* (Boston: Houghton Mifflin, 1961), p. xii.

2 Ibid., p. xx.

3 Ibid., p. 146.

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