From Boom to Bust: The Crash of '29 1/3 page summary

At midnight on Oct. 24, 1929, Mary Pierce, the wife of a wealthy New York financier, threw a party on the Berengaria, the ocean liner she was taking from England to New York. "I just thought anyone who loses $160,000 on the stock market in a day has a good reason for a party," she told one guest. Pierce had lost the equivalent of $1.8 million in 2004 dollars. That she viewed her losses as reason for a party reflected the widespread belief that a new era had dawned in which the booming American economy ensured ever-rising stock prices and never-ending prosperity.

But that belief turned out to be a fantasy. Over the next several days, stock prices continued to dive, and investors lost billions in what became known as the Crash of '29, 75 years ago next month. The Great Depression soon followed. Before the Crash, in the Roaring '20s, the U.S. economy soared, fueled by enthusiasm for the wonders of the age, like the new medium of radio, and mass-produced consumer products like Henry Ford's Model T. But stock prices rose far faster than corporate profits, meaning that stocks' value on paper (what investors paid to buy shares) far exceeded what companies were actually worth.

Less than a quarter of Americans actually owned stocks in 1929, and the vast majority of them had made small investments they could afford. But that statistic belies the extent to which getting rich in stocks had become a national obsession, at least among the middle class. Frederick Lewis Allen, in his classic 1931 book Only Yesterday, recalled that an American in 1929 "could spin wonderful dreams of a romantic day when he would sell his Westinghouse [stock] at a fabulous price and live in a great house and have a fleet of shining cars."

While the immediate cause of the Crash was speculation that had sent prices too high, signs of a weakening economy, like a steep drop in farm prices, had been apparent earlier, but were overlooked or ignored.

In reporting on the first day of the Crash, known as Black Thursday, The New York Times called it "the most disastrous decline in the biggest and broadest stock market of history." The initial drop was widely viewed as having been caused by a spiral of panicky selling by amateur investors after stock prices had begun slipping.

But optimists who expected a rebound were mistaken. On Oct. 28 and 29, the market lost a quarter of its value. In its Oct. 30 edition, The Times reported: "Wall Street was a street of vanished hopes . . . . Men and women crowded the brokerage offices, even those who have been long since wiped out, and followed the figures on the tape. Little groups gathered here and there to discuss the falling prices in hushed and awed tones."

President Herbert Hoover and corporate leaders tried to reassure the nation that even though Wall Street was suffering, the economy was healthy, while in reality, the economy's decline was about to accelerate. In the aftermath of the Crash, there were reports of distraught investors committing suicide. A St. Louis broker, John F. Betts, swallowed poison at home, The Times reported, after losing $500,000 ($5.3 million in 2004 dollars). "He was unable to sleep and would often spend the night walking up and down in his room," Betts's son told the paper. In fact, historical data on suicides show only a small increase after the Crash, but that did not stop the image of investors ending their lives from taking hold.

Actor and comedian Eddie Cantor joked that during the Crash he had tried to check into a New York hotel, asking for a room on the 19th floor. "What for? Sleeping or jumping?" was the clerk's reply. The jokes soon faded. Many of the millions who owned no stock at first took pleasure in seeing the rich suffer. But soon, businesses began laying off workers, and those who were laid off-at a time when there was no unemployment insurance-were forced to cut back on spending. Reduced consumer spending led other companies to cut production, and to lay off more workers.

Banks also were faltering. Declining farm prices had already forced some banks to close when farmers defaulted on their loans. Other banks failed when investors who had borrowed money to buy stocks-known as buying on margin-lost everything in the market and couldn't repay their loans. Economists still differ on whether the Crash caused the Depression, but Americans at the time thought it had. Many decided that the stock market was a risky gambling den to be avoided, and stayed out of the market for years, if they returned at all. Economists generally agree, however, that better economic policies, such as quicker government action to stimulate the economy after the Crash, could have prevented the Depression. Three years later, in 1932, with the Depression still deepening, Hoover, a Republican, lost his bid for re-election to Democrat Franklin D. Roosevelt, the Governor of New York. FDR's New Deal included many government programs aimed at boosting the economy and insulating it against future depressions: price supports for farmers; deposit insurance for bank accounts; Social Security; unemployment insurance; and a Securities and Exchange Commission to better regulate the stock market. Congress also passed legislation that allowed the Federal Reserve to set limits on how much money investors could borrow to buy stock.

But even with massive government intervention, the economy did not fully recover for many years. In fact, many economists give the stimulus of World War II as much credit for ending the Depression as the New Deal.

Not until 1952, 20 years after Hoover's loss to FDR, would another Republican be elected President. And not until 1954 would the Dow Jones Industrial Average, the most widely quoted barometer of stock prices, close higher than the 381.17 it had recorded on Sept. 3, 1929.

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