CURRENT NEWSPAPER REACTION TO THE NEW YORK STOCK MARKET CRASH OF 1929

A consideration of the short-period factors involved.

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The great New York stock market boom of 1929 can be traced back at least to late 1927, when speculation was growing, even though prices were rising slowly. This continued through 1928, and Hoover’s election as President in October set off an even greater buying spree. Despite a short setback in early December, this continued into the new year, reaching a peak around August 1929. The day following the Labour Day holiday, 3rd September, has been seized upon by various writers as the day on which the great bull market ended. There is little indication of this in the newspapers for that day.

The Christian Science Monitor reported that some observers saw in the day’s decreased sales the likelihood of a sharp downward “readjustment” later in the week; and that several of the large commission houses were urging clients to keep their accounts in a liquid position. The New York Times was non-committal, but the New York Journal of Commerce, in its excellent weekly review, noted that although business news contained nothing to change the current outlook, advances if any would be highly selective, which, “in view of the sharpness of individual advances taking place in certain issues . . . has caused considerable surprise . . . . A large majority of listed stock has actually lost ground for the year.” The selective buying was attributed to two main forces: the leading role of investment trusts and banking interests which were naturally well-informed and careful; and the general level of prices which was already so high that the public was apprehensive of making indiscriminate purchases.

On the following day, the Monitor reported extreme uneasiness, especially over the prospect of a higher Bank of England rate on the next day and of action by the Federal Reserve to restrict the flow of credit into speculative channels. In addition, the mid-month credit pinch (for business settlements) was expected to be unusually severe. The next day, 5th September, while speaking before his Annual National Business Conference, the analyst Roger W. Babson warned that a crash which would rival the Florida land crash was about to take place in Wall Street. In the text of his speech he showed, as had the Journal of Commerce two days earlier, that rises were taking place in only a minority of stocks. The Babson Statistical Organisation had found that 62% of stocks had actually declined in value since January 1929.

On the same day the market cracked. 5,565,280 shares were traded on the New York Stock Exchange as people sought to unload. The Journal of Commerce reported that although many predictions like Babson’s had been made in recent years, the technical state of the market and the condition of “nerves” from which it was suffering over the brokers’ loan situation made it particularly susceptible to a dramatic prediction of this sort. The Monitor considered that the announcement only accelerated selling, which was mainly due to fears of another credit pinch, incident to the heavy income tax payments and treasury refinancing due in the middle of the month. On the next day, however, it gave more weight to the effects of Babson’s observations. The Times blandly commented: “The financial
mind has not yet accepted the theory of a perpetual and uninterrupted price rise, and any other supposition presumes reaction, greater or smaller.” The question being asked now was no longer whether the bull market was sound but how long it would last.

Friday, 6th September, saw a recovery. Conservative commission houses, however, were again urging clients to keep their accounts liquid. The Times considered that an underlying sense of uneasiness for the longer if not the immediate future had become increasingly prevalent. By Saturday recovery seemed to be on its way. The Journal of Commerce remarked that Babson’s prediction was “largely the subject of jocular comment yesterday”, and the editor of the Herald Tribune sagely argued that Babson’s reasoning should lead to the opposite conclusion: the analogy with the Florida land boom was feeble because, even if half the stocks were falling, it meant that only the strong ones were being bought.

Many speculators must have decided over the weekend that the time had come to sell out, for instead of the expected rally on Monday, the market remained unsettled. The Journal of Commerce considered that the credit situation had an important effect as purchases by important interests before and during the rally on Friday were unloaded on to the market whenever prices seemed to recover. These sales had kept down prices (and profits) below the levels that could have been reached if liquidity had been less important. The Monitor’s editorial for the day contained this memorable understatement: “One is led to the inevitable conclusion that the values there [at Wall Street] are not a real measure of prosperity, and furthermore that stock values are completely out of line with other conservative lines of business activity.”

Ragged prices continued through the week, and on the following Monday the Times was forced to state: “The situation is in many ways so peculiar as to make generalisation or prediction extremely difficult.” Perplexity, not panic, was the prevailing mood. This was reflected in the Journal of Commerce for Friday, 13th September: “The selling wave [yesterday] was quite puzzling to the financial district.” “Technical readjustments” were frequently seized upon by the papers as the main reason for unsettlement, especially as they agreed that most factors contributing to the business situation seemed favourable, and mercantile reports were also satisfactory. But not all the news was good. Brokers’ loans rose sharply again, and the Monitor reported on 13th September that this was attributed by some to the passing of stocks from strong to weak hands. In other words, the major interests seemed to be selling out.

On Monday 16th the Journal of Commerce considered that the best immediate prediction was for a rather unsettled market, running much along the lines of the previous two weeks. Up to Thursday of that week the markets showed an irregular improvement and on the following day both the Monitor (in a front-page leader) and the Journal of Commerce described investment trusts as the principal force in the market. Moreover, as the Monitor showed, not only were they in a position to play a considerable role in creating bullish conditions, but “any four of the big trusts could buy 10% of the stock in any of the principal industries and gain working control . . . it seems that the control of specific industries now rests with known groups of the trusts . . . especially [in] the utility field . . . the old fashioned pools of a few years ago are pale by comparison.” Similar comments were made on the following day by the Journal of Commerce: “The recent marked speculation in public utility stocks is being ascribed chiefly to purchase for control rather than to popular speculation.” Naturally, as the
investment trusts seemed secure and because readers had little inkling of what lay ahead, the possibility of huge monopolies would have been very alarming.

The continued appearance of a large number of investment trust offerings, which had to be paid for in cash — and which were probably as much for the benefit of promoters as for “investment” — was the cause, according to the Journal of Commerce, of a further increase of 95 million dollars in brokers’ loans, bringing the total to 6,596 million dollars. As observed above, these increased loans had occasionally been held to be a source of uncertainty about the market, but on the 20th the Times noted that they did not seem to arouse much interest.

By that day London was in a turmoil. On Friday 20th the mixed bag of financial enterprises of Clarence Hatry, which had expanded their assets largely by forgery of stock certificates, suddenly collapsed. “In the lore of 1929,” writes Galbraith, “the unmasking of Hatry in London is supposed to have struck a sharp blow to confidence in New York.” The press at the time did not think so. The opinion of the Times on 22nd September was that “the developments abroad should have no important effect either at home or abroad”, while the Monitor on 21st September stated that while “many traders attribute yesterday’s late selling to the financial troubles of a large London operator, the action of today’s market led most observers to attribute the cause to conditions within the market itself.” The Journal of Commerce on the same day held a similar view: “Doubtless internal conditions had much to do with the reactionary trend, although the slump on the London Exchange in the wake of the suspension of trading in the shares of the Clarence Hatry group, due to their inflated prices, also had some effect on sentiment here on account of the high levels at which many stocks are selling.” On the 26th the Times reported that rumours of such development had been current in Wall Street for several weeks, but no one had paid much attention to them; it was believed to be a local situation of small consequence for the New York market.

Despite the dramatic events of the Hatry crisis in London, the date cannot be used as a convenient stepping stone, as events were taking place only gradually. Although there were good days with the bad, the market was by now definitely slipping, and the whole economy was on the downturn, as can be seen from statistics compiled later. But this movement, eventually so severe, was gradual; there was certainly no sudden crack in the economy such as appeared eight years later, in September 1937.

The Journal of Commerce for Monday 23rd considered that there was no definite reason to look for an immediate change in the outlook despite the inflated and dangerous condition of the stock markets. But it did point out the dependence of the existing financial situation on the supply of credit, which was increasingly moving outside the Federal Reserve System’s power of determination. Foreign sources were growing in importance in financing brokers’ loans, and so it only required the conditions to attract or force these funds out of the country for a really critical situation to arise. On the 25th the Bank of England raised its discount rate from 5½% to 6½%, placing it at a premium of 4½% to 1% above the New York Federal Reserve rate. In the past year some £40 million in gold had flowed out of Britain, and the raising of the interest rate was an attempt to check further losses. But as the Monitor observed on the 25th, higher interest rates would mean higher production costs, which Britain just could not afford, so the measure was necessarily a short-term one. With wild rumours and fears of withdrawals of deposits from the New York money market (deposits which were in any case small, as New York bankers pointed out on the following day), the
market was in “a state of despair bordering on panic” according to the Monitor on the 26th. Barely mentioned in most textbooks, this action of the English authorities seems from the newspapers to have had considerably greater immediate consequences than the Hatry crisis.

The very extended and badly protected position of the country “from the credit viewpoint” was again stressed by the Journal of Commerce in its editorial for 27th September: “All the statistics of recent weeks show that conditions have grown weaker rather than stronger, and that the Federal Reserve credit in particular has tended to become more and more seriously inflated.” The same message was repeated in equally strong language in its weekly review on the following Monday. The Times on 30th September also stated that the growing uncertainty about the consequences of the prolonged inflation of Wall Street credit was responsible for the current doubts regarding the market.

Another week of uncertainty passed. The Journal of Commerce for Thursday, 3rd October, reported that British investors had been calling home funds, and not solely because of the Hatry troubles. On the following day it considered that the statement of Philip Snowden, British Chancellor of the Exchequer, which placed the blame for the rise in the English bank rate and the general dislocation of world finance on the New York stock market, was possibly a factor in increased selling pressure. The Times, in reviewing the past week on 6th October, was inclined to blame successful bear operations (those anticipating a fall in prices) for a great deal of the prolonged decline. On the 13th the Times carried the headline in the financial pages: “A Week of Perplexing Developments.” No papers were prepared to make positive predictions, but Professor Charles Amos Dice of Ohio State University was. According to him, the stock market was to see bigger gains in the immediate future than at any other period of its history, and except for minor fluctuations, the present high level of prices would be constant for years to come: “Speculation is based on confidence and a readiness to support the risks of industrial progress.” Despite declarations like this, it was becoming generally recognised that rising prices could not be expected to last. A further upsurge of speculation would only postpone the day of reckoning, and it appears that the main concern of thoughtful people was how to lower prices gently to a more realistic level without generating chaos and panic in the process. There appears around mid-October a definite though subtle change in the tone of the papers, but with the economy apparently healthy, nothing more than a mild recession was expected to result from this adjustment. The Times on 13th October anticipated that the recent events would “lend to the markets in the rest of the year a colour of unusual interest.” They did.

The following days were critical. On Saturday 19th the Monitor reported that the “drastic decline in stocks, which has been under way most of this week, culminated in a violent storm of selling during today’s two-hour session, carrying the day’s turnover to approximately 3,000,000 shares, a huge volume for Saturday.” Powerful banking support in the market had only lasted a short while, and many weakened marginal accounts collapsed. The market’s behaviour was front-page news. The headline of the Times read: “Stocks driven down as wave of selling engulfs the market.” Many now thought that the worst had been seen; there was widespread confidence in “organised support” by the large financiers in the market, who also had much to lose. The Times of 19th October recorded on a more ominous note a “considerable dulling of the edge of business,” and said that the stock market conditions were “attributed by some commentators to the generally slower pace of industry.”
Once again, the weekend saw thousands of people decide to cut their losses and quit, even if conditions were likely to improve during the next week. The keynote is the individual nature of all these decisions. Sales for Monday 21st were 6,091,870, the third greatest volume in history, but the Monitor reported that “the market was more remarkable for volume than it was for price changes.” The Journal of Commerce reported a similar fairly firm level of prices, although several of the more volatile industrial and utility stocks had sinking spells. A rally of prices in the late afternoon was followed by further recovery on the following day. Professor Irving Fisher of Yale University announced that recent breaks in the market had operated as “shakedowns”, and that following a few weeks of fluctuations, a mild bull market would again set in to carry prices back to their former maximums. A leading New York banker, Charles E. Mitchell also announced that “the decline had gone too far,” but such good news did not stop the market from deteriorating again on the Wednesday.

On Wednesday 23rd the Times industrial average for the day dropped from 415 to 384, losing all it had gained since the end of the previous June. The Journal of Commerce stated that although vague rumours were in circulation during the day, nothing seemed to explain the fresh fall of values apart from conditions prevailing within the market itself. Fears of another increase in brokers’ loans may have been the main reason. The Monitor reported that expected banking support for prices had failed to appear, and that despite vague speculation about “organised support” by financial writers and others, “it is highly doubtful if, in recent years, at least, anything of the sort has been seen in New York.”

Thursday, 24th October — “Black Thursday” — saw 12,894,650 securities sold. Leading capitalists conspicuously met at the Morgan offices, and, as the Monitor concluded, “for once ‘they’ did something substantial to provide an orderly and smooth market for stocks and to arrest what might have developed into a veritable panic.” The tide turned at about 1.30 p.m. when Richard Whitney, the well-known acting president of the Exchange, entered and moved about placing orders with various specialists, and it appeared that the bankers had moved in.

Prices continued to be fairly steady over the following Friday and Saturday. Friday’s Monitor carried an announcement by Babson of the probability of further declines but with an orderly market. Its editorial considered that small outsiders would be those most likely to have been caught, while they were the least able to stand a market crash. A mixed batch of opinions appeared on page eighteen; none expected the coming of real severity or depression, but rather that liquidation would make more finance available for industry and commerce. The Herald Tribune of the 26th stated: “It is absurd to assume that anyone but the speculative public is primarily to blame for Thursday’s debacle.”

The Times of Sunday 27th considered that at last the financial hysteria had passed and that stocks were again selling on their earning merits.

“After absorbing the copious output of stock market opinion published over the weekend in the newspapers, the country found little encouragement to buy stocks, or for that matter to hold stocks bought higher up. Anyhow, the public is in no position to turn buyer.” So reads the Monitor for Monday 28th and it is a reflection of the gloom settling over the country. The Monitor reminded readers that stocks would have to be bought for long-term investment in large quantities if the decline was to be permanently arrested: banking support might only be expected to alleviate panicky conditions for the first two or three times.
“Tuesday, 29th October,” writes Galbraith, “was the most devastating day in the history of the New York stock market, and it may have been the most devastating day in the history of markets. It combined all of the bad features of all of the bad days before. Volume was immensely greater than on Black Thursday; the drop in prices was almost as great as on Monday. Uncertainty and alarm were as great as on either.” 16,410,030 shares were sold, and the ticker was two and a half hours behind at the end of trading. The Monitor provided some interesting details. It noted that trading was “handled with less confusion than on some recent days and bids were available at all times. The size of the sales [i.e., the larger blocks being handled], especially in the early trading, accounted for the large turnover without so much delay as on last Thursday . . .” This was followed by some important information about the effects of margin trading. “Selling of stocks to satisfy calls for more margin was tremendous yesterday and again today. Margin holders have been selling recently not so much because of their lack of faith in existing levels, but because they simply had not enough cash to meet their requirements. A vicious circle was thus set up. Each sale of stocks to answer a margin call brought a reduction in prices which in turn touched another margin limit and brought further selling, and so on. In all probability, if the bulk of stocks had been owned outright nothing like so precipitous a drop in prices would have occurred.”

As stock prices fell, many investors switched to buying bonds, which had been going on for a number of weeks. In early September, when Babson made his unpopular prophecies, he had recommended buying bonds. Eventually bond prices were bound to reach and then to pass relative stock prices; by 30th October the Monitor reported that one reason for some buying in the partial recovery after the 29th was the transfer of money back from bonds into stocks as the lower yield on the former encouraged purchases of the latter at apparent bargain prices.

On Friday, 1st November, the security exchanges were closed until the following Monday so that Stock Exchange and brokerage personnel could rest after the strain of the past week. Papers carried reports of considerable recovery and of a large number of orders by people wishing to buy at bargain prices. There were announcements of dividend payments by a number of companies, and the Ford Motor Company grandly announced, in full-page advertisements, reductions in the prices of all vehicles. This was, according to the advertisement, standing company policy of passing on to consumers cost reductions resulting from technical improvements. According to a number of commentators this was to be more realistically attributed to the fact that the market was unable to absorb current vehicle production. Over the past few weeks, a favourite platitude of journalists was that there was no need to worry, since business would not be affected by the stock market crash; at the worst there would only be a reduction in consumption of luxury items. During the next month journalists, such as those writing in the Chicago Tribune for 5th, 9th and 16th November, were still saying that only sales of luxuries would be affected. Automobiles may still have been considered a luxury, but the industry was (and is) a key sector of the American economy. Its multiplier-accelerator effects had been huge in the past decade and if it ran into trouble, this would affect the whole economy. There seems to have been ample recognition of the industry’s importance by contemporary writers, but the question of whether it produced luxuries seems to have obscured the issue.

The Times for Sunday, 3rd November, carried some interesting observations. Although it said that the “direct effect of the crash on industry is not expected to be serious,” it also reported that opinion in Berlin was doubtful about the future and that it held little confidence in the continuation of the sharp Wall
Street recovery in the two days after the panicky liquidation. Berlin financiers remembered only too well the two-year decline which followed the “Black Friday” of May 1927 in the Berlin Boerse, while other Europeans saw too close a resemblance to 1907 and earlier stock panics of the nineteenth century, all of which preceded business declines. The Journal of Commerce had some hard words to say about the Administration’s complacency, and in view of the paper’s earlier exposure of the weakness of the Federal Reserve credit situation, it was justified in attacking Hoover’s confidence in the Federal Reserve. It also reported that Washington analysts were blaming foreign financial interests for partly expediting and influencing the crash.

The remainder of the story is anti-climactic, in itself proof that the stock market crash did not immediately plunge the American economy into the midst of a depression. The market continued to decline until 13th November, when it changed to a slow rise close to stagnation for the rest of the year. The drawn-out and perplexing but not yet desperate days of September and early October gave way, in the fortnight ended 13th-14th November, to a period of almost complete bewilderment. Although reports of a slackening off in business were filtering through, the continual stock market deterioration was more than they could understand in view of the apparent stability of business as a whole.

The Journal of Commerce on the 15th held that an order issued within the Stock Exchange amongst members as part of an effort to stop practices of doubtful honesty, such as short-selling, was a dominant factor in stopping the decline in prices. The announcement of Treasury Secretary Mellon’s recommendation to reduce taxes and “the fact that powerful financial interests engaged to peg pivotal stocks illustrated by a bid made for 1,000,000 shares of Standard Oil Co. of New Jersey, presumably from the Rockefeller interests” reported in the Times of 14th November, were cited as the two other main forces arresting the decline. On Saturday, 16th November, the papers announced President Hoover’s proposals for maintaining prosperity. The Journal of Commerce on the following Monday objected. “This kind of spreading out of construction work over periods when there would otherwise be depression has always been a favourite one with President Hoover. . . . The trouble with the suggestion now is that it really has not much application to the case before us. . . . President Hoover’s plans could certainly not create new demand for jewelry, automobiles [author’s emphasis], radios and the like . . .” This attitude was probably widespread and is indicative of the difficulties confronting the Keynesians some years later.

By November and December the papers were acknowledging the start of a recession which was not expected to be severe. It is significant that during this whole period the I.W.W. paper Industrial Solidarity scarcely mentions unemployment at all, though it found plenty of other things to attack.

The newspapers themselves over this period did more than “react” and report events. Generally speaking, the copies examined showed considerable concern and responsibility, based on a genuine belief in the strength of the United States’ economy. In the early days of inflated stock prices, warnings were frequent; yet when things appeared worst they did their best to restore confidence.

**NOTES**

1. “Margin trading” enabled investors to enjoy the profits of rising stock prices without the burdens of ownership. The buyer of securities on margin acquired full title to his property, but by leaving them with his broker as collateral for a loan (at substantial interest rates) he only had to pay cash for a fraction of the purchase price. This cash, the margins, had to be augmented if the price of the collateral securities fell, thus lowering the protection they provided, but when prices were rising, the clients received the full benefits and the capital profits.


3. Ibid., p. 138.

4. Briefly, effects on income generation and on real (physical) output of capital and non-capital goods.