Chapter Twelve

THE BIG BULL MARKET

ONE day in February, 1928, an investor asked an astute banker about the wisdom of buying common stocks. The banker shook his head. "Stocks look dangerously high to me," he said. "This bull market has been going on for a long time, and although prices have slipped a bit recently, they might easily slip a good deal more. Business is none too good. Of course if you buy the right stock you'll probably be all right in the long run and you may even make a profit. But if I were you I'd wait awhile and see what happens."

By all the canons of conservative finance the banker was right. That enormous confidence in Coolidge Prosperity which had lifted the business man to a new preëminence in American life and had persuaded innumerable men and women to gamble their savings away in Florida real estate had also carried the prices of common stocks far upward since 1924, until they had reached what many hard-headed financiers considered alarming levels. Throughout 1927 speculation had been increasing. The amount of money loaned to brokers to carry margin accounts for traders had risen during the year from $2,818,561,000 to $3,558,355,000—a huge increase. During the week of December 3, 1927, more shares of stock had changed hands than in any previous week in the whole history of the New York Stock Exchange. One did not have to listen long to an after-dinner conversation, whether in New York or San Francisco or the lowliest village of the plain, to realize that all sorts of people to whom the stock ticker had been a hitherto alien mystery were carrying a hundred shares of Studebaker or Houston Oil, learning the significance of such recondite symbols as GL and X and ITT, and whipping open the early editions of afternoon papers to catch the 1:30 quotations from Wall Street.

The speculative fever had been intensified by the action of the Federal Reserve System in lowering the rediscount rate from 4 per cent to 3½ per cent in August, 1927, and purchasing Government securities in the open market. This action had been taken from the most laudable motives: several of the European nations were having difficulty in stabilizing their currencies, European exchanges were weak, and it seemed to the Reserve authorities that the easing of American money rates might prevent the further accumulation of gold in the United States and thus aid in the recovery of Europe and benefit foreign trade. Furthermore, American business was beginning to lose headway; the lowering of money rates might stimulate it. But the lowering of money rates also stimulated the stock market. The bull party in Wall Street had been still further encouraged by the remarkable solicitude of President Coolidge and Secretary Mellon, who whenever confidence showed signs of waning came out with opportunely reassuring statements which at once sent prices upward again. In January 1928, the President had actually taken the altogether unprecedented step of publicly stating that he did not consider brokers' loans too high, thus apparently giving White House sponsorship to the very inflation which was worrying the sober minds of the financial community.

While stock prices had been climbing, business activity had been undeniably subsiding. There had been such a marked recession during the latter part of 1927 that by February, 1928, the director of the Charity Organization Society in New York reported that unemployment was more serious than at any time since immediately after the war. During

January and February the stock market turned ragged and unsettled, and no wonder—for with prices still near record levels and the future trend of business highly dubious, it was altogether too easy to foresee a time of reckoning ahead.

The tone of the business analysts and forecasters—a fraternity whose numbers had hugely increased in recent years and whose lightest words carried weight—was anything but exuberant. On January 5, 1928, Moody's Investors Service said that stock prices had "over-discounted anticipated progress" and wondered "how much of a readjustment may be required to place the stock market in a sound position." On March 1st this agency was still uneasy: "The public," it declared, "is not likely to change its bearish state of mind until about the time when money becomes so plethoric as to lead the banks to encourage credit expansion." Two days later the Harvard Economic Society drew from its statistical graphs the chilly conclusion that "the developments of February suggest that business is entering upon a period of temporary readjustment"; the best cheer which the Harvard prognosticators could offer was a prophecy that "intermediate declines in the stock market will not develop into such *major* movements as forecast business depression." The National City Bank looked for gradual improvement in business and the Standard Statistics Company suggested that a turn for the better had already arrived; but the latter agency also sagely predicted that the course of stocks during the coming months would depend "almost entirely upon the money situation." The financial editor of the *New York Times* described the picture of current conditions presented by the mercantile agencies as one of "hesitation." The newspaper advertisements of investment services testified to the uncomfortable temper of Wall Street with headlines like "Will You 'Overstay' This Bull Market?" and "Is the Process of Deflation Under Way?" The air was fogged with uncertainty.

Anybody who had chosen this moment to predict that the bull market was on the verge of a wild advance which would make all that had gone before seem trifling would have been quite mad—or else inspired with a genius for mass psychology. The banker who advised caution was quite right about financial conditions, and so were the forecasters. But they had not taken account of the boundless commercial romanticism of the American people, inflamed by year after plentiful year of Coolidge Prosperity. For on March 3, 1928 —the very day when the Harvard prophets were talking about intermediate declines and the *Times* was talking about hesitation—the stock market entered upon its sensational phase.

§ 2

Let us glance for a moment at the next morning's paper, that arm-breaking load of reading-matter which bore the date of Sunday, March 4, 1928. It was now many months since Calvin Coolidge had stated, with that characteristic simplicity which led people to suspect him of devious meanings, that he did not "choose to run for President in 1928"; and already his Secretary of Commerce, who eight years before had been annoyed at being called an amateur in politics, was corralling delegates with distinctly professional efficiency against the impending Republican convention. It was three months since Henry Ford had unveiled Model A, but eyes still turned to stare when a new Ford went by, and those who had blithely ordered a sedan in Arabian Sand were beginning to wonder if they would have to wait until September and then have to take Dawn Gray or leave it. Colonel Lindbergh had been a hero these nine months but was still a bachelor: on page 21 of that Sunday paper of March 4, 1928, he was quoted in disapproval of a bill introduced in Congress to convert the Lindbergh homestead at Little Falls, Minnesota, into a museum. Commander Byrd was about to announce his plans for a flight to the South Pole. Women's skirts, as pictured in the department store advertisements, were at their briefest; they barely covered the knee-cap. The sporting pages contained the tidings that C. C. Pyle's lamentable Bunion Derby was about to start from Los Angeles with 274 contestants. On another page Mrs. William Jay, Mrs. Robert Low Bacon, and Mrs. Charles Cary Rumsey exemplified the principle of *noblesse oblige* by endorsing Simmons beds. *The Bridge of San Luis Rey* was advertised as having sold 100,000 copies in ninety days. The book section of the newspaper also advertised *The Greene Murder Case* by S. S. Van Dine (not yet identified as Willard Huntington Wright), Willa Cather's *Death Comes for the Archbishop,* and Ludwig Lewisohn's *The Island Within.* The theatrical pages disclosed that "The Trial of Mary Dugan" had been running in New York for seven months, Galsworthy's "Escape" for five; New York theater-goers might also take their choice between "Strange Interlude," "Show Boat," "Paris Bound," "Porgy," and "Funny Face." The talking pictures were just beginning to rival the silent films: Al Jolson was announced in "The Jazz Singer" on the Vitaphone, and two Fox successes "with symphonic movietone accompaniment" were advertised. The stock market—but one did not need to turn to the financial pages for that. For on page 1 appeared what was to prove a portentous piece of news.

General Motors stock, opening at 139¾ on the previous morning, had skyrocketed in two short hours to 144¼, with a gain of more than five points since the Friday closing. The trading for the day had amounted to not much more than 1,200,000 shares, but nearly a third of it had been in Motors. The speculative spring fever of 1928 had set in.

It may interest some readers to be reminded of the prices brought at the opening on March 3rd by some of the leading stocks of that day or of subsequent days. Here they are, with the common dividend rate for each stock in parentheses:

American Can (2), 77
American Telephone & Telegraph (9), 179½
Anaconda (3), 54½
General Electric (5 including extras), 128¾
General Motors (5), 139¾
Montgomery Ward (5 including extras), 132¾
New York Central (8), 160½
Radio (no dividend), 94½
Union Carbide & Carbon (6), 145
United States Steel (7), 138⅛
Westinghouse (4), 91⅝
Woolworth (5), 180¾
Electric Bond & Share (1), 89¾

On Monday General Motors gained 2¼ points more, on Tuesday 3½; there was great excitement as the stock "crossed 150." Other stocks were beginning to be affected by the contagion as day after day the market "made the front page": Steel and Radio and Montgomery Ward were climbing, too. After a pause on Wednesday and Thursday, General Motors astounded everybody on Friday by pushing ahead a cool 9¼ points as the announcement was made that its Managers Securities Company had bought 200,000 shares in the open market for its executives at around 150. And then on Saturday the common stock of the Radio Corporation of America threw General Motors completely into the shade by leaping upward for a net gain of 12¾ points, closing at 120½.

What on earth was happening? Wasn't business bad, and credit inflated, and the stock-price level dangerously high? Was the market going crazy? Suppose all these madmen who insisted on buying stocks at advancing prices tried to sell at the same moment! Canny investors, reading of the wild advance in Radio, felt much as did the forecasters of Moody's

Investors Service a few days later: the practical question, they said, was "how long the opportunity to sell at the top will remain."

What was actually happening was that a group of powerful speculators with fortunes made in the automobile business and in the grain markets and in the earlier days of the bull market in stocks—men like W. C. Durant and Arthur Cutten and the Fisher Brothers and John J. Raskob—were buying in unparalleled volume. They thought that business was due to come out of its doldrums. They knew that with Ford production delayed, the General Motors Corporation was likely to have a big year. They knew that the Radio Corporation had been consolidating its position and was now ready to make more money than it had ever made before, and that as scientific discovery followed discovery, the future possibilities of the biggest radio company were exciting. Automobiles and radios—these were the two most characteristic products of the decade of confident mass production, the brightest flowers of Coolidge Prosperity: they held a ready-made appeal to the speculative imagination. The big bull operators knew, too, that thousands of speculators had been selling stocks short in the expectation of a collapse in the market, would continue to sell short, and could be forced to repurchase if prices were driven relentlessly up. And finally, they knew their American public. It could not resist the appeal of a surging market. It had an altogether normal desire to get rich quick, and it was ready to believe anything about the golden future of American business. If stocks started upward the public would buy, no matter what the forecasters said, no matter how obscure was the business prospect.

They were right. The public bought.

Monday the 12th of March put the stock market on the front page once more. Radio opened at 120½—and closed at 138½. Other stocks made imposing gains, the volume of trading broke every known record by totaling 3,875,910 shares, the ticker fell six minutes behind the market, and visitors to the gallery of the Stock Exchange reported that red-haired Michael Meehan, the specialist in Radio, was the center of what appeared to be a five-hour scrimmage on the floor. "It looked like a street fight," said one observer.

Tuesday the 13th was enough to give anybody chills and fever. Radio opened at 160, a full 21½ points above the closing price the night before—a staggering advance. Then came an announcement that the Stock Exchange officials were beginning an investigation to find out whether a technical corner in the stock existed, and the price cascaded to 140. It jumped again that same day to 155 and closed at 146, 7½ points above Monday's closing, to the accompaniment of rumors that one big short trader had been wiped out. This time the ticker was twelve minutes late.

And so it went on, day after day and week after week. On March 16th the ticker was thirty-three minutes late and one began to hear people saying that some day there might occur a five-million share day—which seemed almost incredible. On the 20th, Radio jumped 18 points and General Motors 5. On March 26th the record for total volume of trading was smashed again. The new mark lasted just twenty-four hours, for on the 27th—a terrifying day when a storm of unexplained selling struck the market and General Motors dropped abruptly, only to recover on enormous buying—there were 4,790,000 shares traded. The speculative fever was infecting the whole country. Stories of fortunes made overnight were on everybody's lips. One financial commentator reported that his doctor found patients talking about the market to the exclusion of everything else and that his barber was punctuating with the hot towel more than one account of the prospects of Montgomery Ward. Wives were asking their husbands why they were so slow, why they weren't getting in on all this, only to hear that their husbands had bought a hundred shares of American Linseed that very morning. Broker's branch offices were jammed with crowds of men and women watching the shining transparency on which the moving message of the ticker tape was written; whether or not one held so much as a share of stock, there was a thrill in seeing the news of that abrupt break and recovery in General Motors on March 27th run across the field of vision in a long string of quotations:

GM 50.85 (meaning 5,000 shares at 185) 20.80. 50.82. 14.83. 30.85. 20.86. 25.87. 40.88. 30.87. . . .

New favorites took the limelight as the weeks went by. Montgomery Ward was climbing. The aviation stocks leaped upward; in a single week in May, Wright Aeronautical gained 34¾ points to reach 190, and Curtiss gained 35½ to reach 142. Several times during the spring of 1928 the New York Stock Exchange had to remain closed on Saturday to give brokers' clerks a chance to dig themselves out from under the mass of paper work in which this unprecedented trading involved them. And of course brokers' loans were increasing; the inflation of American credit was becoming steadily intensified.

The Reserve authorities were disturbed. They had raised the rediscount rate in February from 3½ to 4 per cent, hoping that if a lowering of the rate in 1927 had encouraged speculation, a corresponding increase would discourage it —and instead they had witnessed a common-stock mania which ran counter to all logic and all economic theory. They raised the rate again in May to 4½ per cent, but after a brief shudder the market went boiling on. They sold the Government bonds they had accumulated during 1927, and the principal result of their efforts was that the Government-bond market became demoralized. Who would ever have thought the situation would thus get out of hand?

In the latter part of May, 1928, the pace of the bull market slackened. Prices fell off, gained, fell off again. The reckoning, so long expected, appeared at last to be at hand.

It came in June, after several days of declining prices. The Giannini stocks, the speculative favorites of the Pacific coast, suddenly toppled for gigantic losses. On the San Francisco Stock Exchange the shares of the Bank of Italy fell 100 points in a single day (June 11th), Bancitaly fell 86 points, Bank of America 120, and United Security 80. That same day, on the New York Curb Exchange, Bancitaly dove perpendicularly from 200 to 110, dragging with it to ruin a horde of small speculators who, despite urgent warnings from A. P. Giannini himself that the stock was overvalued, had naïvely believed that it was "going to a thousand."

The next day, June 12th, this Western tornado struck Wall Street in full force. As selling orders poured in, the prophecy that the Exchange would some day see a five-million share day was quickly fulfilled. The ticker slipped almost two hours behind in recording prices on the floor. Radio, which had marched well beyond the 200 mark in May, lost 23½ points. The day's losses for the general run of securities were not, to be sure, very large by subsequent standards; the *New York Times* averages for fifty leading stocks dropped only a little over three points. But after the losses of the preceding days, it seemed to many observers as if the end had come at last, and one of the most conservative New York papers began its front-page account of the break with the unqualified sentence, "Wall Street's bull market collapsed yesterday with a detonation heard round the world."

(If the Secretary of Commerce had been superstitious, he might have considered that day of near-panic an omen of troubles to come; for on that same front page, streamer headlines bore the words, "HOOVER CERTAIN ON 1ST BALLOT AS CONVENTION OPENS."

But had the bull market collapsed? On June 13th it appeared to have regained its balance. On June 14th, the day of Hoover's nomination, it extended its recovery. The promised reckoning had been only partial. Prices still stood well above their February levels. A few thousand traders had been shaken out, a few big fortunes had been lost, a great many pretty paper profits had vanished; but the Big Bull Market was still young.

§ 3

A few weeks after the somewhat unenthusiastic nomination of Herbert Hoover by the Republicans, that coalition of incompatibles known as the Democratic party nominated Governor Alfred E. Smith of New York, a genial son of the East Side with a genius for governmental administration and a taste for brown derbies. Al Smith was a remarkable choice. His Tammany affiliations, his wetness, and above all the fact that he was a Roman Catholic made him repugnant to the South and to most of the West. Although the Ku Klux Klan had recently announced the abandonment of its masks and the change of its name to "Knights of the Great Forest," anti-Catholic feeling could still take ugly forms. That the Democrats took the plunge and nominated Smith on the first ballot was eloquent testimony to the vitality of his personality, to the wide-spread respect for his ability, to the strength of the belief that any Democrat could carry the Solid South and that a wet candidate of immigrant stock would pull votes from the Republicans in the industrial North and the cities generally,—and to the lack of other available candidates.

The campaign of 1928 began.

It was a curious campaign. One great issue divided the candidates. As already recorded in Chapter Ten, Al Smith made no secret of his distaste for prohibition; Hoover, on the other hand, called it "a great social and economic experiment, noble in motive and far-reaching in purpose," which "must be worked out constructively." Although Republican spellbinders in the damply urban East seemed to be under the impression that what Hoover really meant was "worked out of constructively," and Democratic spellbinders in the South and rural West explained that Smith's wetness was just an odd personal notion which he would be powerless to impose upon his party, the division between the two candidates remained: prohibition had forced its way at last into a presidential campaign. There was also the ostensible issue of farm-relief, but on this point there was little real disagreement; instead there was a competition to see which candidate could most eloquently offer largesse to the unhappy Northwest. There was Smith's cherished water-power issue, but this aroused no flaming enthusiasm in the electorate, possibly because too many influential citizens had rosy hopes for the future of Electric Bond & Share or Cities Service. There were also, of course, many less freely advertised issues: millions of men and women turned to Hoover because they thought Smith would make the White House a branch office of the Vatican, or turned to Smith because they wished to strike at religious intolerance, or opposed Hoover because they thought he would prove to be a stubborn doctrinaire, or were activated chiefly by dislike of Smith's hats or Mrs. Smith's jewelry. But no aspect of the campaign was more interesting than the extent to which it reflected the obsession of the American people with bull-market prosperity.

To begin with, there was no formidable third party in the field in 1928 as there had been in 1924. The whispering radicals had been lulled to sleep by the prophets of the new economic era. The Socialists nominated Norman Thomas, but were out of the race from the start. So closely had the ticker tape bound the American people to Wall

Street, in fact, that even the Democrats found themselves in a difficult position. In other years they had shown a certain coolness toward the rulers of the banking and industrial world; but this would never do now. To criticize the gentlemen who occupied front seats on the prosperity band-wagon, or to suggest that the ultimate destination of the band-wagon might not be the promised land, would be suicidal. Nor could they deny that good times had arrived under a Republican administration. The best they could do was to argue by word and deed that they, too, could make America safe for dividends and rising stock prices.

This they now did with painful earnestness. For the chairmanship of the Democratic National Committee, Al Smith chose no wild-eyed Congressman from the great open spaces; he chose John J. Raskob, vice-president and chairman of the finance committee of the General Motors Corporation, vice-president of the General Motors Acceptance Corporation, vice-president and member of the finance committee of the E. I. duPont de Nemours Company, director of the Bankers Trust Company, the American Surety Company, and the County Trust Company of New York—and reputed inspirer of the bull forces behind General Motors. Mr. Raskob was new to politics; in *Who's Who* he not only gave his occupation as "capitalist," but was listed as a Republican; but what matter? All the more credit to Al Smith, thought many Democrats, for having brought him at the eleventh hour to labor in the vineyard. With John J. Raskob on the Democratic side, who could claim that a Democratic victory would prevent common stocks from selling at twenty times earnings?

Mr. Raskob moved the Democratic headquarters to the General Motors Building in New York—than which there was no more bullish address. He proudly announced the fact that Mr. Harkness, "a Standard Oil financier," and Mr. Spreckels, "a banker and sugar refiner," and Mr. James, "a

New York financier whose interests embrace railroads, securities companies, real estate, and merchandising," did not consider that their interests were "in the slightest degree imperiled by the prospect of Smith's election." (Shades of a thousand Democratic orators who had once extolled the New Freedom and spoken harsh words about Standard Oil magnates and New York financiers!) And Mr. Raskob and Governor Smith both applied a careful soft pedal to the ancient Democratic low-tariff doctrine—being quite unaware that within two years many of their opponents would be wishing that the Republican high-tariff plank had fallen entirely out of the platform and been carted away.

As for the Republicans, they naturally proclaimed prosperity as a pecularily Republican product, not yet quite perfected but ready for the finishing touches. Herbert Hoover himself struck the keynote for them in his acceptance speech.

"One of the oldest and perhaps the noblest of human aspirations," said the Republican candidate, "has been the abolition of poverty. . . . We in America today are nearer to the final triumph over poverty than ever before in the history of any land. The poorhouse is vanishing from among us. We have not yet reached the goal, but, given a chance to go forward with the policies of the last eight years, we shall soon, with the help of God, be in sight of the day when poverty will be banished from this nation. There is no guaranty against poverty equal to a job for every man. That is the primary purpose of the policies we advocate."

The time was to come when Mr. Hoover would perhaps regret the cheerful confidence of that acceptance speech. It left only one loophole for subsequent escape: it stipulated that God must assist the Republican administration.

Mr. Hoover was hardly to be blamed, however, for his optimism. Was not business doing far better in the summer of 1928 than it had done during the preceding winter? Was not the Big Bull Market getting under way again after its fainting fit in June? One drank in optimism from the very air about one. And, after all, the first duty of a candidate is to get himself elected. However dubious the abolition of poverty might appear to Hoover the engineer and economist seated before a series of graphs of the business cycle, it appeared quite differently to Hoover the politician standing before the microphone. Prosperity was a sure-fire issue for a Republican in 1928.

Al Smith put up a valiant fight, swinging strenuously from city to city, autographing brown derbies, denouncing prohibition, denouncing bigotry, and promising new salves for the farmer's wounds; but it was no use. The odds against him were too heavy. Election Day came and Hoover swept the country. His popular vote was nearly twenty-one and a half millions to Smith's fifteen; his electoral vote was 444 to Smith's 87; and he not only carried Smith's own state of New York and the doubtful border states of Oklahoma, Tennessee, and Kentucky, but broke the Solid South itself, winning Florida, Texas, North Carolina, and even Virginia.

It was a famous victory, and in celebration of it the stock market—which all through the campaign had been pushing into new high ground—went into a new frenzy. Now the bulls had a new slogan. It was "four more years of prosperity."

§ 4

During that "Hoover bull market" of November, 1928, the records made earlier in the year were smashed to flinders. Had brokers once spoken with awe of the possibility of five-million-share days? Five-million-share days were now occurring with monotonous regularity; on November 23rd the volume of trading almost reached seven millions. Had they been amazed at the rising prices of seats on the Stock Exchange? In November a new mark of $580,000 was set. Had they been disturbed that Radio should sell at such an exorbitant price as 150? Late in November it was bringing 400. Ten-point gains and new highs for all time were commonplaces now. Montgomery Ward, which the previous spring had been climbing toward 200, touched 439⅞ on November 30. The copper stocks were skyrocketing; Packard climbed to 145; Wright Aeronautical flew as high as 263. Brokers' loans? Of course they were higher than ever; but this, one was confidently told, was merely a sign of prosperity—a sign that the American people were buying on the part-payment plan a partnership in the future progress of the country. Call money rates? They ranged around 8 and 9 per cent; a little high, perhaps, admitted the bulls, but what was the harm if people chose to pay them? Business was not suffering from high money rates; business was doing better than ever. The new era had arrived, and the abolition of poverty was just around the corner.

In December the market broke again, and more sharply than in June. There was one fearful day—Saturday, December 7th—when the weary ticker, dragging far behind the trading on the floor, hammered out the story of a 72-point decline in Radio. Horrified tape-watchers in the brokers' offices saw the stock open at 361, struggle weakly up to 363, and then take the bumps, point by point, all the way down to 296—which at that moment seemed like a fire-sale figure. (The earnings of the Radio Corporation during the first nine months of 1928 had been $7.54 per share, which on the time-honored basis of "ten times earnings" would have suggested the appropriateness of a price of not much over 100; but the ten-times-earnings basis for prices had long since been discarded. The market, as Max Winkler said, was discounting not only the future but the hereafter.) Montgomery Ward lost 29 points that same nerve-racking Saturday morning, and International Harvester slipped from

368½ to 307. But just as in June, the market righted itself at the moment when demoralization seemed to be setting in. A few uneasy weeks of ragged prices went by, and then the advance began once more.

The Federal Reserve authorities found themselves in an unhappy predicament. Speculation was clearly absorbing more and more of the surplus funds of the country. The inflation of credit was becoming more and more dangerous. The normal course for the Reserve banks at such a juncture would have been to raise the rediscount rate, thus forcing up the price of money for speculative purposes, rendering speculation less attractive, liquidating speculative loans, and reducing the volume of credit outstanding. But the Reserve banks had already raised the rate (in July) to 5 per cent, and speculation had been affected only momentarily. Apparently speculators were ready to pay any amount for money if only prices kept on climbing. The Reserve authorities had waited patiently for the speculative fever to cure itself and it had only become more violent. Things had now come to such a pass that if they raised the rate still further, they not only ran the risk of bringing about a terrific smash in the market—and of appearing to do so deliberately and wantonly—but also of seriously handicapping business by forcing it to pay a high rate for funds. Furthermore, they feared the further accumulation of gold in the United States and the effect which this might have upon world trade. And the Treasury had a final special concern about interest rates—it had its own financing to do, and Secretary Mellon was naturally not enthusiastic about forcing the Government to pay a fancy rate for money for its own current use. It almost seemed as if there were no way to deflation except through disaster.

The Reserve Board finally met the dilemma by thinking up a new and ingenious scheme. They tried to prevent the reloaning of Reserve funds to brokers without raising the rediscount rate.

On February 2, 1929, they issued a statement in which they said: "The Federal Reserve Act does not, in the opinion of the Federal Reserve Board, contemplate the use of the resources of the Federal Reserve Banks for the creation or extension of speculative credit. A member bank is not within its reasonable claims for rediscount facilities at its Federal Reserve Bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans." A little less than a fortnight later the Board wrote to the various Reserve Banks asking them to "prevent as far as possible the diversion of Federal Reserve funds for the purpose of carrying loans based on securities." Meanwhile the Reserve Banks drastically reduced their holdings of securities purchased in the open market. But no increases in rediscount rates were permitted. Again and again, from February on, the directors of the New York Reserve Bank asked Washington for permission to lift the New York rate, and each time the permission was denied. The Board preferred to rely on their new policy.

The immediate result of the statement of February 2, 1929, was a brief overnight collapse in stock prices. The subsequent result, as the Reserve Banks proceeded to bring pressure on their member banks to borrow only for what were termed legitimate business purposes, was naturally a further increase in call-money rates. Late in March—after Herbert Hoover had entered the White House and the previous patron saint of prosperity had retired to Northampton to explore the delights of autobiography—the pinch in money came to a sudden and alarming climax. Stock prices had been falling for several days when on March 26th the rate for call money jumped from 12 per cent to 15, and then to 17, and finally to 20 per cent—the highest rate since the dismal days of 1921. Another dizzy drop in prices took place.

The turnover in stocks on the Exchange broke the November record, reaching 8,246,740 shares. Once again thousands of requests for more margin found their way into speculators' mail-boxes, and thousands of participators in the future prosperity of the country were sold out with the loss of everything they owned. Once again the Big Bull Market appeared to be on its last legs.

That afternoon several of the New York banks decided to come to the rescue. Whatever they thought of the new policy of the Federal Reserve Board, they saw a possible panic brewing—and anything, they decided, was better than a panic. The next day Charles E. Mitchell, president of the National City Bank, announced that his bank was prepared to lend twenty million dollars on call, of which five million would be available at 15 per cent, five million more at 16 per cent, and so on up to 20 per cent. Mr. Mitchell's action —which was described by Senator Carter Glass as a slap in the face of the Reserve Board—served to peg the call money rate at 15 per cent and the threatened panic was averted.

Whereupon stocks not only ceased their precipitous fall, but cheerfully recovered!

The lesson was plain: the public simply would not be shaken out of the market by anything short of a major disaster.

During the next month or two stocks rose and fell uncertainly, sinking dismally for a time in May, and the level of brokers' loans dipped a little, but no general liquidation took place. Gradually money began to find its way more plentifully into speculative use despite the barriers raised by the Federal Reserve Board. A corporation could easily find plenty of ways to put its surplus cash out on call at 8 or 9 per cent without doing it through a member bank of the Federal Reserve System; corporations were eager to put their funds to such remunerative use, as the increase in loans "for others" showed; and the member banks themselves, realizing this, were showing signs of restiveness. When June came, the advance in prices began once more, almost as if nothing had happened. The Reserve authorities were beaten.

§ 5

By the summer of 1929, prices had soared far above the stormy levels of the preceding winter into the blue and cloudless empyrean. All the old markers by which the price of a promising common stock could be measured had long since been passed; if a stock once valued at 100 went to 300, what on earth was to prevent it from sailing on to 400? And why not ride with it for fifty or a hundred points, with Easy Street at the end of the journey?

By every rule of logic the situation had now become more perilous than ever. If inflation had been serious in 1927, it was far more serious in 1929, as the total of brokers' loans climbed toward six billions (it had been only three and a half billions at the end of 1927). If the price level had been extravagant in 1927 it was preposterous now; and in economics, as in physics, there is no gainsaying the ancient principle that the higher they go, the harder they fall. But the speculative memory is short. As people in the summer of 1929 looked back for precedents, they were comforted by the recollection that every crash of the past few years had been followed by a recovery, and that every recovery had ultimately brought prices to a new high point. Two steps up, one step down, two steps up again—that was how the market went. If you sold, you had only to wait for the next crash (they came every few months) and buy in again. And there was really no reason to sell at all: you were bound to win in the end if your stock was sound. The really wise man, it appeared, was he who "bought and held on."

Time and again the economists and forecasters had cried wolf, wolf, and the wolf had made only the most fleeting of visits. Time and again the Reserve Board had expressed fear of inflation, and inflation had failed to bring hard times. Business in danger? Why, nonsense! factories were running at full blast and the statistical indices registered first-class industrial health. Was there a threat of overproduction? Nonsense again! Were not business concerns committed to hand-to-mouth buying, were not commodity prices holding to reasonable levels? Where were the overloaded shelves of goods, the heavy inventories, which business analysts universally accepted as storm signals? And look at the character of the stocks which were now leading the advance! At a moment when many of the high-flyers of earlier months were losing ground, the really sensational advances were being made by the shares of such solid and conservatively managed companies as United States Steel, General Electric, and American Telephone—which were precisely those which the most cautious investor would select with an eye to the long future. Their advance, it appeared, was simply a sign that they were beginning to have a scarcity value. As General George R. Dyer of Dyer, Hudson & Company was quoted as saying in the *Boston News Bureau,* "Anyone who buys our highest-class rails and industrials, including the steels, coppers, and utilities, and holds them, will make a great deal of money, *as these securities will gradually be taken out of the market.*" What the bull operators had long been saying must be true, after all. This was a new era. Prosperity was coming into full and perfect flower.

Still there remained doubters. Yet so cogent were the arguments against them that at last the great majority of even the sober financial leaders of the country were won over in some degree. They recognized that inflation might ultimately be a menace, but the fears of immediate and serious trouble which had gripped them during the preceding winter were being dissipated. This bull market had survived some terrific shocks; perhaps it was destined for a long life, after all.

On every side one heard the new wisdom sagely expressed. "Prosperity due for a decline? Why, man, we've scarcely started!" "Be a bull on America." "Never sell the United States short." "I tell you, some of these prices will look ridiculously low in another year or two." "Just watch that stock—it's going to five hundred." "The possibilities of that company are *unlimited*." "Never give up your position in a good stock." Everybody heard how many millions a man would have made if he had bought a hundred shares of General Motors in 1919 and held on. Everybody was reminded at some time or another that George F. Baker never sold anything. As for the menace of speculation, one was glibly assured that—as Ex-Governor Stokes of New Jersey had proclaimed in an eloquent speech—Columbus, Washington, Franklin, and Edison had all been speculators. "The way to wealth," wrote John J. Raskob in an article in the *Ladies Home Journal* alluringly entitled "Everybody Ought to be Rich," "is to get into the profit end of wealth production in this country," and he pointed out that if one saved but fifteen dollars a month and invested it in good common stocks, allowing the dividends and rights to accumulate, at the end of twenty years one would have at least eighty thousand dollars and an income from investments of at least four hundred dollars a month. It was all so easy. The gateway to fortune stood wide open.

Meanwhile, one heard, the future of American industry was to be assured by the application of a distinctly modern principle. Increased consumption, as Waddill Catchings and William T. Foster had pointed out, was the road to plenty. If we all would only spend more and more freely, the smoke would belch from every factory chimney, and dividends would mount. Already the old economic order was giving way to the new. As Dr. Charles Amos Dice, professor of the somewhat unacademic subject of business organization at Ohio State University, wrote in a book called *New Levels in the Stock Market*, there was taking place "a mighty revolution in industry, in trade, and in finance." The stock market was but "registering the tremendous changes that were in progress."

When Professor Dice spoke of changes in finance, he certainly was right. The public no longer wanted anything so stale and profitless as bonds, it wanted securities which would return profits. Company after company was taking shrewd advantage of this new appetite to retire its bonds and issue new common stock in their place. If new bonds were issued, it became fashionable to give them a palatably speculative flavor by making them convertible into stock or by attaching to them warrants for the purchase of stock at some time in the rosy future. The public also seemed to prefer holding a hundred shares of stock priced at $50 to holding twenty shares priced at $250—it made one feel só much richer to be able to buy and sell in quantity!—and an increasing number of corporations therefore split up their common shares to make them attractive to a wide circle of buyers, whether or not any increase in the dividend was in immediate prospect. Many concerns had long made a practice of securing new capital by issuing to their shareholders the rights to buy new stock at a concession in price; this practice now became widely epidemic. Mergers of industrial corporations and of banks were taking place with greater frequency than ever before, prompted not merely by the desire to reduce overhead expenses and avoid the rigors of cut-throat competition, but often by sheer corporate megalomania. And every rumor of a merger or a split-up or an issue of rights was the automatic signal for a leap in the prices of the stocks affected—until it became altogether too tempting to the managers of many a concern to arrange a split-up or a merger or an issue of rights not without a canny eye to their own speculative fortunes.

For many years rival capitalistic interests, imitating the brilliant methods of Sidney Z. Mitchell, had sought to secure control of local electric light and power and gas companies and water companies and weld them into chains; and as the future possibilities of the utilities seized upon the speculative imagination, the battle between these groups led to an amazing proliferation of utility holding companies. By the summer of 1929 the competing systems had become so elaborate, and their interrelations had become so complicated, that it was difficult to arrive at even the vaguest idea of the actual worth of their soaring stocks. Even the professional analyst of financial properties was sometimes bewildered when he found Company A holding a 20-per-cent interest in Company B, and B an interest in C, while C in turn invested in A, and D held shares in each of the others. But few investors seemed to care about actual worth. Utilities had a future and prices were going up—that was enough.

Meanwhile investment trusts multiplied like locusts. There were now said to be nearly five hundred of them, with a total paid-in capital of some three billions and with holdings of stocks—many of them purchased at the current high prices—amounting to something like two billions. These trusts ranged all the way from honestly and intelligently managed companies to wildly speculative concerns launched by ignorant or venal promoters. Some of them, it has been said, were so capitalized that they could not even pay their preferred dividends out of the income from the securities which they held, but must rely almost completely upon the hope of profits. Other investment trusts, it must be admitted, served from time to time the convenient purpose of absorbing securities which the bankers who controlled them might have difficulty in selling in the open market. Reprehensible, you say? Of course; but it was so easy! One could indulge in all manner of dubious financial practices with an unruffled conscience so long as prices rose. The Big Bull Market covered a multitude of sins. It was a golden day for the promoter, and his name was legion.

Gradually the huge pyramid of capital rose. While supersalesmen of automobiles and radios and a hundred other gadgets were loading the ultimate consumer with new and shining wares, supersalesmen of securities were selling him shares of investment trusts which held stock in holding companies which owned the stock of banks which had affiliates which in turn controlled holding companies—and so on *ad infinitum*. Though the shelves of manufacturing companies and jobbers and retailers were not overloaded, the shelves of the ultimate consumer and the shelves of the distributors of securities were groaning. Trouble was brewing—not the same sort of trouble which had visited the country in 1921, but trouble none the less. Still, however, the cloud in the summer sky looked no bigger than a man's hand. .

How many Americans actually held stock on margin during the fabulous summer of 1929 there seems to be no way of computing, but it is probably safe to put the figure at more than a million. (George Buchan Robinson estimated that three hundred million shares of stock were being carried on margin.) The additional number of those who held common stock outright and followed the daily quotations with an interest nearly as absorbed as that of the margin trader was, of course, considerably larger. As one walked up the aisle of the 5:27 local, or found one's seat in the trolley car, two out of three newspapers that one saw were open to the page of stock-market quotations. Branch offices of the big Wall Street houses blossomed in every city and in numerous suburban villages. In 1919 there had been five hundred such offices; by October, 1928, there were 1,192; and throughout most of 1929 they appeared in increasing numbers. The broker found himself regarded with a new wonder and esteem. Ordinary people, less intimate with the mysteries of Wall Street than he was supposed to be, 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 the next morning to place a buying order.

The rich man's chauffeur drove with his ears laid back to catch the news of an impending move in Bethlehem Steel; he held fifty shares himself on a twenty-point margin. The window-cleaner at the broker's office paused to watch the ticker, for he was thinking of converting his laboriously accumulated savings into a few shares of Simmons. Edwin Lefèvre told of a broker's valet who had made nearly a quarter of a million in the market, of a trained nurse who cleaned up thirty thousand following the tips given her by grateful patients; and of a Wyoming cattleman, thirty miles from the nearest railroad, who bought or sold a thousand shares a day, —getting his market returns by radio and telephoning his orders to the nearest large town to be transmitted to New York by telegram. An ex-actress in New York fitted up her Park Avenue apartment as an office and surrounded herself with charts, graphs, and financial reports, playing the market by telephone on an increasing scale and with increasing abandon. Across the dinner table one heard fantastic stories of sudden fortunes: a young banker had put every dollar of his small capital into Niles-Bement-Pond and now was fixed for life; a widow had been able to buy a large country house with her winnings in Kennecott. Thousands speculated—and won, too—without the slightest knowledge of the nature of the company upon whose fortunes they were relying, like the people who bought Seaboard Air Line under the impression that it was an aviation stock. Grocers, motormen, plumbers, seamstresses, and speakeasy waiters were in the market. Even the revolting intellectuals were there: loudly as they might lament the depressing effects of standardization and mass production upon American life, they found themselves quite ready to reap the fruits thereof. Literary editors whose hopes were wrapped about American Cyanamid B lunched with poets who swore by Cities Service, and as they left the table, stopped for a moment in the crowd at the broker's branch office to catch the latest quotations; and the artist who had once been eloquent only about Gauguin laid aside his brushes to proclaim the merits of National Bellas Hess. The Big Bull Market had become a national mania.

§ 6

In September the market reached its ultimate glittering peak.

It was six months, now, since Herbert Hoover had driven down Pennsylvania Avenue in the rain to take the oath of office as President of the United States. He had appointed the Wickersham Commission to investigate law enforcement in general and prohibition in particular. At the President's instance Congress had passed the Agricultural Marketing Act; and Alexander Legge had assumed, among his duties as chairman of the new Federal Farm Board, the task of "preventing and controlling surpluses in any agricultural commodity." The Kellogg-Briand Treaty had been proclaimed in effect, and Ramsay MacDonald was preparing to sail for the United States to discuss a new treaty for the reduction of naval armaments. The long wrangle over the Harding oil scandals was at last producing definite results: Colonel Stewart, buried under a mountain of Rockefeller proxies, had left the chairmanship of the Standard Oil Company of Indiana, and Harry F. Sinclair was sitting in jail. Colonel Lindbergh, true to his rôle as the national superhero, had married Miss Anne Morrow. Commander Byrd, the man who put heroism into quantity production, was waiting in the Antarctic darkness of "Little America" for his chance to fly to the South Pole. Non-stop flyers were zooming about over the American countryside, and emulation of the heroes of the air had reached its climax of absurdity in the exploit of a twenty-two-year-old boy who had climbed into the cabin of the *Yellow Bird* and had been carried as a stowaway by Assolant and Lefèvre from Old Orchard, Maine, to the Spanish coast. And on the sands of a thousand American beaches, girls pulled down the shoulder-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, and whether it was true, as the journals of fashion declared, that every evening dress must soon reach all the way to the ground.

This was the season when Tilden won his seventh and last American amateur tennis championship. It was Bobby Jones's penultimate year as monarch of amateur golfers—his seventh successive year as winner of either the amateur or the open championship of the United States. Babe Ruth was still hammering out home runs as successfully as in 1920, but he too was getting older: a sporting cycle was drawing to its close. Dempsey had lost his crown to Tunney, Tunney had hung it on the wall to go and foregather with the *literati*, and there was no one to follow them as a magnet for two-million-dollar crowds.

Everybody was reading *All Quiet on the Western Front* and singing the songs which Rudy Vallee crooned over the radio. The literary journals were making a great fuss over humanism. But even sun-tan and Ramsay MacDonald's proposed good-will voyage and humanism and *All Quiet* were dull subjects for talk compared with the Big Bull Market. Had not Goldman, Sachs & Company just expressed its confidence in the present level of prices by sponsoring the Blue Ridge Corporation, an investment trust which offered to exchange its stock for those of the leading "blue chips" at the current figures—324 for Allied Chemical and Dye, 293 for American Telephone, 179 for Consolidated Gas, 395 for General Electric, and so on down the list?

Stop for a moment to glance at a few of the prices recorded on the overworked ticker on September 3, 1929, the day when the Dow-Jones averages reached their high point for the year; and compare them with the opening prices of March 3, 1928, when, as you may recall, it had seemed as if the bull market had already climbed to a perilous altitude. Here they are, side by side—first the figures for March, 1928; then the figures for September, 1929; and finally the latter figures translated into 1928 terms—or in other words revised to make allowance for intervening split-ups and issues of rights. (Only thus can you properly judge the extent of the advance during those eighteen confident months.)

	Opening price March 3 1928	High price Sept. 3 1929	Adjusted high price Sept. 3 1929
American Can	77	181⅞	181⅞
American Telephone & Telegraph	179½	304	335⅝
Anaconda Copper	54½	131½	162
General Electric	128¾	396¼	396¼
General Motors	139¾	72¾	181⅞
Montgomery Ward	132¾	137⅞	466½
New York Central	160½	256⅜	256⅜
Radio	94½	101	505
Union Carbide & Carbon	145	137⅞	413⅝
United States Steel	138⅛	261¾	279⅛
Westinghouse E. & M.	91⅝	289⅞	313
Woolworth	180¾	100⅜	251
Electric Bond & Share	89¾	186¾	203⅝

Note—The prices of General Electric, Radio, Union Carbide, and Woolworth are here adjusted to take account of split-ups occurring subsequent to March 3, 1928. The prices of American Telephone, Anaconda, Montgomery Ward, United States Steel, Westinghouse, and Electric Bond & Share are adjusted to take account of intervening issues of rights; they represent the value per share on September 3, 1929, of a holding acquired on March 3, 1928, the adjustment being based on the assumption that rights offered in the interval were exercised.

One thing more: as you look at the high prices recorded on September 3, 1929, remember that on that day few people imagined that the peak had actually been reached. The enormous majority fully expected the Big Bull Market to go on and on.

For the blood of the pioneers still ran in American veins; and if there was no longer something lost behind the ranges, still the habit of seeing visions persisted. What if bright hopes had been wrecked by the sordid disappointments of 1919, the collapse of Wilsonian idealism, the spread of political cynicism, the slow decay of religious certainty, and the debunking of love? In the Big Bull Market there was compensation. Still the American could spin wonderful dreams—of a romantic day when he would sell his Westinghouse common at a fabulous price and live in a great house and have a fleet of shining cars and loll at ease on the sands of Palm Beach. And when he looked toward the future of his country, he could vision an America set free—not from graft, nor from crime, nor from war, nor from control by Wall Street, nor from irreligion, nor from lust, for the utopias of an earlier day left him for the most part skeptical or indifferent; he visioned an America set free from poverty and toil. He saw a magical order built on the new science and the new prosperity: roads swarming with millions upon millions of automobiles, airplanes darkening the skies, lines of high-tension wire carrying from hilltop to hilltop the power to give life to a thousand labor-saving machines, skyscrapers thrusting above one-time villages, vast cities rising in great geometrical masses of stone and concrete and roaring with perfectly mechanized traffic—and smartly dressed men and women spending, spending, spending with the money they had won by being far-sighted enough to foresee, way back in 1929, what was going to happen.