ANDREW ROSS SORKIN

NEW YORK TIMES BESTSELLING AUTHOR OF
TOO BIG TO FAIL

1929

INSIDE THE GREATEST CRASH
IN WALL STREET HISTORY—
AND HOW IT SHATTERED A NATION

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VIKING

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An imprint of Penguin Random House LLC
1745 Broadway, New York, NY 10019
penguinrandomhouse.com

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Cover design: The Heads of State

DESIGNED BY MEIGHAN CAVANAUGH, ADAPTED FOR EBOOK BY CORA WIGEN

LIBRARY OF CONGRESS CONTROL NUMBER: 2025025147
Hardcover ISBN 9780593296967
Ebook ISBN 9780593296974

The authorized representative in the EU for product safety and compliance is Penguin Random House Ireland, Morrison Chambers, 32 Nassau Street, Dublin D02 YH68, Ireland, https://eu-contact.penguin.ie.

prhid_prh_7.3a_153463419_c0_r0

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For my children,
Henry, Max, and Sydney.
Love you always.

The ordinary human being does not live long enough to draw any substantial benefit from his own experience. And no one, it seems, can benefit by the experiences of others. Being both a father and teacher, I know we can teach our children nothing… Each must learn its lesson anew.

—Albert Einstein, October 26, 1929

AUTHOR'S NOTE

Many people know 1929 as the year of the stock market crash—the event that triggered the Great Depression and scarred a generation.

But what led to it, and what followed, is a far more intricate, complex drama—one that is misunderstood or unknown. At its core, it is a deeply human story.

After writing *Too Big to Fail*, about the financial crisis of 2008, I wanted to explore the most infamous crash in history with the same level of depth, granular detail, and human emotion—not just to tell the story but to better understand what we might learn from it.

The narrative that follows is the product of more than eight years of reporting and thousands of hours of research: an account built on private letters, diaries, memos, notes, oral histories, court records, board transcripts, depositions, and lawsuits—some of which had never been published or closely examined.

In one instance, I was granted access, for the very first time, to the confidential board minutes of the Federal Reserve Bank of New York during the most pivotal months of 1929. In another, I was able to secure a revealing, unpublished memoir of a Wall Street insider who lived through it all.

Each scene in this book was assembled from fragments: an offhand remark in a four-hundred-page transcript, a forgotten oral history, a clipped line in a newspaper, a floor plan showing how far someone had to walk to deliver a message. Detail by detail, layer by layer, the picture came into focus.

By understanding the motivations and disparate stories of the central actors, we can begin to understand how this calamity happened. Which is why this is not a story about those who endured the fallout—it's about those who helped set it in motion, because that's where the responsibility lies, and where the lessons remain.

What emerged from this work changed how I understood this period in history. Much of what I uncovered challenged my assumptions—and may challenge yours. And if the characters, issues, and policy choices from that time appear to echo our present moment a little too clearly, that's because they do.

The arc of the story of 1929 may feel like the response to Ernest Hemingway's famous line: "How did you go bankrupt?"

"Two ways," Hemingway's character replies. "Gradually, then suddenly."

That's how confidence—the lifeblood of our economy—disappears: gradually, and then suddenly.

While I was fortunate to uncover previously unseen documents during my research, this book would not exist without the enduring scholarship of others. Because this is written as a narrative, most citations appear in the endnotes, along with commentary that expands or contextualizes particular details.

I'm indebted to the many researchers, archivists, economists, and historians who devoted their lives to studying this period; to the journalists who wrote contemporaneously in the newspapers and magazines of the time; and to authors like John Kenneth Galbraith, whose *The Great Crash 1929* remains canonical; John Brooks, whose *Once in Golconda* is a classic; and Gordon Thomas and Max Morgan-Witts, who wrote the riveting *The Day the Bubble Burst*. There are many more who are credited at the end of this volume.

In 1920, H. G. Wells, the futurist, already anxious about the direction of the modern world, wrote: "Human history becomes more and more a race between education and catastrophe."

I didn’t write this narrative to declare a winner in that race. But I hope that by piecing together the story of 1929, I’ve made the path a little clearer—and the stakes a little harder to ignore.

THE CAST OF CHARACTERS AND THE COMPANIES THEY KEPT

FINANCIAL INSTITUTIONS

THE HOUSE OF MORGAN

John Pierpont Morgan Sr., founder

J. P. "Jack" Morgan Jr., partner, son of John Pierpont Morgan

Thomas William Lamont, partner

Thomas Stilwell Lamont, partner, son of Thomas William Lamont

George Whitney, partner

Henry Davison, partner

Dwight Morrow, former partner, ambassador to Mexico

Russell Cornell Leffingwell, partner

Frank Bartow, partner

Parker Gilbert, partner and associate

Martin Egan, publicist

NATIONAL CITY COMPANY AND NATIONAL CITY BANK

Charles Edwin Mitchell, chairman and CEO

Hugh Baker, head of National City's stock-trading unit

Gordon Rentschler, bank president

COUNTY TRUST COMPANY

James Riordan, founder and president

CHASE NATIONAL BANK

Albert H. Wiggin, chairman and CEO

FIRST NATIONAL BANK OF NEW YORK

George F. Baker Sr., chairman

George F. Baker Jr., vice chairman

BANKERS TRUST

Seward Prosser, chairman

IRVING TRUST

Lewis Pierson, chairman

REICHSBANK

Dr. Hjalmar Schacht, president

BUSINESS LEADERS

Colonel Sosthenes Behn, founder and chairman of International Telephone and Telegraph

Louis-Joseph Chevrolet, co-founder of Chevrolet Motor Company

Walter Percy Chrysler, founder of Chrysler Corporation

Pierre Samuel du Pont, board member of DuPont and General Motors

T. Coleman du Pont, president of E. I. du Pont de Nemours and Company, two-term U.S. senator from Delaware

Henry Ford, founder of Ford Motor Company

William Fox, founder of Fox Film Corporation

John Jakob Raskob, executive at DuPont and General Motors and chairman of the Democratic National Committee (1928–1932)

Colonel William P. Rend, president of the W. P. Rend Coal Company

David Sarnoff, founding general manager of Radio Corporation of America (RCA)

Charles M. Schwab, president of Bethlehem Steel

Alfred Sloan, president of General Motors

Owen D. Young, president and chairman of General Electric, co-founder of Radio Corporation of America (RCA)

THE NEW YORK STOCK EXCHANGE

E. H. H. Simmons, president (1924–1930)

Richard Whitney, vice president, broker for J.P. Morgan & Co.

William Crawford, superintendent

Michael Meehan, RCA or "Radio" specialist and pool operator

General Oliver Bridgeman, U.S. Steel specialist

Ben Smith, pool operator

Tom Bragg, pool operator

Michael Levine, overseer of Wall Street's army of messenger boys

STOCKBROKERS

Charles Merrill, Merrill Lynch co-founder

William Van Antwerp, partner at E. F. Hutton and Co.

THE SPECULATORS

Evangeline Adams, astrologist known as the "stock market's seer"

Bernard Baruch

Pat Bologna, Wall Street bootblack with a reputation as a tipster

Arthur Cutten

William Crapo Durant

Clarence Hatry, British financier

Joseph Kennedy

Jesse Livermore

Groucho Marx, actor

Oris and Mantis Van Sweringen

NEW YORK

Jimmy Walker, mayor of New York City (1926–1932)

Fiorello La Guardia, mayor of New York City (1934–1946)

Al Smith, governor of New York (1919–1920, 1923–1928), Democratic candidate for president in 1928

UNITED KINGDOM

Winston Churchill, British member of Parliament, former chancellor of the exchequer, future prime minister (1940–1945, 1951–1955)

Randolph Churchill, son of Winston Churchill

Ramsay MacDonald, British Labour Party leader, foreign secretary, prime minister (1924, 1929–1935)

U.S. GOVERNMENT

William Howard Taft, chief justice of the U.S. Supreme Court (1921–1930), U.S. president (1909–1913)

Warren G. Harding, U.S. president (1921–1923)

Calvin Coolidge, U.S. president (1923–1929)

Herbert Clark Hoover, U.S. president (1929–1933)

Franklin Delano Roosevelt, governor of New York (1929–1933), U.S. president (1933–1945)

Andrew William Mellon, American banker and businessman, treasury secretary (1921–1932)

William Woodin, industrialist, treasury secretary (1933)

Senator Carter Glass, Democrat from Virginia, co-founder of the Federal Reserve Act of 1913, co-sponsor of the Glass–Steagall Act of 1932

Senator Hiram Johnson, Republican from California

Senator Huey Long, nicknamed “the Kingfish,” Democrat from Louisiana

Senator Kenneth McKellar, Democrat from Tennessee

Senator George Moses, Republican from New Hampshire

Senator George Norris, Republican from Nebraska

Senator Robert L. Owen, Democrat from Oklahoma, co-sponsor with Carter Glass of the Federal Reserve Act

Senator Arthur Robinson, Republican from Indiana

Senator Reed Owen Smoot, Republican from Utah, co-sponsor of the 1930 Smoot–Hawley Tariff Act

Representative Henry B. Steagall, Democrat from Alabama, co-sponsor of the Glass–Steagall Act of 1932

Learned Hand, federal judge on the U.S. Court of Appeals for the Second Circuit

Harold R. Medina, federal judge on the U.S. District Court for the Southern District of New York

THE FEDERAL RESERVE

Marriner S. Eccles, chairman of the Federal Reserve Board (1934–1948)

George L. Harrison, governor and then president of the Federal Reserve Bank of New York (1928–1940)

Adolph C. Miller, member of the Federal Reserve Board (1914–1936)

Benjamin Strong Jr., governor of the Federal Reserve Bank of New York (1914–1928)

Charles Sumner Hamlin, first chairman of the Federal Reserve Board (1914–1916), remained a member of the board until 1936

Paul M. Warburg, head of the International Acceptance Bank, involved in creating the Federal Reserve, on the first Washington board of governors

THE INVESTIGATORS

William O. Douglas, chairman of the Securities and Exchange Commission (SEC), future associate justice of the U.S. Supreme Court

Ferdinand Pecora, New York prosecutor known as the "Hellhound of Wall Street" for leading an investigation of the city's bankers in the wake of the 1929 crash

Arsène P. Pujo, Louisiana congressman and head of Committee on Banking and Currency, chaired the "Pujo Committee" investigation into the financial industry in 1912

THE ECONOMISTS

Roger Babson, statistician and economist who predicted the crash

Irving Fisher, Yale professor, one of the nation's leading economists

John Kenneth Galbraith, Harvard professor of economics

John Maynard Keynes, British economist

Joseph Stagg Lawrence, Princeton economist

Royal Meeker, pro–stock market economist

THE JOURNALISTS

Claud Cockburn, British writer for *The Times* of London

Samuel Crowther, author of "Everybody Ought to Be Rich" for *Ladies' Home Journal*

William Floyd, author of *People vs. Wall Street*

Major Robert H. Glass, newspaperman, father of Carter Glass

William Randolph Hearst, publisher of Hearst Newspapers

Matthew Josephson, writer who had worked in the financial industry

Edwin Lefèvre, author of *Reminiscences of a Stock Operator*

Walter Lippmann, writer, reporter, and political commentator

Charley Michelson, Hearst newspaper writer turned Democratic publicist

Alexander D. Noyes, financial editor of *The New York Times*

Drew Pearson, syndicated columnist of Washington Merry-Go-Round

PROLOGUE

Charles Mitchell strode up the steps of 55 Wall Street, determined to project his usual sense of confidence and certitude. It had been a crushing afternoon. As he returned to his office, he knew that the eyes of Wall Street were on him—everyone from the traders in the street to his own secretary was assessing his gait and searching his face, trying to read meaning into every twitch, every line, every wrinkle.

In his gray three-piece suit, shoulders back, Mitchell kept up his smile as he passed through the glass-domed central hall of his National City Bank. With its eighty-three-foot ceiling and two solid bronze doors protecting a safe weighing some three hundred tons, the bank was the largest in the country.

It was just past 5:30 p.m. on Monday, October 28, 1929. Hours earlier, the stock market had closed with a sharp, dizzying drop of 13 percent after a week of downward convulsions; today was by far the greatest fall. The darkening downtown streets still teemed with anxious brokers in their fedoras and flat caps, messenger boys and switchboard girls, all gossiping and speculating about the collapse. What caused the fall? How much further might it go tomorrow? Would the markets even open?

As Mitchell made his way to his office, the teller windows he passed reflected the weary puffiness under his eyes and his disheveled, graying eyebrows. He collapsed into the chair behind his mahogany desk. The room was furnished with the high formality befitting an eighteenth-century statesman: antique wood chairs, a grandfather clock that stood against the cream-white woodwork flanked by portraits of George Washington orchestrating the newly independent nation with the purpose and resolve that Mitchell sought to emulate in his own life.

The athletic fifty-two-year-old bank chairman—an unusually optimistic man whom the press called "Sunshine Charlie"—had spent the afternoon in emergency meetings at the Federal Reserve Bank of New York, puzzling over how to calm the market. It was a moment for which a self-consciously Great Man like Mitchell should have been utterly prepared. He had the experience, the stature, and the steely nerves necessary to steer Wall Street through these tough times.

Yet he felt exposed, vulnerable.

But he didn't have time to consider his emotional state.

He walked upstairs to confer with Hugh Baker, who ran National City's stock-trading unit.

Baker, a tall, bald man with piercing eyes, began to explain to Mitchell, calmly, if somewhat obliquely, what had taken place while Mitchell had been at the Federal Reserve.

"Our portfolio today has been tremendously increased in our holdings of National City Bank stock," Baker told him.

Mitchell stared at him, waiting to hear exactly what he meant.

Baker finally blurted out: "We purchased seventy-odd thousand shares."

Mitchell, who could calculate numbers instantly in his head, immediately grasped the nature and scale of the problem. *That is unbelievable*, he thought. The bank didn't have the cash to pay for so many shares. He was outraged—and terrified. Everything he had built was suddenly at grave risk of collapse.

Barely a month earlier, Mitchell had been on top of the world. He had finalized an agreement to take over the Corn Exchange Bank, a bold acquisition that would turn National City from the largest bank in the country into the largest in the world, stealing the mantle from London and helping New York finally eclipse its rival city as the world financial center. This was history in the making, an overthrow of the established order, the kind of gambit that made Mitchell a king among men.

But to pull off the deal, Mitchell had made a big—and risky—bet on the strength of his own stock. Corn Exchange shareholders could take $360 in cash for each of their shares, or four fifths of a share in National City Bank. On paper, the stock was the better deal: As long as National City stock stayed above $450, four fifths of a share was worth more than $360 in cash. At the time the deal was struck, it was comfortably higher, trading at $496 a share. Mitchell needed it to stay there until the deal could be completed, likely in the next month—because, in truth, National City didn't have the cash to pay everyone, a crucial detail he kept to himself. So he quietly instructed his traders to buy the bank's shares whenever the price slipped.

In a relatively stable market, this posed no problem. Big publicly traded companies bought back their own shares all the time. In a rapidly falling market, however, doing so could quickly become like shoveling money into a furnace, which was what had been happening that afternoon. In the chaos of all that selling pressure, National City's bids had been accepted so quickly that they lost track of how many they had amassed. By the time traders got a handle on the situation, National City had committed to buy seventy-one thousand of its own shares, far more than it could afford to hold.

"With that news," he told Baker, "I could be knocked over with a feather."

There were very few good options. To fund their daily operations, big banks like National City had to constantly borrow against their assets. But banking law prevented them from offering their own stock as collateral. Thus, those seventy-one thousand shares—which cost about $32 million—were a deadweight that could possibly take down the whole bank.

"It would be embarrassing for us to attempt to borrow on that stock in other banks," Mitchell said, knowing full well that his rivals would seize on any such move as a sign of vulnerability. With the market in free fall, short sellers—traders who bet that stocks would go down—were lining up targets, probing for weakness.

The stock market was at the breaking point. Sales volume had overwhelmed the human apparatus of the trading floor to such an extent that, on the previous Thursday, the ticker had fallen four hours behind in reporting stock prices, more than twice the longest previous delay.

What this meant was that the big board of prices that loomed over the floor of the New York Stock Exchange was hopelessly inaccurate. Trading stocks in this environment was like being a gambler at a baseball game in the eighth inning and looking at a scoreboard that hadn't been updated since the third, while everybody around you was shouting conflicting opinions about which team was ahead and by how much. The prices of stocks sold privately—known as "off-exchange," which was the case with National City shares—were even further behind because they were tied to the broader market's movements without being fully updated in real time, exacerbating the delay. For Wall Street traders, the only prudent decision was to sell and get the hell out of the market. Which is exactly what they were doing.

Mitchell knew that if he tried to unload even a small fraction of National City's position back into such a weak market, rumors would begin to fly about the bank's solvency, and that could easily turn into a vicious cycle that would be impossible to stop. If prices declined fast enough, it could trigger a much larger crisis: A "lack of confidence might bring a run," Mitchell told Baker, envisioning depositors lining up outside every one of its fifty-eight branches around the country.

A run on the country's largest bank. There was nothing bankers feared more.

National City was not just any bank—the forerunner to Citigroup, it was responsible for originating a quarter of all loans to American corporations in the 1920s. This would be an epic collapse, a bigger bank run than the world had ever seen.

Mitchell was all too familiar with the chaos that bank runs could unleash. During the Panic of 1907 he had been a young assistant at the Trust Company of America, a robust institution brought to its knees by rumors that falsely linked it to an unsuccessful effort to corner the copper market. The moment confidence vanished, fear took over. Mitchell had worked behind the cages with the tellers to hand over cash to frightened customers who ran home and hid it in their cupboards and under their beds. The bank had come within days of collapsing. The current situation Mitchell faced would be a thousand times worse, with an impact extending well beyond National City.

Despite his wrenching experience at the Trust Company, he had never imagined National City would find itself in so precarious a position. The financial industry had evolved. He'd built the place from the ground up to be a fortress that could withstand any siege. There was no way it could be taken down.

And yet here he was, alone at the top, with no game plan, no course of action, no obvious next move.

After their conversation, Mitchell and Baker collected Gordon Rentschler, the bank's president, and the three men piled into the back of Mitchell's black Rolls-Royce. They were driven through the choked, noxious streets of Manhattan up to their homes on the Upper East Side, relieved to be away from the prying eyes of the crowds that had descended on Wall Street to watch the carnage. While their employees ate sandwiches for dinner at their desks, tallying trade confirmation slips and double-checking the accounting ledger into the night—with some sleeping on the floors of their offices given the sheer volume of work that needed to be completed before the morning—the brain trust of National City headed for the refuge of their luxurious dwellings along the eastern edge of Central Park.

In the car, they reviewed the events of the day and the outlook for Tuesday. None of the three men were under any illusion that the market was likely to rebound. The question was how to keep National City out of the line of fire. Mitchell himself was certain that if dramatic steps weren't taken "there would be a perpendicular drop in the stock." Mitchell relied heavily on the judgment of Baker and Rentschler, who, like him, were highly optimistic by nature. He never made a major decision without seeking their advice. But in the hour the trip took them, neither of them had a solution to offer. All they could agree upon was the severity of the problem.

When Mitchell arrived at his Fifth Avenue mansion at 74th Street—a five-story residence modeled after an Italian Renaissance palazzo—his butler, one of more than a dozen household employees, was waiting at the door as he did every evening. Mitchell passed through the resplendent foyer, with its coatrooms on either side and fountain at the back, and made his way up the sweeping circular stairwell, past the second floor, where a grand living room faced Central Park, and on to his library on the third floor, a place where he often took meetings and where, more than anywhere else, he liked to be alone and think.

This evening, however, he had to rush to freshen up before heading to the home of another titan of finance, Bernard Baruch, for a formal dinner attended by a who's who of banking and industry giants in honor of an English politician by the name of Winston Churchill.

Mitchell was not generally a man to cancel plans, and tonight it was out of the question. Everything now had to be done with careful consideration of what people might say. If he failed to show up, it might spark rumors that something was amiss at National City.

Mitchell woke early the next morning after a sleepless night replaying the prior day's events, still desperately searching for a solution. He did what he considered his mandatory daily fifteen minutes of calisthenics—a "setting up" drill, he called it—which usually had a soothing effect on him. "No amount of brilliance or personal charm will carry a man to the top and keep him there unless he can come up smiling day after day," he liked to say about his exercise routine.

As he ate breakfast, Mitchell always scanned the newspapers. Had anything leaked out about National City? *Did anyone know about his predicament?* "Stock Prices Slump $14,000,000,000 in Nation-Wide Stampede to Unload; Bankers to Support Market Today" was the headline on the *New York Times* front page, while the *Daily News* led with "Stock Crash 10 Billion Dollars." None of that was news to him.

On the second page of the *Daily News*, however, was a picture of Mitchell's own face. He used to like seeing himself in the papers, but not so much lately, not since the context had gone from pleasantly positive to decidedly negative: He had become a lightning rod for Washington politicians bashing Wall Street.

The fiercest of Mitchell's critics was Senator Carter Glass, Democrat from Virginia, who considered the stock market a tax on American prosperity and blamed bankers for heedlessly extending credit to speculators. He had even coined a term for this: "Mitchellism."

Mitchell and his fellow bankers had already established a clear strategy for dealing with the likes of Senator Glass—they simply ignored him. What happened on Wall Street, in their view, was none of Washington's business. It was a position that would no longer be tenable after October 1929.

Mitchell left his house and met Rentschler on Fifth Avenue. It was overcast and chilly, and though Mitchell kept two drivers on his payroll, as well as having a fully equipped garage on Ninety-Seventh Street, he often preferred to walk. The two men headed south on foot. At Sixty-Fifth Street and Fifth Avenue, as they waited for the automobile traffic crossing the Central Park transverse, Mitchell dropped an astonishing surprise on his friend.

To protect the bank, Mitchell said he had decided that morning that he would personally borrow $12 million—a figure several times his net worth—and use it to buy National City stock from the bank. "Something must be done," he said.

Rentschler was dumbstruck. *Don't do it*, he pleaded with his friend. *Don't put yourself on the line that way. We'll figure out something else.*

Mitchell's proposal would put not just his fortune but his family's future in peril. If the stock kept falling, Mitchell could be wiped out, along with his wife, Elizabeth, and two children, Rita and Craig.

That was one risk. But there was another: If his scheme had any chance of working, it would have to be executed with the utmost secrecy. If rival traders were to discover that the chairman of the largest bank in the United States was personally bailing out his own company, all hell would break loose.

As they continued their walk, Rentschler did everything he could to dissuade Mitchell—without success.

It was now Tuesday, October 29, 1929, a day that economist John Kenneth Galbraith would later describe as "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."

Nearly a century has passed since the crash of 1929, yet it remains the most significant—and largely misunderstood—financial disaster in modern history. Today's public may have a vague conception of what took place then, but few have any sense of the individuals who played a role in this drama, what they did to precipitate the crisis, why they failed to see it coming, and what steps they took to try to end it. Nor, more important, do they perceive the remarkable parallels between that era and today's political and economic climate.

The 1920s, more than any other period in our country's history, saw the birth of the modern consumer economy that we take for granted today. As millions of Americans left farms and small towns and followed higher paying jobs to metropolitan areas, they created markets for astonishing new conveniences and goods. They bought cars, radios, and dishwashers, products that nobody knew they needed but that made life so much easier and more enjoyable.

But the greatest product, the one that made all the others possible, was credit. Buy now, pay later. It was a kind of magic.

In 1919, General Motors struck a blow against the American taboo of taking personal loans by starting to sell its vehicles on credit. Soon after, Sears, Roebuck & Co. offered "installment plans" for expensive appliances, and later for more everyday items. Taking notice of this cultural shift, banks mechanized the process for smaller merchants. Wall Street went one step further and started offering stock on credit—"on margin," it was called. By the thousands, middle-class Americans opened margin accounts, putting up 10 or 20 percent of a stock purchase and borrowing the rest. When the market went up, the returns felt like free money.

Americans no longer had to save for the goods they wanted. Borrowing became a habit, born along with optimism. So long as faith in tomorrow was maintained, debts could be rolled over endlessly into the future.

Individuals became spectacularly rich. The wealthiest in the nation amassed fortunes in excess of $100 million, which, in today's dollars, would be nearly $2 billion. Some of the most senior executives of America's biggest companies had salaries and bonuses of $2 to $3 million annually, the equivalent of $37 to $56 million today.

And with that wealth came fame. It was, arguably, the first true celebrity age: a mass-produced, media-driven obsession with individuals not just for their talent or achievements but for their sheer visibility. And, increasingly, those in the spotlight were not artists or athletes—but men of wealth. Hollywood stars like Charlie Chaplin, Clara Bow, and Douglas Fairbanks still drew headlines, as did Babe Ruth and Charles Lindbergh. But for the first time, businessmen joined their ranks. In an era that equated fortunes with brilliance, the titans of Wall Street and industry became household names. Magazines like *Time*, which started in 1923, and *Forbes*, which began in 1917, turned financiers into cover stars. Their salaries were scrutinized, their pronouncements quoted like scripture. The richest men in America were cast as visionaries, symbols of success in a nation enthralled by it.

What is clear, in hindsight, is the extent to which the heady times of the 1920s disguised a set of underlying imbalances, a massive bifurcation of American society. As technology made farming more efficient and less dependent on physical labor, huge numbers of farmworkers fell into economic distress, along with the towns they lived in, creating a widening gulf between the urban haves and the rural have-nots. Wall Street became like a giant balloon floating above the common people, its self-mythologizing leaders enjoying the comforts of what felt like a privileged realm. Government took little notice, as an extreme form of laissez-faire reigned in Washington. President Calvin Coolidge was proudly committed to slashing taxes and restoring the federal government to its pre–World War I size and capacity. The American people, he believed, could solve their own problems. He was wildly popular.

Business was only too happy to make its own rules. As giant corporations such as U.S. Steel and General Motors achieved market dominance and racked up profits, the wealthy became a class unto themselves, particularly in New York City, home of Wall Street, the greatest wealth-creating engine the world had ever seen. While jazz flourished in Harlem and Dorothy Parker presided over the literary scene at the Algonquin Hotel, the stock market gilded the city and the privileged built temples to their own good fortune that survive to this day. Fifth Avenue, Park Avenue, and Central Park West as we know them are largely products of the 1920s. Manhattan went vertical. The city's population swelled to almost seven million, driven not simply by immigrants coming through Ellis Island, as it had been in previous decades, but by migrants from the rest of the country, leaving the hinterland for the allure of big-city life—and, for many, the chance to strike it rich.

Until the turn of the twentieth century, stock markets were small and parochial, dominated by insiders. The practice of buying and selling stock was disdained by polite society as a grubby endeavor, the handiwork of gamblers and social misfits. Most Americans knew nothing of the daily travails of the stock market. In the small- and medium-sized towns where most lived, the money games played in the big cities were but a distant rumor.

That changed in the early 1900s, as industrialization took hold of the country. In need of capital to invest in factories and market their products, companies flocked to the New York Stock Exchange, where daily trading volumes soared and ambitious young men matched wits. (It is impossible to ignore that this was a world shaped almost entirely by men. Women were neither welcomed on the trading floor nor permitted to shape its rules—they were observers in a drama they were not allowed to direct, cast in supporting roles as hostesses, wives, or muses.)

By the 1920s, the stock market was like the engine room of the entire economy, its machinery pushed to the very edge of its capacity, running red-hot, a spectacle that drew Americans to it like moths to a flame.

Until finally it broke.

Lengthy, uninterrupted booms, like the one in the 1920s, produce a collective delusion. Optimism becomes a drug, or a religion, or some combination of both. Propelled along by a culture of hot tips, one-of-a-kind deals, killer sales pitches, and irresistible slogans, people lose their ability to calculate risk and distinguish between good ideas and bad ones.

And at the top of industry and government during any mania are people who are often no different than anyone else—flawed, self-interested, complicated. They push events forward, sometimes boldly, sometimes blindly, often without fully grasping the consequences of their actions. It is a slow boil—until everything spills over. Some take advantage of the moment without even realizing it. Others rationalize, convincing themselves they're serving a greater good. Whether seeking power, approval, or simply the thrill of beating the odds, they rarely believe the worst is coming.

The almost singular through line behind every major financial crisis is one thing: debt. It's a powerfully optimistic force. If we envision the future as a land of ever-expanding opportunity and affluence, why shouldn't we marshal some of those resources for use today? That's what debt does. It draws the wealth of tomorrow into the present. Problems arise when we get greedy and take too much. Nobody knows for sure where the line is—or what to do when we discover we've gone past it. At that point, panic is the natural reaction. The future suddenly grows so small and dark that there isn't enough optimism left to draw from.

A telling anecdote from this era involves a young Groucho Marx.

In the fall of 1929, with the market's seemingly unstoppable rise, Marx was regularly spending hours reading the ticker tape at his local brokerage, the Newman Brothers & Worms branch in Great Neck, Long Island. He had, according to his son, "no gambling instincts, and never even in the most prosperous times did he stop looking for ways of keeping expenses down around the house."

"Look at this, will you? RCA is up to five hundred and thirty-five a share. Have you ever seen anything like it?" Groucho's broker, Mr. Green, said to him.

Groucho hadn't. "One thing I don't understand, Mr. Green. I own RCA, too. But how can it be selling for five hundred and thirty-five a share and never declare a dividend?"

As if speaking to a child, the broker explained, "Mr. Marx, it's different for the average man not schooled in high finance to comprehend what is going on today. But I can tell you this. Wall Street is no longer localized. We're now in a worldwide market. It's going to keep going up and up and up. Is that clear?"

Groucho was skeptical.

"Look, Mr. Marx, this thing is bigger than both of us. Don't fight it. Just be assured that you're going to wind up a very wealthy man. And I know what I'm talking about. I'm in the market myself. I'm a family man, and I wouldn't take the risk if I didn't know the market is sound."

Groucho was impressed by this line of reasoning and repeated it to his friend Max Gordon, a theatrical producer in New York, who had also started playing the market: "Wall Street is no longer localized. We're now in a worldwide market. The possibilities are limitless."

"This is better than working," Gordon said.

Marx, who was still a vaudeville performer at that point in his career, took stock tips from almost anyone, friends and strangers alike. When an elevator man at the Ritz in Boston tipped him off to buy stock in Union Carbide, Marx went to the nearest brokerage—which was literally inside the hotel, given their ubiquity—and wrote out a check for $9,000 to purchase shares. A fellow actor who dropped by his dressing room told him about the Goldman Sachs Trading Corporation, a public trust company that the private partnership of Goldman Sachs had launched to get in on the action of the stock market boom. Marx promptly bought $27,000 worth of shares.

Then, during the last week of October 1929, Marx got a phone call from his broker: "There's been a slight break in the market, Mr. Marx. You'd better get down here with some cash to cover your margin."

Groucho ended up having to mortgage his home to pay the broker.

"Aren't you the fellow who said nothing could go wrong—that we were in a world market?" Groucho said to Mr. Green.

"I guess I made a mistake," said an embarrassed Green.

"No, I'm the one who made a mistake," said Groucho. "I listened to you."

We all love a good story, a concise explanation of how the world works. We all love an easy buck. Temptation has driven human folly for centuries, whether the serpent in the Garden of Eden or the market manias of cryptocurrency or artificial intelligence. Each wave seduces us into thinking that we've learned from history and, this time, we can't be fooled.

Then it happens again. This is how it happened in 1929.