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MEDIA ABUSES AND THE 1929 STOCK MARKET CRASH

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Introduction

Songs can often be a window to what life was like at a given time in history. For instance, "Brother, Can You Spare a Dime?," the famous Depression Era song penned by Jay Gorney and Yip Harburg in 1931, reveals the despair following the Stock Market Crash of 1929. The song laments:

> They used to tell me I was building a dream,
> With peace and glory ahead.
> Why should I be standing in line,
> Just waiting for bread?
> Once I built a railroad,
> I made it run,
> Made it race against time.
> Once I built a railroad; now it's done.
> Brother, can you spare a dime?[1]

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The song lyrics represent the disillusionment and poverty suffered by millions of Americans. Although the song's narrator is just one person, he embodies millions of average Americans who, in the 1920s, were led to believe that they would be wealthy and prosperous forever, only to end up begging for a dime. Like many people, the song's everyman feels betrayed because he gave so much—whether it was through farming, construction work, or fighting in World War I (WWI)—only to be left destitute, hoodwinked, and cheated out of every last penny that he had. For millions of hardworking Americans, this plight was about more than just numbers: unemployment was rampant; morale sank; people could not afford food, not even a loaf of bread; and many were homeless or living in makeshift cardboard "Hooverville"[2] shelters. How did this happen? Why did so many people go from riches to rags? Answers to these questions can be found by looking to the previous decade, before Harburg's image of poverty, a time when the stock market soared and business was booming.

During the late 1920s, business was thriving, and the stock market was expanding. This period is often called the New Era[3] or the "Roaring Twenties," referring to the modernity and prosperity that characterized the time. This trend was partly the result of the Second Industrial Revolution,[4] which produced new technologies, factories, and big business. During the New Era, many average Americans, including restaurant owners, teachers, store clerks, farmers, and many other ordinary, working, and middle-class citizens, hoped to increase their wealth by speculating in the stock market. Speculation involved taking a risk in the hope that a stock would increase in value and thereby earn more money for the purchaser. Stock market speculation grew immensely popular in the late 1920s, approaching a national pastime. More people bought more stocks than ever before during this bull market,[5] during which prices were rising or expected to rise. In fact, according to the Economic Research Division of the Federal Reserve Bank of St. Louis, during this period, "Ordinary men and women invested growing sums in stocks and bonds. […] Borrowed money poured into equity markets, and stock prices soared."[6] This increased investment caused stock prices to climb to the point that they exceeded asset value, forming a stock market bubble. Stock market bubbles occur when the true value of a stock sinks to below the market price. Such a bubble is dangerous when there are no more buyers or people start to sell their stock shares. Moreover, a stock market bubble is particularly troubling when many stocks are purchased on margin, or on credit, which was the case in 1929.[7]

The causes of the stock market boom in the late 1920s are complex. They are often largely ascribed to over-speculation, or gambling, combined with easy access to credit, within a culture characterized by an increased interest in wealth and consumerism. This may partly explain how the daily average trading volume on the New York Stock Exchange (NYSE) increased from 1.7 million shares in 1925, to 3.5 million in 1928, and then to 4.1 million in the first nine-and-a-half months of 1929.[8] However, among the factors that caused millions of average Americans to purchase billions of dollars of stock, the media played a major role. Specifically, stock market operators, including wealthy investors, bankers, brokers, and financiers, recklessly used media outlets to induce people to invest in the stock market. They did so in two ways. First, market operators hired publicists to provide news outlets with information intended to show business and the market in a favorable light. Second, market operators paid reporters to publish reports intended to favorably portray business and the stock market. This good publicity included overly optimistic statements from notable individuals, such as the economist Irving Fisher,[9] whose famous assertion on October 16, 1929, that the "stock market has reached a permanently high plateau"[10] quickly made newspaper headlines. Essentially, Fisher claimed that stock prices would remain high forever, and this assertion was published as a headline just days before Black Thursday.[11] In addition, unfavorable stock market reports and criticisms of business were unofficially censored in the stock market mania culture of 1929.[12] Thus, stock market operators used the media to promote propaganda intended to persuade average Americans to invest in the stock market, leading to the stock market bubble of 1929.

Historical Context

The 1929 stock market boom was the culmination of a period of prosperity and opportunity for business. This growth was encouraged by federal policies from the 1920s. For instance, in 1921, the Federal Reserve Board lowered interest rates and eased reserve requirements on banks. As a result, the money supply increased and average Americans were captivated by the seemingly boundless opportunities for investment.[13] In addition, in 1920 Warren Harding was elected president, and he "promis[ed] a return to 'Normalcy'. Back to the good old days. Hands off business."[14] Harding's unobtrusive policies appealed to business interests. Similarly, when Calvin Coolidge was elected in 1924, he continued the pro-business policies, famously stating that "the chief business of the American people is business."[15] Basically, Coolidge felt that business was essential for America's economic health, and he made it clear that his administration was not going to interfere with American industry. Therefore, during the Harding and Coolidge years (1920-1928), government regulation of business was lenient, and there was far less oversight of banking and securities than today. Moreover, even if the government wanted to more tightly regulate business, there was the perpetual problem that laws often cannot keep up with the changing nature of business and technology. Laws such as the Glass-Steagall Act and the Securities and Exchange Acts of 1933 and 1934 did not yet exist. Such laws were enacted during the Great Depression in order to prevent a future market crash by regulating the stock market. Thus, during the New Era, opportunities for business interests to take advantage of people were growing.

This New Era was also characterized by average Americans' growing sense of optimism. This mood was captured in a popular 1926 song called "Blue Skies," in which the vocalist sings the words, "Never saw things going so right."[16] Thus, the perception was that most people were doing well and the future looked bright. In addition, there was an increasing amount of interest in accumulating wealth and a growing sense of consumerism.[17] Americans were eager to enjoy the many new inventions of this era, including the automobile, the radio, the washing machine, and motion pictures. Moreover, the concept of buying on credit became more common. At the same time, the use of advertising to entice consumers became more prevalent. Moreover, "in the 1920s, advertisers were selling opportunity and euphoria, further feeding the notions of many Americans that prosperity would never end."[18] Thus, the United States entered a period of economic growth. To illustrate, American historian Maury Klein explains that the market boom:

> evolved within a context that saw more Americans than ever before attain a standard of living that enabled them to invest in the market or to see their future as somehow linked to its performance. Enchanted by the comforts, conveniences, and entertainments of this new civilization, exhilarated by the prospects for the future promised by the slogans of the New Era, they came increasingly to view the market as the key to the pot of riches awaiting them at the rainbow's end.[19]

Klein's description is important because it highlights the feeling of optimism, particularly about increasing wealth and consumerism that characterized this time period. Moreover, Klein's reference to a "pot of riches […] at the rainbow's end" underscores the beliefs that were characteristic of the time. As such, people were easily misled to believe that they could "get-rich-quick." In summary, the 1929 stock market boom took place in a context in which many Americans were seeking to spend and enjoy more than ever before.

The 1929 stock market boom was followed by the Stock Market Crash of 1929[20] and then the Great Depression. The Stock Market Crash occurred between September 1 and November 30, 1929, when the stock market "lost over one-half its value, dropping from $64 billion to approximately $30 billion."[21] This was clearly an unprecedented drop and left some investors penniless. This crash also marked the beginning of the Great Depression, which was the worst economic downturn in U.S. history and lasted from 1929 until 1939. During this time, approximately one-third of Americans lost their life's savings and jobs, businesses and banks failed, and millions of American families were plunged into poverty and homelessness. The connection between the Crash of 1929 and the

Great Depression is complex, involving underlying weaknesses in the economy that many policymakers had long ignored. The state of the international economy, the inequitable income distribution in the U.S. and, perhaps most importantly, the contagious nature of panic all played roles in the economy's continued downward spiral.[22] As a result, the Stock Market Crash was the beginning of a long period of tremendous financial hardship and despair for most Americans.

The Development of Industrial Stocks and Investment Trusts in the Early 1900s

In the prosperous decade prior to the Great Crash and Great Depression, however, average Americans were encouraged to invest in stocks and trusts. This was due in part to the increasing availability of industrial stocks and investment trusts in the early 1900s, a development that resulted from the growing business enterprises that were characteristic of that era. Emerging businesses in industries such as steel, automotive, textiles, and food production needed capital in order to expand. However, the regulations at the time did not allow commercial banks to directly lend sufficient funds to meet the needs of these growing enterprises. As a result, businesses issued stocks to fund their efforts.[23] These stocks were then sold by banks or brokerage firms that were often affiliated with, or related to, the banks. At that time, banks were allowed to sell stocks, a practice that the Glass-Steagall Act later prohibited due to the conflict of interests.[24] In addition to selling stocks, the bank affiliates also offered ordinary Americans a more financially feasible way to invest by establishing investment trusts. These trusts appealed to everyday Americans because it was less costly to buy a share of an investment trust, the proceeds of which could then be used to invest in stocks and bonds. This practice became so popular that, as professor and author Jerry W. Markham describes, "A new investment trust was being created every other day in 1928; the rate reached one a day in 1929."[25] This high rate is relevant because it illustrates the massive growth of investment trusts during the 1920s. Investment trusts were also significant because they helped to further fund the capital that growing businesses needed. Moreover, by acting as a broker, commercial banks could increase their income. Thus, businesses and banks could fund their operations, as average Americans were increasingly drawn into the stock market.

In addition to the growing availability of stocks and trusts, average Americans were led to feel more comfortable with entering the stock market. This was due in part to the establishment of the aforementioned affiliate banks that also developed in the 1920s. Back then, the banks created affiliates, or "sister" banks and brokerage firms, which often had names similar to those of the main bank. For example, National City Bank, the largest U.S. bank at the time, had over 2,000 affiliates with various similar-sounding names, such as National City Company and City Bank Farmers' Trust Company. The use of such similar names was intended to give customers an added sense of security and thereby attract new investors. Additionally, the nearly identical names blurred the distinction between saving and speculating.[26] As a result, typical Americans felt more comfortable with entering the stock market for the first time. This was especially the case since many average Americans had already been introduced to the concept of buying government bonds, such as The Liberty Bond and The Victory Bond.[27] Government bonds, such as these, were already regarded as conservative or safe investments with little risk, although they did not offer quite the sizeable return that stocks appeared to offer. Regarding such bond efforts, historian Robert Patterson explained that the loan drives "taught people to buy securities. More than 22 million individuals had discovered the magic of coupon-clipping and the desirability of bonds as a form of wealth."[28] This is significant because it illustrates how everyday Americans were brought into the stock market, as they were easily enticed by the idea of buying industrial stocks as an investment.

Market Operators in Collaboration as Pools

Market operators often formed "pools" to manipulate stock prices and make money. A pool, also called a "syndicate," was an agreement among a group of people, such as wealthy investors, bankers, brokers, and financiers, who would pool their resources in a particular stock. The goal of the pool was to make a profit by selling stocks at a higher price, which was accomplished by the pool's purchasing of substantial shares in order to give an appearance of demand. The pool then disseminated flattering information about the stock in order to attract outside investors.[29] Dissemination was typically accomplished by arranging for favorable publicity from news outlets, including newspapers, magazines, newsreels, and radio broadcasts. Then, after amassing a crowd of investors, the pool would secretly sell its shares. In his book, 1929: The Year of the Great Crash, historian William Klingaman described how the pool manager then "pulled the plug […] surreptitiously, […] to sell off his partners' shares at the prearranged peak, cashing in on the profits before the stock began the inevitable downward spiral."[30] Essentially, after orchestrating numerous purchase orders from ordinary investors, the pool sold their shares at a higher price, and pocketed a large profit for themselves. Consequently, the stock price decreased dramatically, leaving the group of average investors with a loss. Among the hundreds of pools that operated in this fashion during the 1920s, perhaps the most famous was the one led by automobile entrepreneur William Crapo Durant. Known as the "King of Bulls," Durant is significant because he epitomizes the operators who manipulated the market leading up to the Great Crash. Although he ultimately went bankrupt by 1936, Durant had accumulated more than $100 million largely through using pools to manipulate the market.[31]

Market Operators' Utilization of the Media

Like Durant, many market operators used publicists to draw people into the stock market. Publicists were those who were hired and paid by market operators. The publicists' job was then to devise and disseminate flattering information about a business or particular stock, thereby portraying it in the most favorable light. This information was then distributed to newspapers, magazines, and radio broadcasters, who would then publicize it.[32] This practice was the subject of the Pecora Commission's Senate Investigation from 1932-1934. The Pecora Commission, named after its lead Counsel Ferdinand Pecora, was established to investigate Wall Street abuses that led to the Great Crash. The Commission's final report found that:

> other methods used by pool operators to distribute propaganda included the employment of professional publicity agents; the subsidizing of financial writers; and the distribution of 'tipster sheets' purporting to emanate from reputable financial service firms and to contain scientific and statistical data concerning the security, all calculated to entice the public into purchasing the security.[33]

In other words, the Commission concluded that pool operators and publicists were secretly cooperating to deceive investors so that they would purchase stocks. This finding was significant because it illuminated the collusion that was occurring. Clearly, pool operators were using the media in a scheme to fraudulently mislead average Americans to purchase particular stocks.

The Pecora Commission elicited testimonies demonstrating specific examples of these deceptive and manipulative practices. For instance, during the hearing, publicist David Lions testified that he accepted cash and stock calls, interests in stock shares, netting him over $500,000 within three years, from over thirty different pools and individual investors simultaneously. In exchange, Lions arranged for the publication of favorable information in newspapers, magazines, and radio broadcasts, all of which was intended to attract investors and boost a particular stock. For example, Lions testified that he paid radio talk show host William McMahon to praise particular stocks and tout optimistic market conditions in his weekly radio show. Lions further testified that although McMahon introduced himself during his broadcast as the president of the McMahon Institute of Economic Research, in reality McMahon was both the president and the entire institute,[34] as Lions' testimony made it clear that McMahon's institute was a sham. There was no institute. Apparently, McMahon fabricated the myth of the Institute of Economic Research in order to attract an audience and lend credibility to what he said during his weekly radio broadcast about investments in the stock market. This example is critical because it illustrates how extensively market operators conspired to utilize the media to deceive people and manipulate the market.

In addition to hiring publicists, market operators directly compensated reporters for publishing favorable reports. In his highly acclaimed book, The Great Crash 1929, John Kenneth Galbraith states, "Moreover, by 1929, numerous journalists were sternly resisting the more subtle blandishments and flattery to which they have been thought susceptible. Instead, they were demanding cold cash for news favorable to the stock market."[35] In other words, the problematic arrangement of paying for favorable reports was so entrenched that reporters expected compensation for it. For instance, a pool operator named John J. Levenson paid Raleigh T. Curtis, a reporter who wrote a column entitled, "The Trader," to give his readers tips on stocks in which Levenson had an interest. Levenson was so successful with his operation that, in one year alone, he made $1 million. In exchange for Curtis' assistance, Levenson paid Curtis with stock profits of approximately $20,000.[36] Thus, Levenson was paying Curtis to write information that would make the stocks in Levenson's accounts seem more desirable and attractive to potential market investors. Their goal was to have those stocks increase in value, so that Levenson could then sell them at a higher price and make a sizable profit. This example is significant because it demonstrates how market operators directly conspired with reporters to manipulate stock prices. Today, this type of collusion may be less likely to occur due to the Securities and Exchange Commission's creation of federal oversight and the passing of more stringent banking laws. However, many modern-day protections did not exist in the 1920s when stock market abuses, such as fraudulently enticing investors to buy stocks, were rampant.[37]

Relentless Favorable Reports

Media outlets published an overwhelming abundance of pro-business reports in various mediums: newspapers, magazines, tip-sheets, newsreels, and radio broadcasts. These reports fueled investor enthusiasm by leading people to believe that the stock market was soaring and that business fundamentals in general could not be better. For instance, on January 3, 1929, the headline on the front page of The New York Times (NYT) declared, "Stock Market Opens 1929 With Buying Rush; 5,413,610 - Share Day Stirs Hope of Big Year."[38] Similarly, in March, The World proclaimed, "Wave of Buying Sweeps Over Market as Stocks Swing Upward,"[39] and in its June publication, The American Magazine featured an interview with famous financier and statesman Bernard Baruch. In that interview, Baruch asserted that, "the economic condition of the world seems on the verge of a great forward movement."[40] Promising reports, such as these, are significant because they illustrate the manner in which the media portrayed the stock market. The message was clearly one of optimism, encouraging investors to remain bullish. Cornell University Professor Harold Bierman, Jr., agrees when he writes that, "Article after article from January to October in business magazines carried news of outstanding economic performance."[41] Bierman's point is that the media were relentless in their publishing of optimistic business reports. Furthermore, these repeated reports from purportedly reputable sources were effective, as interest increased and people invested more money into the stock market than ever before during the months preceding the Great Crash.[42]

While these pro-business media reports were widespread throughout most of 1929, some negative reporting did exist, particularly after September 1929. For example, in late September 1929, The NYT published a series of articles about Clarence Hatry, a major investor in London whose empire collapsed after he was arrested for using fraudulent collateral to buy stocks. This occurrence was important because it upended the British Stock Market, caused the Bank of England to raise interest rates a full percentage point, and made U.S. investors nervous.[43] In addition, in October 1929, The Wall Street Journal published articles regarding the Massachusetts Department of Public Utilities' denial of a stock split request from the Boston Edison Electric Company. In doing so, the State Public Utilities Department affirmed that the utility's stock "had been inflated as part of a speculative bubble."[44]

In other words, the state government was saying that the utility's stock was overpriced, thereby undercutting its market value,[45] which was an unprecedented act by a state government. Nevertheless, any pessimistic business news was marginalized. It was not until late October 1929 that newspapers featured many negative business reports. By then, however, it was too late. No doubt, the "wild, wild west" media of the 1920s had to change, particularly when the new "sheriff," Franklin D. Roosevelt, came to town.

Women and the Stock Market in the 1920s

Women were also lured into the 1920s stock market mania. The stock market appeared to provide women with access to economic opportunities that they did not previously have. These economic opportunities were part of the larger, growing women's liberation movement of the 1920s.[46] This included the right to vote, the rise of feminism, and the desire for greater independence. As a result, media reports about investment opportunities were often geared towards women.[47] For instance, in August 1929, Ladies Home Journal published an article written by automotive executive John Raskob titled, "Everyone Ought to Be Rich." In his article, Raskob professes, "We now know that borrowing may be a method of earning and beneficial to everyone concerned."[48] Essentially Raskob's article encouraged the use of credit for stock market investment. Furthermore, his article exemplifies how stock market operators targeted women because it was published in a magazine aimed at a female audience. Raskob's investment advice was not advantageous for everyone though, as illustrated in the BBC documentary, "1929 Stock Market Crash and the Great Depression."[49] This documentary is critical because it illustrates how women, in particular, were taken advantage of. It highlights the lives of several people who lost everything in the stock market, including a well-known New York photographer named Alice Austen. Like many people, Alice was lured into the stock market, believing that she too could get rich. A broker suggested that she invest in the stock market on margin. Ultimately, Alice, like many others, lost everything, including her home. It is difficult to imagine how it would feel for a woman to suddenly learn that she is absolutely penniless, has nowhere to live, and must sell her last worldly possession in order to buy food for her family.

Censorship

Market operators unofficially censored unfavorable stock market reports and criticism of business. As a result, many favorable business reports were often featured, while negative business reports and criticism of business were largely suppressed. This is because media outlets, including newspapers, magazines, and radio stations, needed to make money in order to survive. As with most business enterprises, media outlets had many expenses, including bills and employee salaries, that needed to be settled before they could start making a profit. In the media industry, these costs were, and still are, largely covered by selling advertising space. During the 1920s, a major source of these advertising sales was stock brokerage firms and banks that wanted to push their investment products. Consequently, these businesses purchased a great deal of advertising space in the very same outlets that were reporting on their performance. A perusal of the popular newspapers of the time reveals an overwhelming abundance of brokerage and banking advertisements, particularly in the popular business sections. For example, on July 8, 1929, The NYT ran, on one page, sixteen advertisements for various stocks, banks, and brokerage firms, including National City, Merrill Lynch, and White, Weld, and Co.[50] Additionally, on July 18, 1929, The NYT ran, on one page, twenty-four advertisements for stocks, banks, and brokerage firms.[51] These advertisements are critical evidence of the financial relationship between market operators and the media. Moreover, as Frederick Lewis Allen describes, "publishers wanted to make money and found it easier to make money by publishing the sort of thing which their advertisers would like. Mutual backscratching was the order of the day."[52] Allen's observations are compelling because they underscore the symbiotic relationship between market operators and media outlets. Moreover, it is almost understandable why the media cooperated in this scheme. From a purely financial perspective, it made no sense for the media to criticize business in 1929.

In addition to the censorship of the media, there was also the suppression of any criticism of business in general. In his influential book, The Lords of Creation, Frederick Lewis Allen describes this general restriction as follows:

> In part, the vast prestige of business was due to the vigorous pressure of majority opinion upon the heretical […] The orthodox thing to do was to […] accept without question the policies of the economic masters of the community; the heretic might retain his technical freedom of speech and of action, but there were a hundred ways in which he might be made uncomfortable. To question the soundness […] was in many communities to be considered "un-American," — to have trouble […] to be, in short, at a general disadvantage in the great race for success and prestige.[53]

Allen's point is that most people, in general, believed that business was important and that it was reprehensible to disagree with this or to question business. In addition, Allen's characterization of dissent as "un-American" is significant because it emphasizes that disagreement would have been viewed as inconsistent with American principles or somehow disloyal to the U.S. It is also a reference to the American fear of socialist and communist forces that existed during this period. Essentially, many people were enjoying the prosperity that seemed to flow from the growth of business and were happy to perpetuate this perceived reality. Additionally, there were subtle repercussions for those who questioned the honor of business. As a result, there were few dissenters.

Some skeptics may argue that opposition to business was expressed. Indeed, some voices did their best to express concerns about over-speculation, extensive buying on margin, and the over-inflated values of stocks. In fact, some of these naysayers were of significant stature and had their commentary published in reputable newspapers. For example, notable banker and Federal Reserve second vice chairman from 1916-1918, Paul Warburg, spoke out. His criticisms were published on page 40 of The NYT on March 8, 1929, with a headline stating, "Warburg Assails Federal Reserve; System Has Lost Control of Credit, […] Warns Of Speculation 'Stock Exchange Debauch' Likely to Result in Depression of Whole Country"[54] Warburg's objections to over-speculation, credit usage, and over-valuation were clearly stated in this lengthy article for anyone to view. However, it is worth noting that coverage of Warburg's remarks was relegated to page 40. Moreover, the same article concluded with two paragraphs that essentially marginalized Warburg and his opinion by making it abundantly clear that Warburg severed himself from the Federal Reserve Board years ago, that the current Board declined to respond, and that another of Warburg's ideas regarding a central banking authority was unlikely to occur. Historian and author Maury Klein affirms this derogation, adding that "Wall Street accused Warburg of 'sandbagging American prosperity,' sneered that his views were 'obsolete,' and hinted darkly at ulterior motives on his part."[55] In other words, Wall Street tried to discredit Warburg by making it seem as though he was hampering prosperity. Thus, Warburg's criticisms and the reactions thereto exemplify the efforts made to censor dissent. Unfortunately, Warburg was not the only denigrated naysayer.

Additionally, other notable dissenters were marginalized. For example, financial columnist Alexander Dana Noyes was belittled in his attempts to criticize excessive stock prices. According to authors William Quinn and John D. Turner, Noyes' "columns were often too diplomatic to attack the bull market explicitly, however, and his cautious advice was often undermined by editors who were reluctant to contradict the more optimistic views of the bankers."[56] In essence, Quinn and Turner are saying that Noyes' work was discounted. Moreover, Noyes, before his death, explained how his views on stock market practices at that time "made him feel like the most unpopular man in the room."[57] Noyes' reflection shows that he knew that criticism of business would not be tolerated at that time. Similarly, entrepreneur and economist Roger Babson attempted, on several occasions, to warn of great financial disaster. Consequently, as Klingaman describes, Babson became "known, somewhat disparagingly, as the Sage of Wellesley" and "was a man whom Wall Street had cheerfully chosen to ignore on previous occasions [...] earning himself a reputation as 'the prophet of loss' and 'a statistician who has always been wrong.'"[58] Klingaman's point is important because it emphasizes that Babson's criticisms of business were not taken seriously. Thus, with the exception of Babson's September 5, 1929, warning, which was followed by a stock market decline known as the Babson Break and the beginning of the Great Crash, Babson's criticisms of the stock market, like those of Warburg and Noyes, were ignored and marginalized.

The Federal Reserve Board was another critic whose complaints were deemed ineffective. The Federal Reserve Bank is the central bank of the U.S. government and oversees the twelve-member Federal Reserve Banks throughout the country. During the 1920s, the Federal Reserve Member Banks provided credit to commercial banks, who, in turn, loaned money to customers. Some of these loaned funds were then used for speculation. The Federal Reserve Board expressed concern about the use of Federal Reserve credit for this purpose when it stated on February 2, 1929, that "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."[59] Essentially, the Board's position was that its regulations did not allow for the extension of its credit to member banks for the purpose of providing loans to stock speculators. This perspective was quickly summarized in a political cartoon that appeared in The Los Angeles Times on February 8, 1929.[60] This cartoon depicts an obese man wearing a dinner napkin tied around his neck and is labeled "The Speculation Crazy Public." The large man, with a fork and knife in hand, is seated at a restaurant table that is being abruptly cleared off by an angry waiter labeled "Federal Reserve Board." The waiter is whisking off the table an array of platters labeled "stocks," "stocks," and "more stocks," with the whisking motion streaks being labeled as "Withdrawal of speculative credit." The waiter's speech bubble scolds, "Don't you know when you've had enough?" Thus, the cartoon shows that the Board wanted to constrain the use of its credit for the purpose of speculation, but its efforts were insufficient. The Board's criticisms carried little weight because they only condemned the use of Federal Reserve credit for speculation, but left the door open for speculation using funds from other sources, such as corporations as well as private and foreign banks. Consequently, the Board's criticisms were ineffective.

Media Framing

Market operators used the media because of their ability to influence investors and the stock market. This influence was confirmed in a recent study published in the International Journal of Strategic Communication, which noted that "the media have been identified to play a significant role in shaping the consensus market opinion and evoking this 'herdlike' behavior."[61] In addition, the media were in the unique position of framing the news. Robert Entman, a Professor of Media and Public Affairs at George Washington University, defines media framing as being able to choose what the media reports and how it is reported, so as to give it a certain meaning.[62] In other words, framing is essentially the media's spin on a topic. Media framing and its impact upon investor decisions and the stock market was also affirmed in the Strycharz, Strauss, and Trilling study. On this point, the study noted, "that news media can affect impression formations of the audience by presenting information in a certain way (Scheufele & Tewksbury, 2007). Thus, media representations of companies might also impact how the financial audience perceives and evaluates these stocks on the market."[63] Essentially, the media can affect investor decisions by whether and how it portrays a business or a stock.

Furthermore, in framing the news, the media attempts to attract and retain an audience in order to make money and expand. In terms of newsworthy topics, the stock market had "star quality"[64] for the media, especially in a culture that had an increasing interest in wealth and a growing sense of consumerism. As a result, the media catered to these interests with continuous optimistic business reports. Indeed, Galbraith affirms, "Most magazines and most newspapers in 1929 reported an upward sweep of the market with admiration and awe and without alarm. They viewed the present and the future with exuberance."[65] Essentially, there was widespread optimistic framing of the news regarding the stock market. This spin was a form of propaganda to portray business and the stock market in a favorable light. Galbraith's observations demonstrate how commonplace this practice was at the time. Furthermore, this propaganda was repeatedly disseminated to most people who were eager to believe it. Thus, the market operators capitalized on the media's unique abilities in publishing news that sold.

Unprecedented Numbers in the Stock Market

The market operators' use of the media was effective. It garnered widespread support for business and unprecedented numbers of investors, trade volume, stock issues, and price levels. The support was so pervasive that the stock market became part of pop culture and everyday life, with popular music even containing stock market themes. For instance, in the 1930s song, "I'm in the Market for You," Joseph McCarthy penned, "I'll have to see my broker, find out what he can do, 'cause I'm in the market for you."[66] Thus, even contemporary love songs referenced the stock market. In addition, local stores added ticker machines so that a person could watch market prices while shopping or getting a haircut.[67] Likewise, brokerage offices were appearing almost everywhere in order to service the growing interest in stocks, including on ocean liners.[68] The media were also used to successfully increase the number of investors and the volumes of trade. According to professor and author Jerry W. Markham, "Between 1922 and 1929, the number of stockholders increased from 12 million in 1920 to 18 million in 1928 [...] Trading volume on the NYSE exceeded 450 million shares in 1926 and grew to over 1 billion shares in 1929."[69] By any metric, these were record numbers. In addition to this increased enthusiasm for stocks, there was also significant growth in investment trusts, providing smaller investors with an opportunity to participate. Markham explains that "The assets of investment trusts rose to over $1 billion in 1928. Another $2.1 billion was added in 1929."[70] Additionally, stock price levels increased rapidly, as reflected in the Dow Jones Industrial Average (DJIA). The DJIA was the leading stock market index, at the time, and measured stock market performance by comparing the prices of major stocks over time. According to economic historian, statesman, author, and former professor of economics at Massachusetts Institute of Technology, Charles P. Kindleberger, "The DJIA went from a low of 191 in early 1928 to a high of 300 in December [1928], and a peak of 381 in September 1929, doubling in two years."[71] Thus, stock market enthusiasm, speculation, trade volume, stock issues, and prices reached unparalleled, record levels by September 1929.

Unfortunately, these record stock market levels were largely based on debt. This was because increasing numbers of average Americans were purchasing stocks on margin. These investors were not only using their own money to purchase stocks. Instead, banks and brokers had investors purchase stocks by paying as little as a ten percent deposit, and the banks or brokers would then pay the balance and hold the stock as collateral. In other words, this was a loan, or debt that would have to be repaid later. This buy-now-pay-later practice became increasingly popular in the 1920s, as consumer product retailers sought to sell new and more expensive items, such as automobiles, washing machines, and refrigerators. This buy-now-pay-later scheme also enabled ordinary Americans to purchase stocks that they may not otherwise have been able to afford. However, this scheme was later "criticized for instilling a false sense of financial security in consumers, which could lead to impulse shopping and they might end up spending money they do not have."[72] In other words, the concern was that people would be taking on too much debt. At the time though, the idea of purchasing stocks on credit appealed to many average Americans as a chance to get-rich-quickly. In fact, it was so appealing that, as Galbraith explains, "Brokers' loans reached four billion on the first of June 1928, five billion on the first of November, and by the end of the year they were well along to six billion. Never had there been anything like it before. People were swarming to buy stocks on margin."[73] This rush to buy stocks on margin is further evidenced by the Federal Reserve's line graph, which clearly illustrates how the stock market index aligned with brokers' loans for the period of 1926-1931.[74] This credit frenzy was problematic because it meant that the rising stock market was being inflated on borrowed money.

This credit problem is exemplified by George Mehales' story.[75] He was an immigrant who opened a restaurant in South Carolina after WWI and then lost everything in the stock market. George described his plight in a 1938 interview with the South Carolina Writers' Project. He explained, "I had never even thought about the stock market before. For a few days, I looked at the market page in the newspaper. It looked good to me, and I bit with what you folks call 'hook, line and sinker.'"[76] Thus, the information published in the newspaper convinced George to invest in the stock market. His account is critical because it demonstrates that the media encouraged average Americans to make unwise and speculative purchases. Like so many people, George bought stocks on margin, that is with a loan. He did well for a short time, leaving his restaurant mostly unattended. However, as with millions of other Americans, by late October, when prices fell, George struggled to put up cash to cover his loan. Putting up cash to cover a loan occurs when the investment value falls to an amount lower than the loan amount and the lender seeks to protect himself from loss.[77] In George's situation, the lender required George to pay more cash so that the lender would not lose their loaned money to George's failing investment. Unable to put up any more cash, however, George lost his investment and his restaurant. With nothing left, George considered killing himself. George's story embodies the problems and tragedies that affected millions of Americans who were persuaded to invest on margin.

Critics may argue that not every American invested in the stock market. On the one hand, this is true. However, on the other hand, interest in the stock market increased tremendously. Indeed, there was a substantial increase in the raw number of stockholders from twelve million in 1920 to eighteen million in 1928.[78] Plus, the overall massive growth of the stock market in the late 1920s is indisputable. Wharton School of the University of Pennsylvania's associate professor Mary O'Sullivan explains that this expansion is best measured by analyzing the number of stock issues, the volume of shares traded on the various U.S. markets, and the diversity of companies with traded stocks.[79] O'Sullivan's study illustrates the growth of the stock market by citing the numbers of stock issues, trading volumes, and companies trading at relevant points in time, namely 1900, 1915, and 1930. Her data show that the number of stock issues increased from 1,028 in 1900, to 1,589 in 1915 and 4,359 in 1930. Thus, the number of stock issues nearly tripled during the period in question. In addition, her data show that the share trading volume increased from 156 million in 1900, to 259 million in 1915 and 1,151 million in 1930. Hence, the share trading volume more than quadrupled from 1915-1930. Moreover, O'Sullivan's study noted an expansion in the diversity of sectors represented, with the number of different companies trading stocks increasing from 682 in 1900, to 970 in 1915 and 2,659 in 1930.[80] Thus, the diversity of sectors also quadrupled. As a result, while there were some people who chose not to invest in the stock market, there was certainly an immense expansion. This expansion included unprecedented numbers of stock issues, traded shares, diversified companies, and investors. Furthermore, this expansion was the result of the market operators' effective use of the media to induce average Americans to enter the stock market.

Conclusion

Market operators used the media to attract investors into making unwise investment decisions. Wealthy bankers, brokers, and financiers paid publicists and reporters to promote propaganda that was intended to entice millions of Americans to invest billions of dollars in the stock market during the late 1920s. Newspaper reports, magazine articles, newsreels, and radio broadcasts captivated society with the myth that anyone could quickly become a millionaire in the stock market. Average Americans fell "hook, line, and sinker" for this hope, and they rushed to speculate, often with borrowed money, only to lose their life's savings when the market crashed. People who were once capable of supporting themselves, were left bankrupt, jobless, homeless, and hungry. Thus, in Gorney and Harburg's song "Brother, Can You Spare a Dime?,"[81] a man's confusion could easily turn into anger when his plea for ten cents changes from the neighborly "brother, can you spare a dime" to the more forceful "buddy, can you spare a dime." In addition, just as this song is a window, it is also a mirror, showing the ways in which people feel deceived and betrayed because of unfair financial transactions that have ruined their lives. This reflection also emphasizes the importance of understanding the lessons learned from history and the need to apply what was learned from past experiences to modern-day market and media operations in order to ensure fairness.

The abuses that financially ruined millions of Americans in the late 1920s point to the need to guard against modern-day market manipulation and media abuse. Real examples of financial devastation illustrate how the stock market operators and the media scammed Americans in the 1920s. Acclaimed singer-songwriter and author Rickie Lee Jones describes in her recent book, Last Chance Texaco, how her family was victimized in the Great Crash, when she writes, "Ninety years ago, my mother's entire generation was tricked into the dust bowl of desperate poverty called the Great Depression, due to the greed and narrow interests of wealthy men."[82] Jones' story calls attention to the fact that market operators and the media were permitted to manipulate stock prices and rob average Americans of their life savings. Her story is representative of many others, all of which raise concerns about modern-day financial transactions and media abuses. Thus, history indicates the need for oversight that is capable of keeping up with the changing nature of business transactions, the increasing amount of new technologies, and the almost overwhelming expansion of social media. Otherwise, modern-day market and media abuses may continue to leave average investors in financial ruin. For example, recent meme stock short squeezes, such as those pertaining to GameStop and AMC, illustrate how modern-day market operators and social media continue to leave individual investors penniless. These examples are important because they show the potential for disaster and problems such as unemployment, sunken morale, hunger, and homelessness; they show that today's stock market and media abuses can still leave a person "begging for a dime." Additionally, they show that "[t]here is almost always too much greed. There is rarely enough fear of unsettling the market by changing the rules abruptly and capriciously or of refusing to institute sensible regulation simply because we don't agree with those who adopted the regulations."[83] In other words, the desire to earn larger profits often outweighs concerns about ensuring fairness, just as Gorney and Harburg lamented in their famous song. Perhaps now more than ever, it is critical to understand that while stock markets allow for the creation of capital, jobs, lifestyles, and retirement and educational funds, oversight must be capable of safeguarding against abuses that could inflict financial harm and devastation on others.

Endnotes

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[2] "Hooverville" was a term used to describe a group of shanties or makeshift shelters built on the fringes of many American cities. The moniker is a reference to Herbert Hoover, who was the U.S. president when the stock market crashed in 1929.

[3] The New Era took place in the 1920 and is not to be confused with the New Deal (F.D. Roosevelt), the New Freedoms (W. Wilson), or the Square Deal (T. Roosevelt).

[4] The Second Industrial Revolution was a period of accelerated scientific discovery, production, and industrialization that took place in the USA from approximately 1870-1918.

[5] The terms "bull" and "bear" originated from the manner in which these two animals fight, with the bull forcing his horns upwards and the bear pushing down. This up and down movement was used as a metaphor for the stock market, with a bull representing the market trending up, and a bear representing the market trending down. www.investopedia.com/ask/answers/bull-bear-market-names/.

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[9] Irving Fisher has been described as "the greatest economist the United States has ever produced." Joseph Schumpeter, Ten Great Economists from Marx to Keynes (New York: Oxford University Press, 1951), 223.

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[11] Black Thursday is the name given to the day, October 24, 1929, which was the date that marked the DJIA plummeting drastically at the market opening, with over 12 million shares

trading hands throughout the day. It is often referred to as the beginning of the Stock Market Crash of 1929.

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[19] Maury Klein, Rainbow's End: The Crash of 1929 (New York: Oxford University Press, 2001), 69.

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[22] Ibid.

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[31] Ibid., 74.

[32] Markham, A Financial History, 144.

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