

As some financial leaders fret publicly **about** the stock market falling **to** earth, Andrew Ross Sorkin's new book recounts the greatest crash **of** them all.

As stocks plummeted **on** the morning **of** October 24th, 1929, a large crowd gathered **on** Wall Street **outside of** the New York Stock Exchange. Pat Bologna, a local shoeshiner whose life savings were invested **in** the market, dodged **into** a packed brokerage nearby. "Everybody is shouting," he later recalled. "They're all trying **to** reach the glass booth where the clerks are. Everybody wants **to** sell **out**. The boy **at** the quotation board is running scared. He can't keep **up with** the speed **of** the way stocks are dropping. The board's painted green. The guy who runs it is Irish. He's standing **at** the back **of** the booth, **on** the telephone. I can't hear what he's saying. But a guy **near** me shouts, 'the sonofabitch has sold me **out**!' "

The stock-market crash **of** 1929 occupies a dark but indelible place **in** the national imagination, and **for** good reason. **In** the age **of** online trading and algorithmic traders, the next stock crash, whenever it comes, will be a largely digital phenomenon. But its consequences will certainly play **out in** the analog world: wealth destruction, human anguish, fallout **in** the rest **of** the economy. **On** Wall Street, as the speculative A.I. boom continues **to** grow, even some financial titans are acknowledging that it might not end well. "There will be a check **at** some point, there will be a drawdown," David Solomon, the chief executive **of** Goldman Sachs, said **at** a recent conference. Last week, Jamie Dimon, the head **of** JPMorgan Chase, told the BBC that he was "far more worried" than others **about** the possibility **of** a big fall **in** the market. A few days later, when Donald Trump threatened **to** impose new tariffs **on** China, the Dow Jones Industrial Average dived nine hundred points, only **to** rebound **on** Monday **after** Trump softened his rhetoric.

Perhaps the most alarming feature **of** the 1929 crash was that it wasn't a one-off. **After** peaking **in** September, 1929, the Dow Jones Industrial Average entered a downward trend that lasted nearly three years; **by** July **of** 1932, it had sunk **by about** ninety **per** cent. The crash's giddy prequel, dramatic unfolding, and shattering aftermath—the Great Depression—has long **provided** compelling material **for** writers. **In** 1931, Frederick Lewis Allen, **of** *Harper's Magazine*, described **in** his book "Only Yesterday" the speculative frenzy that preceded the crash: "Stories **of** fortunes made overnight were **on** everybody's lips. . . . 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." Almost a quarter century later, John Kenneth Galbraith brought an economist's eye and a dry wit to the subject **with** "The Great Crash 1929." The book detailed how, **in** the summer of that year, when stock prices were **already** sky-high, the Goldman Sachs Trading Corporation, **in** partnership with **the** utility baron Harrison Williams, launched two huge investment trusts, the Shenandoah Corporation and the Blue Ridge Corporation, which employed leverage—that is, borrowed money—and a pyramid structure to magnify investors' gains (or, **as** it turned out, their losses). "If there must be madness something may be said **for** having it **on** a heroic scale," Galbraith wrote.

In 1979, the fiftieth anniversary **of** the crash, the co-authors Gordon Thomas and Max Morgan-Witts published "The Day the Bubble Burst," which included the anecdote **about** the shoeshiner. Now, four years **before** the hundredth anniversary, comes "1929," a new book **by** Andrew Ross Sorkin, a financial columnist **for** the *Times* and a co-anchor **on** CNBC's "Squawk Box." **As in** Sorkin's previous book, "Too Big to Fail," a best-selling account **of** the financial crisis **of** 2008, he focusses mainly **on** the financiers and policymakers **at** the center **of** the crisis, drawing **on** private letters, transcripts, oral histories, architectural plans, memoirs, newspaper accounts, corporate filings, and prior histories. His narrative extends **from** February of 1929 to well beyond the crash, to the failed efforts of Herbert Hoover to revive a stricken economy; the election **of** Franklin D. Roosevelt; the U.S. Senate's famous Pecora Commission, which exposed a great deal **of** Wall Street self-dealing; and the passage **of** the 1933 Glass-Steagall Act, which curbed some **of** the Street's

excesses **by** separating commercial banking (making loans and taking deposits) **from** investment banking (selling and dealing in securities).

Other reforms introduced **under** Roosevelt included the founding **of** the Securities and Exchange Commission, which had a mandate **to** protect investors and maintain fair and orderly markets, and the federal insurance **of** bank deposits, which ended a calamitous wave **of** bank runs. **In** historical terms, the 1929 crash and the election **of** F.D.R. marked the dividing line **between** the untrammelled financial capitalism that had emerged **during** the Gilded Age **in** the late nineteenth century, and the managed capitalism **of** the mid-twentieth century. **For** several decades, this system delivered strong economic growth and a more equal income distribution, **until** inflation upended it and ushered **in** the neoliberal era **of** financial deregulation. (**In** 1999, Bill Clinton signed **into** law the Gramm-Leach-Bliley Act, which repealed key parts **of** Glass-Steagall.)

During the nineteen-twenties, Sorkin writes, “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.” His leading characters include Charles Mitchell, the chairman **of** National City Bank, a predecessor **of** Citibank, who, **in** March **of** 1929, resisted efforts **by** the Federal Reserve **to** restrict bank lending **to** speculators **in** the market; Thomas Lamont, a senior partner **at** J. P. Morgan & Co., who, **during** the panic selling **on** October 24th, organized a futile effort **to** stabilize the market; and Jesse Livermore, a storied speculator who made and lost several fortunes **before** eventually shooting himself **in** the cloakroom **of** the Sherry-Netherland hotel. There are cameos **by** everyone **from** Al Smith and William Randolph Hearst **to** Winston Churchill and Groucho Marx, both **of** whom speculated heavily **in** the market and paid the price.

No two speculative booms are exactly alike, **of** course, but they share some common elements. Typically, there is great excitement **among** investors **about** new technology—**in** today’s case, A.I.—and its potential **to** boost profits **for** companies positioned **to** take advantage **of** it. **In** the twenties, commercial radio was a novel and revolutionary medium: tens **of** millions **of** Americans tuned **in**. Sorkin points **out** that, **between** 1921 and 1928, stock **in** Radio Corporation **of** America, the Nvidia **of** its day, went **from** \$1 ½ **to** \$85 ½.

Another hallmark **of** a stock bubble is that, **at** some point, its participants largely give **up on** conventional valuation measures and buy **in** simply because prices are rising and everybody else is doing it: *FOMO* rules the day. **By** some metrics, valuations were even higher **during** the late-nineteen-nineties internet stock bubble than they were **in** the late twenties. And according to the latest report **from** the Bank of England’s Financial Policy Committee, which was released last week, valuations **in** the U.S. market are, **by** one measure, “comparable to the peak of the dot-com bubble.” That’s true according to the cyclically-adjusted price-to-earnings (*CAPE*) ratio, which tracks stock prices relative to corporate earnings averaged **over** the previous ten years. If, **instead of** looking back, you focus **on** predictions of future earnings, valuations are less stretched: the Bank **of** England report noted that they remain “**below** the levels reached **during** the dot-com bubble.” But that’s just another way **of** saying that investors are betting **on** earnings growing rapidly **in** the coming years. And this is a moment when many companies have so far seen precious little return **for** their A.I. investments.

To be sure, not everyone agrees that stock prices have departed **from** reality. **In** a note **to** clients last week, analysts **at** Goldman Sachs said the market’s rise, which is heavily concentrated **in** Big Tech stocks, “has, so far, been driven **by** fundamental growth rather than irrational speculation.” Jensen Huang, the chief executive **of** Nvidia, whose chips power A.I. systems **at** companies such as OpenAI, Google, and Meta, said that he believed the world was **at** “the beginning **of** a new industrial revolution.” However, even the authors **of** the Goldman report acknowledged that there are elements **of** the current situation “that rhyme **with** previous bubbles,” **including** the big gains

in stock prices and the emergence of questionable financing schemes. Last month, Nvidia announced it would invest up to one hundred billion dollars over the next decade in OpenAI, the parent company of ChatGPT, which is already a big purchaser of Nvidia's chips and will likely need more to power its expansion. Nvidia has said OpenAI isn't obligated to spend the money it invests on Nvidia chips, but the deal, and others like it, have sparked comparisons to the dot-com bubble, when some big tech companies engaged in so-called "circular" transactions that ultimately didn't work out.

Another recurring feature of the biggest asset booms is outright chicanery, such as fraudulent accounting, the marketing of worthless securities, and plain old stealing. Galbraith referred to this phenomenon as "the bezzle." In hard times, he noted, creditors are tight-fisted and audits are scrupulous: as a result, "commercial morality is enormously improved." In boom times, creditors are more trusting, lending standards get debased, and borrowed money is plentiful. But there "are always many people who need more," Galbraith explained, and "the bezzle increases rapidly," as it did in the late twenties. "Just as the boom accelerated the rate of growth," he went on, "so the crash enormously advanced the rate of discovery."

Sorkin traces the fates of Albert Wiggin and Richard Whitney, who, at the time of the crash were, respectively, the C.E.O. of Chase National Bank and the vice-president of the New York Stock Exchange. Both men were involved in the failed effort, orchestrated by Lamont, to stabilize the market. In 1932, Wiggin went on to become a director of the Federal Reserve Bank of New York. But, during the Pecora investigation, which began that same year, it emerged that, beginning in September of 1929, Wiggin had secretly shorted the stock of his own bank, using a pair of companies he owned to make the trades. He was forced to resign from the Fed. In 1930, Whitney, the scion of a prominent New England family, became the president of the stock exchange, but he was ultimately exposed as an embezzler and served more than three years in Sing Sing.

On being reminded of stories like these, it's tempting to cast the leaders of nineteen-twenties Wall Street as a bunch of crooks. Sorkin resists the impulse. In an afterword, he writes, "The difficulty is that, other than the disgraced Richard Whitney and Albert Wiggin, it is hard to make the case that any of the era's other major financial figures did anything appreciably worse than most individuals would have done in their positions and circumstances." Given the role that Wall Street's elite played in inflating and promoting the bubble, this is either a generous view or a jaded commentary on the fallen nature of mankind. In any case, though, it's true that speculative booms tend to take on a life of their own, creating incentives and opportunities that warp people's judgment at all levels of the economy, from small investors and professional intermediaries to major corporate and financial institutions.

One aspect of the current boom that hasn't received sufficient attention is how it has extended from the stock market to the credit markets, where there has been enormous growth in so-called "private lending" by non-bank institutions, including private-equity companies, hedge funds, and specialized credit firms. Last week, news organizations reported that the Department of Justice had opened an investigation into the collapse of First Brands, an acquisitive Cleveland-based auto-parts firm that, with Wall Street's help, had apparently raised billions of dollars in opaque transactions. One creditor told a bankruptcy court that up to \$2.3 billion in collateral had "simply vanished," and called for the appointment of an independent examiner. A lawyer for First Brands said the company denied any wrongdoing and attributed the collapse to "macroeconomic factors" beyond its control.

The sudden demise **of** a single highly leveraged company that operated **in** a sector **far** from the A.I. frontier may be a one-**off** event, **with** no broader implications. Or it could conceivably be a harbinger **of** what lies ahead. We won't know **for** a while—perhaps a good while. But **in** the words **of** the nineteenth-century English journalist Walter Bagehot, whom Galbraith quoted, “every great crisis reveals the excessive speculations **of** many houses which no one **before** suspected.” This time is unlikely **to** be different.