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# The Great Crash, 1929 by John K. Galbraith

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## Book Reviews

THE GREAT CRASH, 1929, by John K. Galbraith. Boston, Houghton Mifflin, 1955, 212 pages, \$3.00.

No one would deny that lawyers or at least the successful ones, need a pretty extensive knowledge of "investments" in order adequately to serve their clients. This means a knowledge of stocks and the stock market. Some lawyers know nothing at all about either. Some have a "working knowledge," which is the same thing. A few are good, which probably explains in large part why they have the most extensive of trusts and estates practices. To see the need, and I suspect, also some of the lack of fulfillment, one need only read the chapters on "Investments," "Prudent Man Rule," "Legal Lists," etc., in such standard works as Shattuck's *An Estate Planner's Handbook* and Stephenson's *Drafting Wills & Trust Agreements Administrative Provisions*.

*The Great Crash* will not give any lawyer an education in stocks and the stock market. But it is a grand little book, written in the best of literary styles, which goes a long way toward helping one understand the way in which the system is supposed to work and some of the reasons why and how investors and the public en masse occasionally keep it from working that way. For the law student I would venture that a careful reading of this book together with Judge Medina's opinion in the investment banking anti-trust case, *U.S. v. Morgan*, 118 F. Supp. 621 (1953), and perhaps Judge Shientag's opinion in *Litwin v. Allen*, 25 N.Y.S. 2d 667 (1940), would provide an excellent start towards an understanding of how the system works for bringing about financial intercourse between people who have inventive ideas and those who have capital.

It is not a scholarly treatise; it is not an analytical study of forces economic. It is a well-written account of what happened to a great economy in an incredibly short time. From its opening sentence, "Some years, like some poets and politicians and some lovely women, are singled out for fame far beyond the common lot, and 1929 was clearly such a year," the reader is absorbed in an economic tale that is well worth telling. But it is economics of a different sort from what most of us as former students in college survey courses have come to expect of economists. There isn't, as I recall, a single graph, nor a single chart, nor even many statistics. Such a format was chosen, I suppose, because Mr. Galbraith elected to write about what happened when the end came, how we knew it was an end, how it happened and, most importantly, how long it took us to know, first, that it was the end and, second, how ragged the break would be.

*The Great Crash* is at its core the story of seven days which occurred

during a span of two months. For eighteen months or so prior to these fateful seven days, a relatively small segment of the American public had been on a speculative orgy. Perhaps the most absurd performance of all was that of "Radio" which rose to nearly 500 without ever in its history having paid a single dividend. A few sages of "the street" thought the country might run out of common stocks. However, this danger was avoided, in part at least by the development of the investment trust. Incidentally, the brokers and the investing public reached truly heroic madness in the use of these trusts — at least one set of incestuously investing investment trusts (sponsored of course by what was then and is now one of the most respectable and respected houses) issued a quarter of a billion dollars worth of securities in less than a month. By 1929 every city, most towns and even a few hamlets began to think that they too should have stock markets. Truly, it seemed that the whole country was common stock oriented although only one and one-half million people were actually investing and of these only six hundred thousand were "on margin," that is to say, real speculators.

Then came the seven fateful days, September 5 and October 19, 21, 23, 24, 28 and 29, 1929. They brought to the United States a truly ghastly experience for they were the days of the greatest of all stock market collapses. The most remembered of all seven days, October 24, we all know as "Black Thursday." But the following Tuesday, October 29, was by far the most devastating day in the entire 138 year history of the New York Stock market. 16.4 million shares were traded on that one day (before 1929 for many years the dream and goal had been to see a 5 million share day and on July 8, 1932, only 700,000 shares were traded), the Times Industrial Average slid a whopping 43 points, and the investment trusts were wrung dry.

But the collapse was by no means the end. It was only the beginning, for with even the blue chip stocks now in the bargain class many people stepped up to what they thought was the basement counter of early November, 1929, to make fortunes out of the scattered little pieces of other people's fortunes. Instead, from October 30, a day of miraculous recovery, until June of 1930 there was a steady succession of climax and anticlimax, each week seeing new bargain seekers picking up the pieces of last week's bargain seekers now gone through the wringer. June of 1930 saw the beginning of a solid two years of steady, sickening decline.

For those of us who are adult and yet too young to remember with the vividness that could come only from having been "caught in the market," the facts and figures are astounding. Indeed, part of Mr. Galbraith's declared purpose is to help burn the memory a little deeper in the public consciousness on the theory (which he shares with many) that the mere

memory of the crash is a strong deterrent to the speculation which bred it. Between September 3, 1929, "the end of the 1920's bull market" and July of 1932, the nadir of the collapse, the Times Industrial Average plummeted from 452 to 58, U.S. Steel from 262 down to 22, General Motors from 73 to 8, American Telephone and Telegraph from 304 to 72 and Montgomery Ward from 138 to 4.

I doubt that anyone will agree with Mr. Galbraith when he suggests, referring to the fantastic boom in the summer of 1929, "Perhaps it was worth being poor for a long time to be so rich for just a little while." It was a period which the delightful euphemisms of brokerese would call something on the order of "a period characterized by a generally downward trend in price movements in the main body of stocks although selected issues intermittently displayed the characteristics of a major recovery temporarily forestalled for technical readjustment." Translation: times were tough and getting tougher!

There is neither need nor room for summarizing here Mr. Galbraith's main themes of cause and effect. For the most part they seem standard. Unhappily, however, there is also no room for summarizing his underlying Veblenesque minor themes of the system, the "no business" meeting, the U.S. ritual for "reality by affirmance," particularly by persons in high places (Mr. Galbraith also calls it "faith in the efficiency of incantation"), the perhaps uniquely American faith in men who are "in on things," the art — particularly in the field of public administration — of "stimulating action when action is impossible" and the faith in "pronouncements stamped with authority," particularly financial authority. These, sprinkled throughout the book, perhaps a little too freely, must be left for the reader's own palate.

There are numerous discussions which will be of special interest to the lawyer. For the lawyer interested in criminal law, particularly crimes of first-offenders, there is an interesting discussion in Chapter VIII of the rise and fall of the embezzlement rate and of the discovery of such speculations (Mr. Galbraith refers to the money taken as the "bezzle") with the rise and fall of the business cycle. It seems that the crime rate increases during a boom while the rate of discovery is decreasing, and the crime rate decreases during a depression while the rate of discovery increases. The property law teacher, at least if he is a Hohfeldian, will be equally interested in the discussion in Chapter II of the "binder" used during the Florida real estate boom, and the margin system of stock investment, which, particularly during the summer of 1929, contributed greatly to the maddened rise of the stock market. Both of these devices, according to Mr. Galbraith, were designed primarily to separate from all other aspects of property ownership, the prospect for an early rise in market value, thereby permitting the speculators to speculate (read: gamble?) with the least amount of fuss and bother

inherent in the responsibilities of full ownership. As a matter of fact, the margin system does the binder system one better, for the speculator also gets the current dividend income of the stocks he has purchased on margin.

In conclusion, I am left with one great area of wonderment. Some people say today "beware lest it happen again"; some talk, which Mr. Galbraith assures us was characteristic of 1928 and early 1929 seems to be appearing again. The National City Bank of New York (one of that most revered of all types of economic institutions) in its Monthly Letter for November, 1955, quotes from a speech of Dr. Arthur F. Burns, Chairman of the Council of Economic Advisers (a position of high authority, particularly sounding of being "in on things" financial) as aptly describing the situation in saying "In an economy like ours, poised on a high plateau, neither the threat of inflation nor of recession can ever be very distant." (Certainly Mr. Galbraith would call this "incantation" or perhaps "reality by affirmance"). My wonderment: what does the non-speculating investor do with his money to keep from being crushed along with the speculators when the indices enter "a generally downward trend" from, say 450 to 50? It could happen. It did, you know.

D. C. OSMOND\*

**NINE MEN.** A political history of the Supreme Court from 1790 to 1955, by Fred Rodell, New York, Random House, 1955, 338 pages, \$5.00.

Fred Rodell, professor of law at Yale University, has recently completed a short history of the Supreme Court. He set for himself a difficult task: that of compressing the court's 165 year history into 300-odd pages. He has done an admirable job in his distinctive and pungent journalistic style.

Mr. Rodell is the author of many articles and several books in and about the law. Most of his writings have been directed at the every-day reader and not at his fellow legal technicians. The present volume is likewise aimed at the larger group of readers, but it may well cause more of a stir among lawyers and students of the law.

Although his style and phraseology might seem to indicate it, Mr. Rodell is not merely a popularizer. He knows the technical ins and outs of the law and the courts, and he has a carefully considered position in regard to his subject. If Mr. Rodell's philosophy of law can be categorized, I suppose it would come under the "legal realist" heading. His present-day Supreme Court heroes are Justices Black and Douglas. In his political outlook, Mr.

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