AMERICA

ONE DOLLAR AUGUST 29-SEPTEMBER 5, 1987

WHAT WE HAVE HEARD WHAT WE WILL SAY

STATEMENTS OF THE SYNOD ON THE LAITY

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THE GATHERING GLOOM

IS 1929 ABOUT TO HAPPEN AGAIN?

Peter A. Quinn

Those aren't acorns dropping out of the heavens; they are the harbingers for the despondent stockbrokers and investment bankers of the Great-Crash-to-Come.

THE GATHERING GLOOM: IS 1929 ABOUT TO HAPPEN AGAIN?

By PETER A. QUINN

The poobahs rise and hold their poobah sway
till their use is over
and other poobahs hitherto unheard of
step into their shoes and sit at the big tables
and have their say-so
till events order the gong for them…
—Carl Sandburg

AS A CHILD I listened to my father discuss the Great Depression much as Noah's grandchildren must have listened to his account of the Flood. Time had not softened the terror. In the voice of the storyteller was undiminished amazement at how swiftly the antediluvian world was swept away, how a sky filled with sunshine suddenly turned black and rained down disaster. Despite the ark of the New Deal and an official assurance that it would never happen this way again, my father's eyes still filled with fear every time a cloud blocked out the sun.

From the go-go 1960's to the anything-goes 1980's, I remained my father's son. I carried a set-in-cement conviction that one day it would happen just as before, the Great Crash, the bank failures, the breadlines, the foreclosures, the army of unemployed, the whole megillah.

For the first 10 years after college, I lived strictly according to this faith, taking a civil service job, avoiding the responsibilities of marriage or children or debts, staying far away from Wall Street and enjoying a buoyant confidence in my own liquidity. But gradually, years of bright weather began to dry up my fears. Even the dullest of my acquaintances seemed to be enjoying success. Everywhere I turned I heard endless recitations of new wealth—second homes, designer clothes, foreign cars, European vacations, more stock options, bigger dividends, another raise.

In the high summer of the Reagan years, I became an object of derision. "Chicken Little," my friends called me. And for a while I almost came to accept that they were right and I was wrong. Almost. But lately I've come to realize that Chicken Little wasn't wrong, only ahead of his time.

In case you haven't noticed, Chicken Little is no longer a voice clucking in the wilderness. A whole brood of experts and economists now concurs: The sky *is* falling. Those aren't acorns dropping out of the heavens; they are the harbingers for today's despondent stockbrokers and investment bankers like those who, if the old chestnut were true, filed out on the ledges of Wall Street in 1929 as their ledgers turned bloody with losses.

Herein, of course, is an important difference between the age of Gatsby and the age of Boesky. Convinced that the sky was firmly nailed to the firmament and sure that, despite the occasional fall of a lowly acorn, the mighty oak of U.S. free enterprise would never topple, the children of the 1920's partied into the East Egg twilight, their final moments unsullied by the doom-mongering of prophetic poultry come home to roost.

In his masterly account of that time, *The Great Depression: An Inquiry into the Cause, Course and Conse-*

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quence of the Worldwide Depression of the Nineteen-Thirties as Seen by Contemporaries and in the Light of History (Harcourt Brace Jovanovich), John Garrity has detailed how pervasive was the calm before that storm. "It is quite clear," he writes, "that few people expected trouble in 1929, and almost none of those who did had any idea of how serious the trouble would be."

Henry Luce, for example, in the Oct. 21, 1929, issue of Time, announced the creation of his new business magazine, Fortune, this way: "It is a generally accepted commonplace that America's great achievement has been Business....With equal insistence, it is proposed that this magazine [Fortune] shall give to the record of Modern Industrial Civilization a distinction comparable to the intelligence which Business now attracts, and upon which it must increasingly rely."

Three days later came "Black Thursday" followed in short order by "Black Monday" and "Black Tuesday," a week of panic on Wall Street in which the roof, if not the sky, fell in on Business and stood Luce's generally accepted commonplace on its head.

Anyone reciting Luce's brand of optimism today would probably be given some Thorazine and told not to operate heavy machinery. The events of the Great Depression might be about to repeat themselves, but the presumption of perpetual summer that preceded the 1930's is nowhere to be found. The forecasts are for either rain or sleet or snow or perhaps all three rolled up into the gloom of night.

SINCE THE BEGINNING of this year, some of the major organs of informed opinion in this country, as well as several books, have announced that the economic rollercoaster has done about all the climbing it is capable of and stands poised on or near the point it did that fateful autumn of 1929.

In January, in The Atlantic, John Kenneth Galbraith led things off with an obituary for the economy entitled "The 1929 Parallel." The blurb above the title pretty much summed up the contents: "Will the stock market crash? History may not repeat itself, argues the author of *The Great Crash*, but the dynamics of speculation are remorselessly constant, and they, along with other ominous indicators, give no comfort to optimism." Galbraith speculated that the market's record drop in September 1986 had already "signaled the end." It hadn't. And realizing that he was perhaps rousing the bears from hibernation a bit too early, Galbraith wrote that, whatever the short-term situation, in the long run "the wise, though for most the improbable, course is to assume the worst."

He need not have worried. Despite the rise of the Dow Jones Industrial Average by over 25 percent in the first half of 1987, the bad news bears have grown ever more bullish on disaster.

On March 13, The New York Times ran a piece by Leonard Silk in the Business Day section that had to give pause to those yuppies intent on skipping to the stock quotations to total up yesterday's profits. "Comparisons With 1929-39," the headline read. According to Silk's sources, they were many. A worldwide glut of agricultural products. A chaotic structure of international debt. Speculative fever in the financial markets. Overvaluation of the world's major trading currency (the pound back then, today the dollar). Massive overbuilding in the construction industry. Incompetent and uncooperative leadership at the helm of the world's major industrial powers.

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The poobahs of international finance were getting indigestion from all this worry. "At one New York dinner party," wrote Silk, "attended by some of the heavyweights of the financial world from several countries, a leading Japanese banker said he was 'pessimistic about the future'...and blamed the United States for its inability or unwillingness to provide competent leadership of the international financial system."

In fairness, it should be noted that five days later, on March 18, The Times published another piece by Silk called "Why Markets Are Confident," in which the hope was advanced that since "there is widespread understanding of what caused the last depression," we should be able to "avoid another economic holocaust."

But where The Times grew cautious, The Wall Street Journal plunged ahead. On April 21 The Journal, the Homeric voice of the supply-side odyssey and the rosy-fingered dawn of a new age of capitalist expansion, published a three-column article, "Tales From the Dark Side: What a Market Crash Might Look Like." After a perfunctory bow in the direction of the It-Can't-Happen-Again School, there was a vivid picture of what it will look like when it does. One analyst is quoted as summing it up this way: "'The little guy in the market is going to get his clock cleaned....If he's not an investor, the best he'll get out of it is he'll lose his job.'"

By May, if Silk's Japanese banker was still in New York, his pessimism was probably deepening into despondency, at least if he was part of those dinner-party discussions that began, "Have you read the latest piece on the next depression?" For instance, Harper's May issue carried on its cover a detail from "The Board Room," a painting by Guy Johnson that depicts six grim, black-clad businessmen sitting around a table on which lies the body of a seventh. Inside, the feature essay by L. J.

Davis, "The Next Panic: Fear and Trembling on Wall Street," painted an equally ominous picture of the approaching Day of Judgment. According to Davis, the handwriting was on the wall, and if the general public was still squinting to make out its meaning, the yuppie insiders were already whimpering in their Medoc and shaking in their $250.00 imported English shoes: "A crash always proceeds in much the same way, and there is a historic consistency in the preconditions that make one possible—these things have been closely studied. And in the winter of 1987, as my well-to-do neighbors grew more wealthy still, more than a few of them began to suspect that these preconditions were being met."

Much like the preachers who are constantly seeking the sure signs of the Second Coming in current events, Davis ticked off six indicators that illiquidity is just around the corner. These ranged from the reconcentration of wealth in the hands of fewer and fewer people to the tottering structures of national and international debt.

Yet the most damning indicator of all was not to be found in the catalogue of economic sins but in the sinners themselves. These young Croesuses, neighbors of Davis in fashionable Brooklyn Heights, gathered nightly beneath the streetlights like so many crack dealers in less blessed parts of the borough and provided a convenient symbol of the high anxiety rising across the land: "... standing in the wintry street, breath wreathing their well-manicured heads, their figures trim with the ministrations of expensive health clubs, they whispered among themselves as if they were being followed by the police. They were in the middle of the biggest bull market in history. And they were afraid."

Fear was a growth stock in May. The crash didn't happen, but its inevitable arrival was embraced by a growing number of "twenty-niners" — i.e., those convinced the widening gyre was bringing us around to 1929, the rough beast slouching once again onto the floor of the New York Stock Exchange to announce a repetition of the Great Crash and the Depression it helped kick off.

On the left, as might be expected, the idea that the economic cycle was back on rinse was greeted with enthusiasm. The May issue of The Nation didn't hedge or equivocate. The message was blunt: "Why This is 1929 All Over Again." And the author of the piece, Michael Thomas, took note of the fact that the religion of economic doom was no longer just the opiate of left-wing intellectuals trying to deaden the pain of capitalist prosperity. It had now spread across the spectrum of political opinion. Indeed, as Thomas pointed out, "it is

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the calculation of the exact distance between horizon and abyss that distinguishes Cassandra from Pollyanna, both of whom chant the same litany of dire possibilities, the one muted, the other a piena voce" [in full voice].

Sotto voce, the May Forbes echoed The Nation's triumphant note of despair. The self-proclaimed Capitalist Tool refused to turn itself into a spade for digging the grave of the free market, but "A Checklist for Stock Market Prognostications" offered little comfort about the patient's chances.

First, Forbes presented what it described as "one incontrovertible Wall Street truth: All bull markets end." Then, without getting into the grisly specifics of the remembrance of things past, it recollected that sometimes the end of a bull market is "stiff enough to scare the pants off everybody."

Finally, ever so gently, its pants held firmly in place by a dignified set of verbal braces, Forbes confirmed The Nation's best fears: "Add it all up and the prudent investor must conclude that the time has come to position oneself against a major correction, not selling out blindly but taking some profits, building cash. That may involve missing out on some of the fun; sitting with cash is boring. But better bored now than broke later."

AS SPRING gave way to summer and as the market continued to move ahead—more slowly than in the first quarter but still avoiding any disastrous downturn—the forecasts continued to run the gamut from dismal to funereal. In The New York Review of Books of June 11, the perennially pessimistic Felix Rohatyn, who has predicted The End as many times as Frank Sinatra has retired from show business, was at it again. This time there was no mistaking things: "What appeared to be only a possibility five or six years ago became a probability more recently and has now become a virtual certainty. The only real questions are when and how."

Unnerved by such near unanimity on the approach of certain catastrophe, those fleeing to the beaches to stick their heads either in the sand or in a book would find little solace in the latter.

Topping the summer's economic book list for 1987 is Alfred A. Malabre's *Beyond Our Means* (Random

House). A respected editor and columnist for The Wall Street Journal, Malabre presents a terrifying brief for the twenty-niners. Things aren't merely as bad now as they were in that final Gatsby summer; they're significantly worse. "The reality," Malabre contends, "is that our economy is in many ways far more vulnerable to major disruption than was the case even in 1929, when the Depression struck."

Malabre uses the metaphor of a hurricane to describe what the future holds. In 1938, he writes, the northeastern coast of the United States was devastated by a killer storm that crashed ashore at flood high tide and swept a tidal wave over exposed and unprepared beach communities. In 1985, another hurricane duplicated both the power and path of the 1938 storm but, striking at low tide, did nowhere near the damage. That, according to Malabre, is the best we can hope for: When the storm has gathered its full fury and heads for shore, pray God it's low tide.

Prof. Ravi Batra sees no hope, not even in tides. Sounding somewhat like the Russian economist Nicolai Demitrievich Kondratieff, who formulated a theory of economic history in the 1920's that predicted a continuous cycle of depression, revival and uncertainty, Professor Batra emerges as the nonpareil of twenty-niners. His waves roll out of some cosmic epicenter with a divine mandate to sweep all before them.

In his book *The Great Depression of 1990* (Simon & Schuster)—a hot read for the summer of 1987—Dr. Batra tells you everything you wanted to know about inexorable economic ruin but were afraid to ask. Here is the twenty-niners' equivalent of the biblical Book of Revelation, a ferocious invocation of the Final Days and the small number who will be counted among the saved. Sell all you have, Professor Batra advises, because in the Great Tribulation ahead the only hope of salvation will be the cold, hard god called Cash.

As Christopher Lehman-Haupt wrote in his review of Dr. Batra's book in The New York Times (June 18, 1987), "There is an aura of the crackpot about it." But before the question arises why The Times rather than The National Enquirer was doing the reviewing, it should be noted that not only is Dr. Batra the author of several respected books on economics, he also teaches economics at Southern Methodist University. The foreword to his book wasn't written by some returnee from a trip aboard a U.F.O., but by the respected economist Lester Thurow.

Although the review in The Times takes issue with "the tone of the crank" in Dr. Batra's writing, it nonetheless ends with two lines that seem to sum up the gathering gloom: "It all sounds very far out. Which is what makes you worry that he might be right."

On Wall Street the party is still on. The takeover fever that seemed to cool with the fall of Ivan Boesky and the Eliot Ness-style raids on some of the big brokerage houses is once again raging. The paper presses are churning out new issues of junk bonds. The lifestyles of the rich and famous continue to grow richer and more infamous. But there's been a change in the air. The partygoers seem haunted by the same disquietude as those Pompeians who sat down to dinner at tables where the dishes danced with the rumbling of nearby Vesuvius.

WILL IT HAPPEN again? Of course it will.

Consider the growing consensus about the significance of all these acorns falling on our heads. But in the midst of this symphony of certainty there remains a note of doubt that is best sounded by John Garrity in his account of what is, at least until this point, *the* Great Depression: "...the ebb and flow of economic activity retains an element of mystery....Economics is a science, but one that, like history, explains how things got to be the way they are far more accurately than what they are going to be like at some future date."

Put differently, I once got a fortune cookie with the message, "He who makes living from crystal ball should be prepared to eat ground glass." It is just possible the perverse imp charged by God with defeating our best efforts to discern the shape of things to come has another surprise as stupendous as the one unleashed in 1929. This time, perhaps, in order to confound the would-be wisemen, the imp will inflict on us a whole new era of outrageous growth and wealth and prosperity.

Look, I'll be 40 this year. In the past five years, I've married, had a baby, bought a co-op and invested in stock.

This Chicken Little is keeping his feathers crossed. ■

August Mirage

Driving across Death Valley and past Ghost Town,
I'm back from my desert home to those
wind-tousled banks of the Yangtze:
each cactus down the furrow is a bristly head
of a peasant, each rock a water buffalo;
each road sign leads me to the Apricot Inn,
which Li Po frequented, carousing through the night,
and the freeway shimmers, liquefying fast
into the old river I knew.

In the sky a single cloud glides on.
I take it for a sampan that carries me
all the way back to Chungking, Fu Ling,
and discharges me into a farmhouse,
like a package returning for a better address.

STEPHEN SHU-NING LIU