The Great Myths of 1929 and the Lessons to be Learned. By HAROLD BIERMAN, Jr. New York: Greenwood Press, 1991. Pp. xii + 203.

This book contains 11 chapters reviewing the events leading up to and following the 1929 stock market crash, relating them to the 1987 crash, and analyzing current policy debates concerning securities markets. Professor Bierman clearly states that one of his motivations in writing this book was to challenge the commonly held beliefs popularized by John Galbraith's book *The Great Crash, 1929*. As such, this is a wonderful example of revisionist history.

I first read Galbraith's book as an undergraduate student of economics. At the time I was impressed with the veracity of Galbraith's analysis and his colorful prose. I came away from that book convinced that the 1929 crash was an irrational speculative bubble (although formal definitions of bubbles were much less well-developed then.) Motivated by Bierman's book, I recently read Galbraith's book again and I am still impressed by his witty prose. In comparison with Bierman's book, however, Galbraith presents very little structured analysis or evidence. Instead, he emphasizes anecdotal accounts of investors who lost a lot of money by making risky investments.

With the blinding light of 20-20 hindsight it is obvious that stock prices fell fast during late October and early November 1929. Given this fact, people who held risky investments, such as leveraged margin investments, lost a lot of money. Bierman asks: "Should it have been obvious to rational maximizing investors that the 1929 crash was likely to occur?" Even a casual reader of Galbraith's book would have to answer yes to this question, and I am not aware of other significant efforts to contradict that conclusion. Bierman shows that the 1929 crash was not easily foreseeable. Thus, I think Bierman's book is an important contribution.

Macroeconomic Events Around 1929

Bierman presents much evidence that the 1920s were a period of unusually high economic growth. He shows that in October 1929 there were few signs of an imminent recession, much less the disastrous economic events now known as the Great Depression. Given the information available to investors and economists at the time, it is not surprising that Irving Fisher and other notable economists were not predicting a large drop in stock prices.

Bierman analyzes the behavior of the Federal Reserve Board in setting monetary and credit policies before and after the 1929 crash. He concurs with Friedman and Schwartz (1963) that the Fed made crucial mistakes during this period because it was preoccupied with stopping stock speculation and did not focus on the effects that credit-tightening would have on the real economy. He lays much of the blame on Adolph Miller as the intellectual leader of the Fed following the death of Benjamin Strong in 1928.

Strong was the governor of the New York Federal Reserve Bank from 1914 to 1928. He felt that the Fed should not try to use its credit or monetary policies to try to influence stock market trading. Miller was an economics professor who had been at Harvard, Chicago, and Cornell. He was an advocate for restraining stock market speculation by restricting credit. As shown by many quotations from Federal Reserve Board minutes, Congressional transcripts, and newspaper accounts, Miller and the other Fed members became preoccupied with the stock market in 1929.

The policies followed by the Fed before and after the 1929 Crash had a disastrous effect. Deflation, massive unemployment, and unprecedented levels of bank failures occurred during the early 1930s. Bierman does not say that the Fed was solely to blame for the Great Depression, but he clearly does not think that underlying economic conditions caused the stock market crash. Instead, he argues that Fed policies affected the stock market sooner than other sectors of the economy.

Stock Market Valuation

Bierman provides several analyses of the level of stock prices in 1929 compared with the earnings of these companies and the growth rate of earnings in the recent past. He uses several versions of dividend discount models to show that the P/E ratios in 1929 were not obviously too high. This analysis is performed for the aggregate stock market and for individual stocks. Chapter 4 is devoted to a detailed analysis of the Radio Corporation of America, which has been frequently cited as a stock subject to excessive speculation in 1929. Bierman criticizes such notable authors as Burton Malkiel (1975) and J. B. Williams (1938) for concluding (based on prescient hindsight) that P/E ratios were obviously inflated by rampant speculative fervor by the fall of 1929. As Bierman shows, based on the information that was available in 1929, rational investors using plausible assumptions about future growth of earnings and dividends could justify the level of stock prices.

Bierman does not imply that the 1929 crash was not justified by subsequent events. Instead, he criticizes the many notable authors who have let their analysis of stock market conditions in 1929 be colored by the crash and the events that followed. I laud Bierman for enforcing this discipline on future students of economic history.

Pools, Fools, and Scandals

Perhaps the most interesting parts of Bierman's book are Chapters 8 and 9 where he reviews the oft-repeated claims that massive frauds were common in pre-1929 securities markets. Besides Galbraith (1961), Bierman criticizes Pecora (1939) and Malkiel (1975) for perpetrating myths about fraud and manipulation.[1]

[1] Ferdinand Pecora was the counsel to the Senate Committee on Banking and Currency that held hearings leading to the 1933 Securities Act and the 1934 Securities and Exchange Act. In many ways he was the Rudolph Guiliani of the 1930's.

One of the stories Bierman relates is about Charles Mitchell, the President of National City Bank, who lost $2.5 million by the end of 1929 buying National City Bank stock while it fell from a high of $576 to about $375 per share. Mitchell was indicted, but later acquitted, in a tax avoidance case related to stock losses. There is no evidence of securities fraud or manipulation in Mitchell's behavior.

Albert Wiggin, the President of Chase National Bank, sold short 42,000 shares of Chase stock between September 23 and November 4, 1929, making a $4 million profit. Bierman points out that Wiggin retained a net long position in Chase stock throughout this period, so his wealth declined due to the drop in Chase's stock price. Bierman estimates that Wiggin and his family lost over $40 million from 1929 to 1932 from their investment in Chase stock. The prohibition against short-selling by insiders that was included in the 1934 Securities and Exchange Act was probably motivated by cases such as Wiggin's. If Wiggin had simply sold some of his stock, and repurchased it after the crash, it would be legal even under today's laws.

Bierman also analyzes the roles that investment pools, margin loans, and short-selling may have had in causing or contributing to the 1929 crash. He casts doubt on the importance of any of these factors as important causes of the 1929 crash.

What Caused the 1929 and 1987 Crashes?

Bierman reviews the stories in the popular press around both the 1929 and 1987 crashes to identify potential suspects. He is careful to point out the weaknesses in most of these arguments. In the end, he concludes that we do not know why price fell so rapidly in 1929 or in 1987.

These crashes have some things in common. In particular, the size of the percentage drop in stock prices on October 28 and 29, 1929 and on October 19, 1987 is unprecedented in United States' history (see Schwert (1990)). Also, these crashes created political pressure for new regulations of securities markets (the Pecora hearings in 1933 and the Brady Commission Report in 1988.) One important difference that Bierman is careful to emphasize is that the 1987 crash was very short-lived, whereas stock prices fell by large amounts from 1929 to 1932, after the October 1929 crash. This reflects the differences in economic circumstances—the Great Depression had every major economic indicator performing poorly throughout the world, while there was no recession following the 1987 crash.

Conclusions

I think that Professor Bierman's book should be required reading for any student of economic history who is interested in financial markets. It provides an excellent example of how to analyze events in the context of the information that was available to people at the time. In contrast, the analyses of the 1929 crash put forward by Galbraith (1961), Pecora (1939), and Malkiel (1975) are reminiscent of the post-mortem's provided by financial analysts after every trading day. If stock prices fell, the information content of the analysis is frequently limited to a statement like: "The sellers outnumbered the buyers today." Students of financial economics deserve better, and Harold Bierman has delivered it.[2]

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Currency Risk and Business Management. By ALFRED KENYON. Oxford: Basil Blackwell, 1990. Pp. vi + 260.

It is often argued that foreign exchange risk management has long abandoned the narrow domain of international treasury management to graduate to the realm of strategic decision-making. Kenyon's *Currency Risk and Business Management* attempts just that: by broadening the confines of currency risk—generally construed as a financial risk to be managed by an ever multiplying array of hedging instruments—the book elevates the debate to more strategic horizons. As the author states:

> . . . few currency risks are just something for the financial specialists . . . some are purely financial but many more are problems or opportunities of the whole business. Famous companies like Laker Airways and J. Lyons have ascribed their demise to currency losses . . . exchange rate movements affect how the business wins orders from customers, how it keeps costs competitive, or whether an overseas subsidiary stays solvent. Few of these issues can be managed by the mere use of currency market instruments. (p. 1)

Currency risk, however, clearly originates in the foreign exchange market and accordingly Part I introduces the reader to the world of international financial economics. Chapters 2 and 3 sketch the "Four Stooges of International Finance," namely Interest Rate Parity (IRPT), Purchasing Power Parity (PPP), the International Fisher Effect (IFE), and forward exchange

[2] I want to thank Harold Bierman for making a few expositional suggestions that improved the clarity of this review.