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Trump Is Pushing Us Toward a Crash. It Could Be 1929 All Over Again.

By William A. Birdthistle

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President Trump's Halloween party at Mar-a-Lago, set to the theme of "The Great Gatsby," re-enacted the decadence of that story's licentious era: befeathered flappers shimmying in the crowd; gilded and onyx décor; scantily clad women posing in an enormous champagne coupe. The revelatory moment says so much about where we stand today — and what we could be lurching into next.

Published a century ago, F. Scott Fitzgerald's "The Great Gatsby" captured the culture of an overheated economy on the brink of demise. Just as Jay Gatsby fell from the height of fortune to an ignominious death, the 1920s roared with financial overindulgence until the markets drowned in the Wall Street crash of 1929. The Great Depression followed, and the consequences for the global economy proved calamitous.

Today we find ourselves again dancing toward new highs in the stock market. Speculative money is once more pouring into risky investment schemes, with staggering sums of money being thrown at artificial intelligence and cryptocurrencies. But rather than heed a century of hard-won lessons, the Trump administration's financial regulators are embracing dissolute policies to keep the punch flowing.

The financial excesses of 100 years ago teach us how high the costs of negligent oversight of our markets can be. When sentinels sleep, fraudsters flourish; their frenzied celebration of unreal profits pumps froth into the market; ultimately, with panic and pain, bubbles will burst. As stages of that cycle are recurring, we must decide whether to intervene now — or to mop up the mess later.

The parallels between the 1920s and the 2020s are numerous — and ominous. The 1920s economy boomed while America recovered from a deadly pandemic, the flu of 1918. Americans used installment plans — the precursor to today's ubiquitous "buy now, pay later" plans at online checkouts — to spend liberally on consumer products, and they poured money into speculative new investments. Automobile and telephone stocks were the high-flying tech investments of their day; Tesla and Apple are two of ours. Sign up for the Opinion Today newsletter Get expert analysis of the news and a guide to the big ideas shaping the world every weekday morning. Get it sent to your inbox.

The prevailing interest rate was around 5 percent, as it is today. And as with today, masses of Americans took advantage of easy credit and ubiquitous stock brokerages to

speculate in finance. In 1929, a New York Times editor quoted a major newspaper's financial expert who said that the "huge army that daily gambles in the stock market" had come to include, in the editor's words, "the woman nonprofessional speculator," whose share of market trading grew by one estimate from less than 2 percent to 35 percent. That influx of buying from 1919 to 1929 drove the stock market up more than sixfold over the decade — a growth rate our market has actually surpassed over the past three years.

Nick Carraway, the narrator of "The Great Gatsby," was a bond salesman. Today he might work for a crypto exchange or Robinhood, the popular app that allows neophytes to bet on financial options like a game on their smartphones. Robinhood makes a good deal of money from the interest its users pay to borrow money to buy yet more investments. Investing on margin, as this practice is known, was a major source of the surge that drove markets to perilous heights in the 1920s. And when stocks began to fall, margin calls — the demands for loans to be repaid by selling the stocks, if necessary — were a major accelerant of the crash.

In the '20s, America did not have any federal securities regulators, offering irresistible temptations to charlatans.

It was the era of Charles Ponzi, whose last name became synonymous with the classic pyramid scheme in which outlandish returns are delivered only by pilfering the funds of new investors. Today's analogous innovation is the cryptocurrency "rug pull," in which investors are lured by stories of stratospheric returns on new tokens, only to be left with little or nothing when the promoters disappear with the assets.

Without federal rules to force financial advisers to disclose essential facts about their offerings, they could easily dupe mom-and-pop investors into buying worthless investments at inflated prices. Another racket involved advisers buying a stock, directing their fund to invest in it and profiting from its rise in price. A rising tide lifted even the least seaworthy financial tubs.

Ultimately, the unsustainable cannot be sustained. Between 1929 and 1932, the stock market dropped 77 percent, and the global economy staggered into the Great Depression while unemployment and malnutrition spiked. In 1932, suicide rates soared to their highest in recorded history.

Financial failure on such a massive scale taught America important lessons, including the need for prudent regulation. Franklin D. Roosevelt, who swept into the presidency with 472 of 531 electoral votes and a mandate to launch his New Deal, signed waves of legislation to restore confidence in the American financial system, including the securities laws that created federal rules and an agency — the Securities and Exchange

Commission — dedicated to their enforcement.

The chief mandate of those rules was to ensure that anyone soliciting investment from the public told the world about their operations — and was held responsible if they omitted crucial information or materially misstated the facts. Any companies that chose not to release such information would have to limit their pitch to small numbers of investors or to sophisticated investors who could fend for themselves. This policy has worked spectacularly well for decades, pulling America's capital markets out of the smoldering ruins of devastation to become the largest, deepest and most efficient in the world.

Four years ago, the economist Robert Shiller expressed concern about the stock market's lofty heights, but he concluded that there was "no particular reason" to expect a market collapse "as bad as the 1929 crash" because "the government and the Fed have shown themselves to be far more adept in staving off prolonged recessions than their predecessors." Today, with the S&P 500 over 60 percent higher than it was the day Mr. Shiller issued his warning, we should be heeding the words of the former Federal Reserve chairman William McChesney Martin, who warned that market stewards must be willing to serve as the "chaperone" who can order "the punch bowl removed just when the party was really warming up."

Mr. Trump has been ordering the chaperones removed. Since January, his administration has been firing regulators and vigorously tearing down the guardrails that have kept our markets thriving for nine decades.

For the first time in a century, the S.E.C. is seriously exploring how to allow firms and funds to sell investments to masses of Americans without registration or disclosure. The administration is even encouraging individual retirees to vouchsafe their life savings to exotic financial offerings like private equity. Private equity is, as the name suggests, notoriously opaque, which means retirees would know little about what they're investing in. The White House and the private fund lobby argue that this policy will "democratize" access to alternative assets and promote "better returns." But such a plan, which comes with neither the information nor the protections needed to defend investors from serious economic risks, is as compelling as a plan to "democratize" brain surgery.

Mr. Trump is also allowing financial regulators to atrophy: The five-person Commodity Futures Trading Commission, tasked by this administration to oversee significant portions of the crypto and prediction markets, has dwindled to a single member. Only two of five statutorily mandated S.E.C. commissioners are serving in their normal terms; the lone remaining Democratic appointee, Caroline Crenshaw, is in her post-expiration grace period, and warning that the agency's policies are "a reckless game of regulatory

Jenga.”

The agency’s chair has declared “a new day at the S.E.C.” But the lamps are going out all over the agency: Staff has been cut by 16 percent (substantially more than the 10 percent of a literal decimation), quarterly reports are on the chopping block and forms that provide intelligence about dark corners of the market are being repeatedly deferred.

Meanwhile, Mr. Trump is relentlessly browbeating the Federal Reserve to lower interest rates. That could also, as it did in the 1920s, overstimulate an already-lofty stock market. And all that money chasing too few goods is what leads to inflation — a problem that takes longer to develop and is devastating when it arrives. Mr. Trump may no longer be president when that bill comes due. For now, his administration is stamping on the gas while turning off the headlights. And as Fitzgerald warned us in the climactic scene of “The Great Gatsby,” terrible consequences come from automobile accidents in the gathering darkness.

Mr. Trump may want to take a moment to recall that neither the novel nor the 1920s ended well. Wise rules are a source of abundance. Well-regulated systems attract users, just as well-regulated markets attract investors. This administration professes to be so concerned about lawlessness that it is deploying troops to confront American citizens in our own cities, while it removes the constables patrolling our financial markets. The U.S. capital markets became the world’s largest not despite regulation, but because of it.

Mr. Birdthistle served as director of the Division of Investment Management at the U.S. Securities and Exchange Commission from 2021 to 2024.