

Ferdinand Pecora and the 1929 Stock Market Crash

Members of Congress from both parties spent the years following the Stock Market Crash of 1929 and the ensuing Great Depression attempting to understand the causes of the financial devastation, with limited success. The Senate Committee on Banking and Currency authorized an investigation in 1932 that only picked up steam in 1933 after a staff member named Ferdinand Pecora took over the investigation in January of 1933.

Pecora Takes the Lead

The committee had earlier focused on the practice of **short selling** stocks but failed to obtain key bank records and held ineffective hearings that failed to attract public or media attention. When Mr. Pecora, a former prosecutor, joined the staff to write the committee's final report, he was alarmed by how narrow and incomplete the investigation was. He asked committee members to reopen the inquiry, and the Senate later approved Senate **Resolution 56**, which expanded the scope of the inquiry.

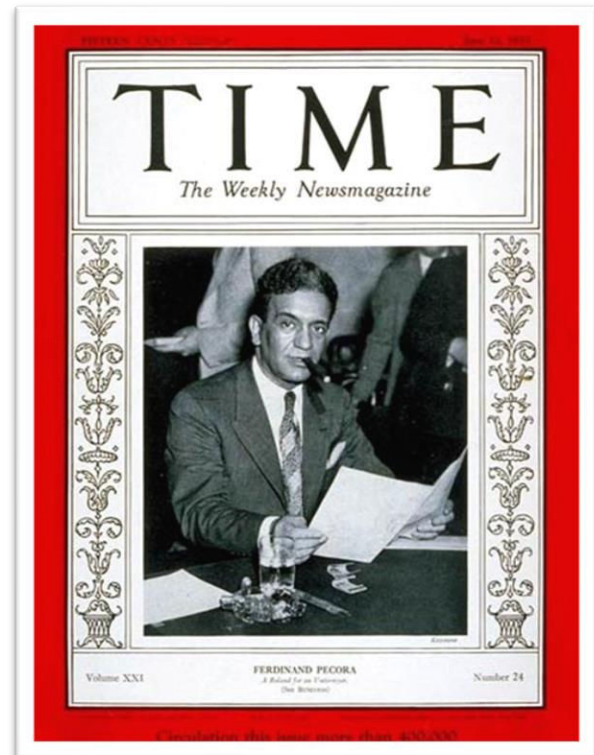
Over the course of the next two years, the committee investigation received support from both Presidents Herbert Hoover and Franklin Roosevelt, and bipartisan support from the Senate. On the

committee itself, regardless of which party was in the majority and the pressures on the

committee's limited budget, committee members stood behind Mr. Pecora and worked to support his investigative efforts. Eventually, the inquiry became known as the Pecora Investigation.

The Hearings

Mr. Pecora acted first to obtain key documents from multiple financial institutions. Rather than request the documents and wait for them to be delivered, he preferred to walk directly into a bank and hand-deliver a **subpoena**. He and his staff then waited for the documents to be compiled and produced on the spot, and the team worked through the night copying relevant records and examining the financial information.



Ferdinand Pecora on the cover of Time, June 12, 1933 (Source: Time)

Short Selling: When an investor borrows securities and sells them in hopes of purchasing them back for a lower price in the future.

Resolution: A type of legislation that addresses matters within one house (Senate or House of Representatives) that help that house conduct business, but do not carry the force of law. Resolutions do not require approval by the other house or the president.

Subpoena: A written order demanding a person to testify or share documents in a court or legislative proceeding. Failure to comply may result in a penalty.

Mr. Pecora then designed and led hearings that dominated the news. The committee called wealthy, powerful bankers and corporate executives from the country's financial center on Wall Street in New York City. No one else had attempted to hold them accountable for their actions. Unlike previous investigators, he scheduled hearings only when the committee's research had uncovered important facts and incriminating records. Hearing witnesses included:

- J.P. Morgan Jr., the most powerful financier of the time;
- Charles E. Mitchell, Chairman of National City Bank, then the largest U.S. bank;
- Richard Whitney, President of the New York Stock Exchange;
- Otto Kahn, senior partner at Kuhn, Loeb & Company, a wealthy investment bank;
- Albert H. Wiggin, former Chairman of Chase National Bank;
- Harry Sinclair, founder of Sinclair Oil;
- Jesse H. James, Chief of Reconstruction Finance Corporation; and
- John J. Raskob, former Vice President of Finance at DuPont and General Motors, and Chairman of the Democratic National Committee.



Anxious depositors gather outside Guardian Trust Company and National City Bank on Feb. 28, 1933, following announcement of new withdrawal rule. (Source: National Archives)

“At a time of considerable questioning of the capitalist system, the hearings personalized the causes of the Depression. By producing a string of villains, they translated complicated economic problems into moral terms. Bankers, Pecora demonstrated, had abandoned their fiduciary responsibilities.”

- *Congress Investigates*, p. 502

The investigation unearthed a host of Wall Street abuses, including unethical tax practices, insiders given investment advantages not available to the public, investors misled about substandard **securities**, the short selling of stocks, “pooling” techniques to manipulate stock prices, the underwriting and sale of shaky securities, interest-free bank loans to insiders and favored clients, and more. The highly publicized hearings led to shattered reputations, resignations, firings, and even prison sentences. It also helped educate the American public about the nation's financial institutions and how they'd contributed to the Great Depression.

Aftermath and Conclusion

In Congress, the Pecora Investigation laid the factual foundation for dramatic reforms to restrict unfair, unethical, or reckless financial practices and strengthen public protections. These bills were enacted with **bipartisan** support in Congress and with widespread support from the public.



Ferdinand Pecora, Chairman Duncan Fletcher, and J.P. Morgan, Jr. at the Senate Banking Committee hearings, May 1933 (Source: Records of the U.S. Information Agency)

- Glass-Steagall Banking Act of 1933: This law separated commercial banks from investment banks to prevent the diversion of deposits into risky investments, prohibited banks from trading on their own account instead of on behalf of customers, and created the Federal Deposit Insurance Corporation to insure the deposits of millions of Americans.
- Securities Act of 1933: This law required issuers of stock to register new securities with the government and provide the public with information needed to make informed investment decisions.
- Securities Exchange Act of 1934: This law established the Securities and Exchange Commission (SEC) to protect investors and monitor financial markets. It also established a filing system of public reports with the SEC about banks' operations, financial condition, and investors.

The Pecora Investigation proved once more, at a difficult time in the nation's history, that Congress could investigate a complex subject and enact needed reforms. It created a **precedent** for using congressional subpoenas to advance an investigation, compelling even the wealthy and powerful to comply with congressional information requests and using congressional hearings to expose wrongdoing and educate the public. This investigation is also unique in highlighting the critical role that congressional staff often play in oversight investigations. Ferdinand Pecora later served briefly as an SEC commissioner, before taking a seat on New York's Supreme Court.

Learn more about The Pecora Investigation:

- [Committee on Banking and Currency investigation of Stock Exchange Practices](#)
- [Federal Reserve History: Banking Act of 1933 \(Glass-Steagall\)](#)
- [Ferdinand Pecora: The Hellhound of Wallstreet](#)
- [The Man Who Busted the 'Banksters'](#)
- [Senate.gov: Subcommittee on Senate Resolutions 84 and 234](#)
- [When Washington Took on Wall Street](#)
- [Levin Center Portraits in Oversight: Ferdinand Pecora and the Stock Market Crash of 1929](#)

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