

## Ferdinand Pecora and the 1929 Stock Market Crash

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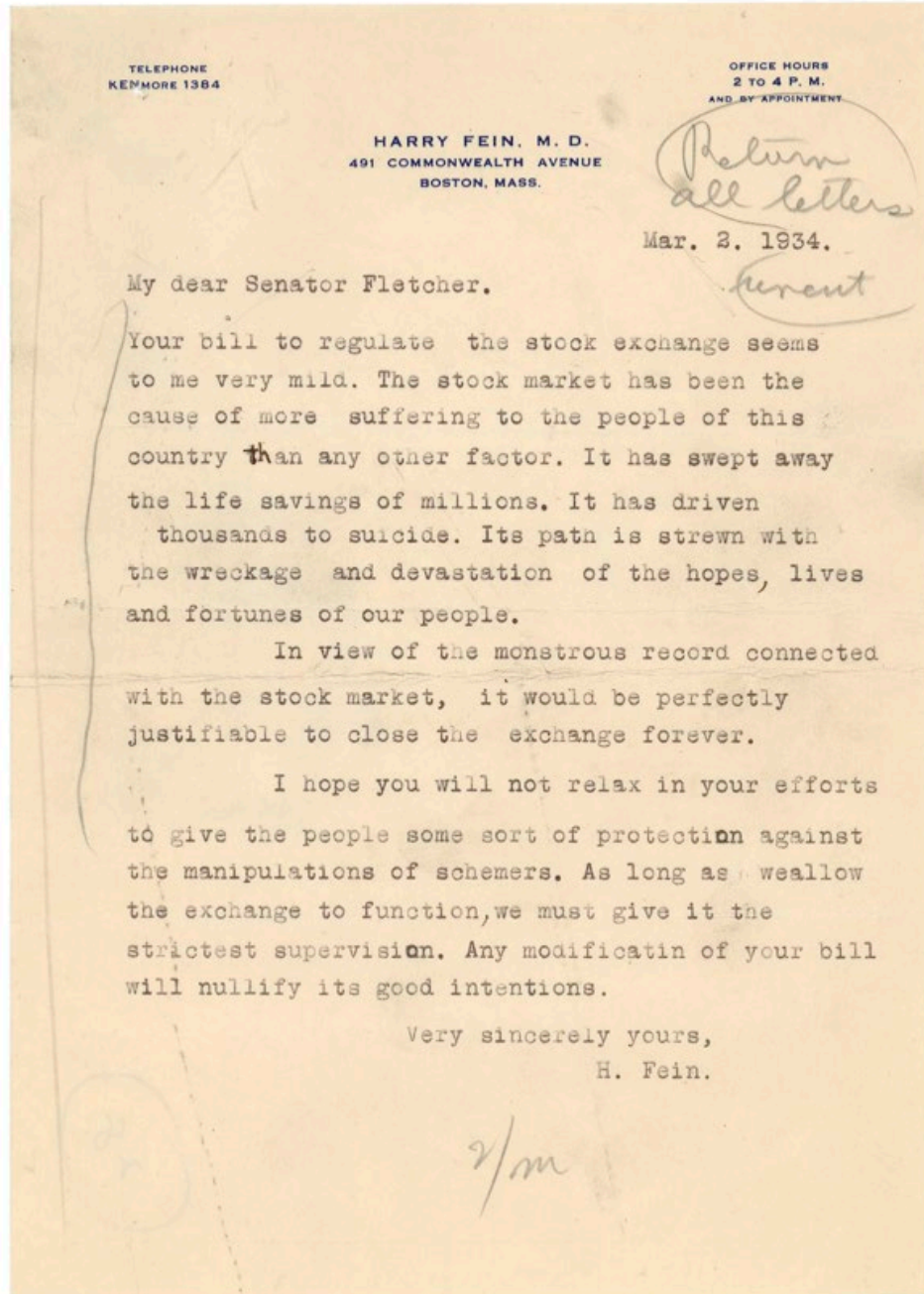
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**Staging the Question** Letter from Dr. Harry Fein to Senator Duncan Fletcher

Fein, H. (1934, March 2). Letter from Harry Fein Supporting the Securities Exchange Act of 1934. National Archives and Records Administration. <https://catalog.archives.gov/id/5049740>

*In this letter sent to the Vice-Chairman of the Committee that employed Pecora, a man writes to support reform legislation, using as evidence his own views on the suffering that has seen around him.*



**Snapshot****Ferdinand Pecora and the 1929 Stock Market Crash (Part 1)**

Ferdinand Pecora and the 1929 stock market crash • levin center. Levin Center. (2024a, September 20).

<https://www.levin-center.org/ferdinand-pecora-and-the-1929-stock-market-crash/>

## Ferdinand Pecora and the 1929 Stock Market Crash (Part One)

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.

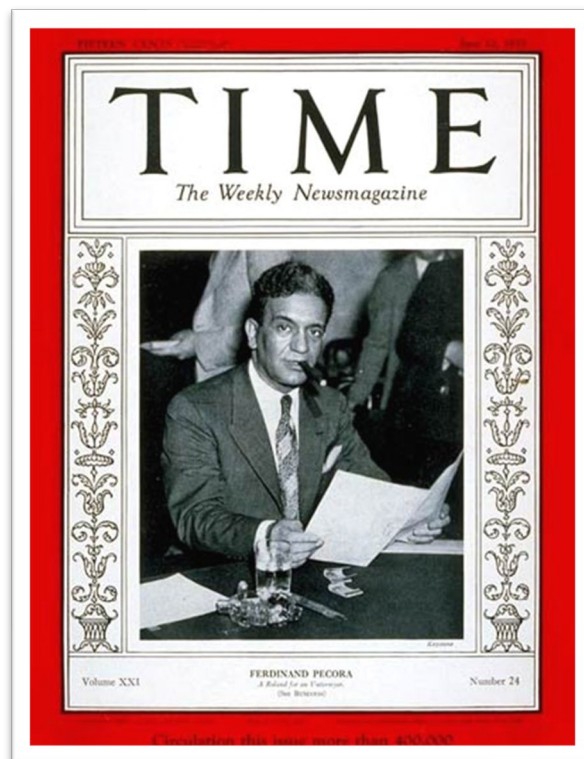
### Pecora Takes the Lead

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: A Critical and Documentary History, 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.

**Securities:** A broad term for any kind of tradeable asset with monetary value. This could be a stock, bond, or mutual fund.

**Source A****"Who Caused the Panic of 1929?" Adapted Article Excerpt**Willis, H. P. (1930). Who Caused the Panic of 1929? *The North American Review*, 229(2), 174–183.<http://www.jstor.org/stable/25110946>

This **panic** was not "inevitable." It was the result of gross carelessness or deliberate recklessness. The recording of its causes in frank language may help to prevent the recurrence of a similar situation.

**Panic:** Economic Depression. Prior to the Great Depression, economic depressions were referred to as "panics". President Herbert Hoover began using the term "depression" instead, to make the downturn sound less severe.

For generations our bankers have been expected to work hard to rein in hasty or flighty investors and encourage the advantages of saving over speculation. Yet within the past two years it has been indisputably true that these norms were abandoned by our banking community. Through their establishment of affiliated financing companies, banks have put themselves into a position as issuers of stocks. Investment trusts, shares in affiliates or associates, and similar securities of all kinds, have poured forth from the banks, while many

more have been issued by "groups," which were practically bankers and banking houses in another form.

The breakdown of 1929 was the result of willful mismanagement and violation of every principle of sound finance. It was the outcome of vulgar greed at the cost of the community. It has been a national disgrace and a source of untold national and individual loss. In paying the bill for it, the American people should think seriously about how they can best avoid running up another.





**Source B**

Pecora and J.P. Morgan, Jr.

Seventy-Third Congress, 2<sup>nd</sup> Session. (1934, June 16). Report of the Committee on Banking and Currency. Senate.gov.  
 Retrieved September 20, 2024, from <https://www.senate.gov/about/resources/pdf/pecora-final-report.pdf>

*After the stock market crash of 1929, the U.S. Senate Banking Committee initiated an investigation into what caused the crash. The committee hired Ferdinand Pecora, a tough lawyer, to obtain documents and design hearings to expose what happened. The following is an excerpt from a hearing in which Mr. Pecora questioned powerful leaders in the banking and securities industries.*

**Mr. Pecora:** Now, the question I asked you was this, in substance. As a banker. do you not think that the public, when it was invited to subscribe for these Republic of Cuba bonds, was entitled to know what the facts were with regard to the revenues and the expenditures of the Republic of Cuba for the preceding fiscal year?

**J.P. Morgan, Jr.:** I am disposed to think that that, taken by itself, would have given a misleading impression.

**Mr. Pecora:** It would have informed the public that the expenditures exceeded the revenues by nearly 10 percent, would it not?

**J. P. Morgan, Jr.:** Yes; but at the same time-

**Mr. Pecora:** And that fact would not have favorably impressed any prospective purchaser of these bonds, would it?



**Source C**

Pecora and Richard Whitney

Seventy-Third Congress, 2<sup>nd</sup> Session. (1934, June 16). Report of the Committee on Banking and Currency. Senate.gov.  
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**Mr. Pecora:** The stock exchange, as now constituted, is subject to no official regulatory power, is it?

**Mr. Whitney, head of the New York Stock Exchange:** Well, it is not an incorporated company, if that is what you mean....

**Mr. Pecora:** You know of none that has the power of exercising regulation over its affairs, do you?

**Mr. Whitney:** I will grant that there is none, Mr. Pecora. From a legal point of view, I perhaps do not follow you, but I will grant it. ....

**Mr. Pecora:** Is it easily possible for a group operating through the medium of a pool to exercise temporarily, at least, or for the purpose of the operation, a control of the market price? ...

**Mr. Whitney:** By bidding and offering; yes.

**Mr. Pecora:** By bidding and offering. Now, what steps, if any, does the exchange take to prevent that kind of control?

**Mr. Whitney:** I do not know of any, Mr. Pecora.



## Source D

New York Times Article "Lesser Exchanges Declared in Peril" Excerpt

Times, S. T. T. N. Y. (1934, February 24). LESSER EXCHANGES DECLARED IN PERIL. *The New York Times*, 7.<https://timesmachine.nytimes.com/timesmachine/1934/02/24/95475365.html>

## LESSER EXCHANGES DECLARED IN PERIL

### E. E. Thompson Tells Hearing That Groups in Other Cities Might Have to Quit.

Special to THE NEW YORK TIMES.

WASHINGTON, Feb. 23.—The Fletcher-Rayburn Stock Exchange Control Bill would drive all small businesses to Wall Street for capital and force many local exchanges out of business, with consequent loss to brokers and local investors, representatives of the American Association of Stock Exchanges told the House Committee on Interstate Commerce today.

Counsel for the New York Stock Exchange attacked the bill's constitutionality and Richard Whitney, president of the Exchange, continued his attack on its provisions.

"If this bill is passed many local Stock Exchanges will cease to function," said Eugene E. Thompson of Washington, president of the Association of Stock Exchanges, who spoke for nineteen markets outside New York.

"It will seriously impair if not destroy the value of securities markets, will reduce State and other taxes, throw thousands out of employment, and end the essential function of Stock Exchanges," said Mr. Thompson of the bill.

"Instead of being a measure for the protection of the investor in corporate capital, it may prove to be the most dangerous legislation of its character that Congress has ever enacted. There is anxiety and unrest on the part of security owners as to the next move, and should the bill be passed there is certain to follow an avalanche of selling—or efforts to sell—such as we have never before witnessed."

#### Attacks Legality of Bill.

Thomas B. Gay of Richmond, counsel for the New York Stock Exchange, declared that the bill was founded on the principle of a national government, whereas the Federal government had only such powers as were expressly delegated to it by the Constitution.

"The constitutional aspects of this bill make it a matter of gravest doubt whether there exists in the Constitution the power in Congress to regulate under this bill," he said.

"It is national in the sense that it depends on the exercise of inherent powers not delegated, and the Federal Government is one of delegated powers."

He doubted that the interstate powers of Congress gave it authority to regulate exchanges that did not affect the actual interstate movement of commodities.

Mr. Whitney's testimony today was brief and confined mainly to a defense of the specialist, who exerted, he said, a peculiar function and who was indispensable to the function of the exchange. Under questioning he denied that under the rules of the New York Exchange the specialist could deal for his own account to the detriment of his customers.

Another witness today was Arthur F. Hetherington of De Coppet & Doremus, New York odd-lot dealers, who explained the workings of such a house and declared that the bill as drafted would drive odd-lot houses out of business because they were dealers on the floor of the Exchange and because the nature of their business compelled short-selling.

Note: The Fletcher-Rayburn Stock Exchange Control Bill is better known as the Securities Exchange Act of 1934.





**Snapshot****Ferdinand Pecora and the 1929 Stock Market Crash (Part 2)**

Ferdinand Pecora and the 1929 stock market crash • levin center. Levin Center. (2024a, September 20).

<https://www.levin-center.org/ferdinand-pecora-and-the-1929-stock-market-crash/>

## Ferdinand Pecora and the 1929 Stock Market Crash (Part Two)

### 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.

- **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 (also known as the Fletcher-Rayburn Bill) 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.



*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)*

**Bipartisan:** Cooperation and collaboration between opposing political parties.

**Precedent:** A prior ruling or judgment that may influence future proceedings.

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.

