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Letters to the Senate Banking Committee about Wall Street Reform Legislation during the New Deal

Christine Blackerby

Early in 1933, shortly after the election of President Franklin Roosevelt, the U.S. Senate Banking and Currency Committee began receiving hundreds of letters from concerned Americans. They were closely watching the committee's efforts to find and fix the causes of the Great Depression that had consumed the nation for more than three years. Two letters received by the committee, featured in this article, show two perspectives of the public reaction to the committee's efforts to institute extensive reforms in the financial sector.

The Great Depression

After the 1929 stock market crash, President Herbert Hoover made several attempts to encourage financial firms to voluntarily reform Wall Street practices. He strongly believed that the federal government had no power under the Constitution to regulate the industry, and that the government's proper role was to encourage business to police itself. In a message to the 71st Congress at the end of 1930, Hoover said, "Economic depressions cannot be cured by legislative action or by executive pronouncement ... economic wounds must be healed by the action of the cells of the economic body—the producers and consumers themselves."

Several years after the crash, however, the economic body had not healed itself and the stock market remained unsound. Buying and selling securities (i.e., stocks, bonds, etc.) was extremely risky, especially for small investors who did not have access to inside information about a company's financial health. "The word 'securities' has almost become obsolete," wrote Frank A. Vanderlip, former president of the National City Bank of New York, in 1932. "The [newspaper] page of stock-and-bond quotations might well be headed Quotations of Risks and Hazards. To call them securities ... is ironical."[1]

As the Depression deepened, doubts grew about the legitimacy of the entire capitalist system. Some Americans were calling for drastic action, including the nationalization of banks or their complete eradication. One letter writer told the Senate Banking Committee, "In view of the monstrous record connected with the stock market, it would be perfectly justifiable to close the [New York Stock] exchange forever."

Roosevelt, however, had no plans to dismantle the financial system. Rather, he thought that legislation establishing government oversight could help fix the financial system by ensuring fairness and honesty for investors. He disagreed with Hoover on the limited constitutional powers of the federal government and he pledged that his administration would take action to end the crisis.

The U.S. Senate Banking Committee Investigation

In January 1933, at the nadir of the Depression, the Senate Banking and Currency Committee renewed an earlier effort to find and fix the causes of the nation's financial woes. The committee hired as its new chief counsel Ferdinand Pecora, an assistant district attorney from New York. Pecora immediately set to work utilizing his extensive subpoena power to dig deeply into the records of the top banks and financial firms in New York, determined to uncover the activities of the "banksters" on Wall Street.

He subpoenaed several Wall Street titans to testify in front of the committee. Charles E. Mitchell, chairman of the National City Bank; Albert H. Wiggin, former president of Chase National Bank; and J.P. Morgan, Jr., president of J.P. Morgan and Company, were among the witnesses who were well known to many Americans with bank savings accounts or stock certificates. They were well respected as the heads of large banks or financial firms, and they had testified previously before the committee. This time, however, they were unprepared for Pecora's withering line of questioning. Pecora's intensive research had revealed much about the banks' activities, and if the witnesses lied during questioning, Pecora produced documentation from their own bank's records to refute them.

The hearings produced testimony that shocked the nation with tales of risky speculation, insider trading, preferential deals to public officials, tax evasion, fraud, and misconduct. Some witnesses admitted to short selling their own company's stock, that is, profiting personally when the value of the stock (and thus the profit to the stockholder) went down. The incredibly wealthy J.P. Morgan, Jr., admitted that he had paid no U.S. income taxes in 1931 and 1932. Even when the banks defended their activities as strictly legal, Pecora demonstrated that they acted unethically or in conflict with the interests of their own stockholders.

The investigation personalized the Depression for many Americans by putting a face—a banker's face—on their problems. The widely reported testimony of the bank presidents allowed the average American to move beyond fear of a powerful but nameless, faceless market and instead focus their outrage on the actions of individuals and companies. This made the continuing financial crisis seem more understandable.

The misdeeds exposed by the Senate Banking Committee investigation rendered a blow to public confidence in the banking system by revealing its dark underbelly. But the investigation also provided detailed information about what was wrong, so that legislation could be produced to address the core problems. Efforts to radically alter or abolish the capitalist system (ideas that were supported by the growing Communist Party) were cast aside in favor of removing specific miscreants and revising rules to prevent further abuses. The investigation, therefore, resulted not in a revolutionary overthrow of the capitalist financial system, nationalization, or centralization, but rather a "legislative legacy" of government regulation to curb the worst abuses. The careful documentation of exploitative financial practices in the public hearings had provided the factual basis and the public support for remedial legislation.

Photo of Counsel Ferdinand Pecora, Chairman Duncan Fletcher, and witness J. P. Morgan, Jr., during a break in the Senate Banking Committee hearings, May 1933.

The Legislation

The investigation was associated with three major pieces of legislation that instituted federal regulation of the financial industry for the first time. Several parts of these laws had been previously proposed but never enacted in the face of strident opposition from Wall Street. This time, however, the news reports of the investigation had garnered widespread public support for reform legislation, and lawmakers lined up to support it, too.

The following pieces of legislation were passed and signed into law during the investigation:

The Glass-Steagall Banking Act of 1933 (Pub.L. 73-66, 48 Stat. 162)

- Created the Federal Deposit Insurance Corporation (FDIC), which insured bank deposits.

- Required separation of commercial and investment banking businesses. This meant that commercial banks could not use customers' savings deposits for risky speculation on the stock market.

Securities Act of 1933 (Pub.L. 73-22, 48 Stat. 74)

- Required a company offering its stocks or bonds for sale to disclose certain information to allow buyers to make informed decisions about the purchase. This act regulated sales of securities from company to investor.

Securities Exchange Act of 1934 (Pub.L. 73-291, 48 Stat. 881)

- Created the Securities and Exchange Commission (SEC) to oversee the stock market to prevent fraud. This act regulated sales of securities from investor to investor.

The Senate Banking Committee heard from hundreds of Americans with strong opinions about the proposed bills. The letters received by the committee indicated a great deal of public support for

continued on page 265

Baltimore, Maryland,
March 29, 1934.

RECEIVED
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SEN. TYDINGS

Hon. Millard E. Tydings,
U. S. Senator,
Senate Office Building,
Washington, D.C.

Dear Sir:-

You have under consideration the Fletcher-Rayburn bill for regulation of the stock exchanges.

We believe this to be vicious legislation - another prohibition law - destructive to elemental human liberties - even the liberty to lose one's money in one's own way - and paternalistic to the point where it threatens the spiritual and moral integrity of the individual.

This measure to curb speculation and market manipulation is sponsored by an administration which is committed to a policy of gigantic speculation - and has, for a year - been deliberately rigging the market for commodities and gold - using for its operations public funds - taxed alike from those who accept speculation, and those who would have none of it.

Such legislation would strike at the exercise of our traditional American right to fight out of the rut of financial mediocrity. It will unfairly injure the market for our present investments and unjustly restrict or deny facilities for such committments as we might wish to make in the future.

We respectfully ask that you direct your whole influence against the passage of the Fletcher-Rayburn bill.

Very truly yours,

William G. Huber, Woodlawn, Md
V.K. Yagvanin - 3321 Alto Road
A. G. Gray Jr. - 3411 Guilford Terrace
Franck M Burr 3027 Arunah Ave.
James A. Kirk - 2503 Calverton Hgts. Ave.
J. P. Galle 5006 Catalpha Road
S. N. Keat - 3343 Guilford Terrace
C. J. Cendman 601 Cathedral St.
P. Gray 3804 Egerton Rd.
George L. Hauser 2429 Mosher St.
S Boyd Downey - 3312 Ellerslie Ave.
Karl E. Ahlstrom 530 N. Charles Str.
R. Irving Payton 3305 Piedmont Ave
J Herbert Stehl 3920 Ridgewood Ave.
K H Johnson 3703 Chesholm Rd -

Return Uncut

5532 Bartlett Street,
Pittsburgh, Penna.,
April 12, 1934.

Hon. Duncan U. Fletcher, Chairman,
Senate Committee of Banking & Finance,
Washington, D. C.

Dear Sirs-

I have been asked by my Broker to write you expressing my disappsoval of the NATIONAL SECURITIES EXCHANGE ACT of 1934, known as the Fletcher-Rayburn Bill.

On the contrary, I am very much in favor of just such a bill, and I am sincerely hoping that the bill will go through.

It has the approval of my family, and you are to be congratulated when said bill has been passed and becomes a Law. I have some stock, and got badly "stung" in 1929, werse in 1930.

I am wishing you every success in having this passed, with the least possible bother.

Respectfully yours,

Margaret Sandler

TEACHING SUGGESTIONS

Christine Blackerby and Lee Ann Potter

1. Distribute copies of the featured documents to students. Ask students to read them and lead a class discussion by posing the following questions: What types of documents are they? Who created them? For what purpose? Who were the intended recipients? What questions do they prompt?

2. Ask students to research what a stockbroker is, what one does, and how one makes money. Explain to the students that the Securities Exchange Act, also called the Fletcher-Rayburn bill, for the first time (among other provisions) required that brokers meet basic competency requirements, adhere to certain rules of conduct, maintain approved trading practices, and submit to regular audits. It also set up the Securities Exchange Commission (SEC) to police violations of securities laws. Reviewing the Sandler letter, ask student pairs to consider these questions: What did Sandler's broker think about these regulations? Why would Sandler's broker ask her to write to the Senate? What did Sandler think of them? Why did Sandler hold this opinion? Encourage student volunteers to act out a 2- to 3-minute scene featuring a conversation between Sandler and her broker.

3. Share information with students from the essay about Roosevelt's executive order on the gold standard, and discuss what it meant. Ask a student volunteer to read aloud the petition from the citizens of Baltimore, Maryland. Lead a group discussion on the opinions of the petitioners by posing the following questions: What did they think of the proposed Fletcher-Rayburn bill? What did they think of the Roosevelt administration policy? How did they feel about government involvement in economic activities? How did the petitioners think the legislation would affect them personally? Next, invite students to assume the role of one of the petitioners and write a short editorial expressing their reaction to the Securities Exchange Act or suggesting alternate legislation. Ask student volunteers to share their editorials with the class.

4. Divide students into three groups and assign each group to research one of the laws that resulted from the Senate Banking Committee investigation. Ask the groups to consider: How did the law affect banking and the financial sector? Some parts of these laws have since been repealed. What parts were repealed, when, and why? How have the changes to these laws affected the financial sector today? Direct the groups to share their findings with the class.

5. Divide students into three groups. Ask members of the first group to explore the website of the Senate Committee on Banking, Housing, and Urban Affairs (**banking.senate.gov/public**); members of the second to explore the website of the Securities and Exchange Commission (**www.sec.gov**); and members of the third to explore the website of the New York Stock Exchange (**www.nyse.com**). Assign each student to identify five facts about their organization that they find interesting. Next, using the jigsaw method, rearrange the students into groups of three that contain a representative from each of the larger groups. Ask the students to share their facts with one another and to consider why members of each group should know about the other organizations, their missions, and how they operate.

6. Discuss the spectrum of political opinions from left to right, and ask students to place the petitioners and Sandler on the spectrum. Divide students into groups of three or four and ask them to conduct research into the financial crisis that began in the fall of 2008. Assign them to find three editorials in print or online newspapers that reflect opinions about Wall Street. Direct them to share their findings with the class, and collectively place their writers on the spectrum. Encourage students to consider where they would place themselves on the spectrum.

7. Invite a stockbroker or financial planner to come into class and talk with students about his or her work. Assign students to prepare questions ahead of time. Topics may include: what a "typical" work day is like, how they keep track of market trends, the impact that online stock trading companies have on their industry, and what laws have the greatest influence on their work.

the new regulations, but not everyone was pleased. These new laws that instituted massive federal oversight of a large and important sector of the economy were, according to petitioners from Maryland (see page 262), an instance of government violation of individual rights. The petitioners wrote to their senator to condemn the Securities Exchange Bill as "vicious legislation." They expressed their disapproval of this bill in particular, but they also voiced a philosophical disagreement with New Deal governance as a whole. Believing that government should not meddle in people's individual pursuits, they called the legislation "destructive to elemental human liberties—even the liberty to lose one's money in one's own way." The petitioners believed that the Roosevelt administration's support of the bill intended "to curb speculation and market manipulation" was hypocritical. Probably referring to Roosevelt's April 1933 executive order to take the United States off the gold standard, the petitioners accused the administration of having a policy of "gigantic speculation" and of "deliberately rigging the market for commodities and gold."

In the second featured document, investor Margaret Sandler indicated that she was a stockholder who "got badly 'stung' in 1929, worse in 1930." Sandler endorsed the securities exchange legislation, despite the request of her stockbroker to oppose it. To protect her investments, Sandler wished the Senate Banking Committee "every success in having this passed, with the least possible bother." Many other letter writers championed the committee's regulatory legislation. One said, "I am coming to the conclusion that these great corporations are in many cases run primarily by the inside few to feather their own nest by trading in and manipulating their own securities." Another believed stock market regulation to be the most important matter facing the nation: "The issue involved merits consideration equal to that which was accorded slavery during the administration of Abraham Lincoln."

Enacted with strong public support, but also against tenacious opposition from Wall Street, the legislation that grew out of the investigation eventually gained wide support from pivotal sections of the business sector. The stability and transparency wrought by the laws encouraged renewed business activity. Although these laws did not immediately lift the nation out of the Depression, they did stabilize the stock market and halt the flood of bank closures. This encouraged many Americans to renew their trust in the financial system and, with their meager savings, begin reinvesting in the nation's economy.

Note

1. Frank A. Vanderslip, quoted in Michael E. Parrish, *Securities Regulation and the New Deal* (New Haven, Conn., and London: Yale University Press, 1970), 43.

Note about the Documents and Sources:

You can reproduce the images that accompany this article in any quantity. The featured documents come from the records of the Banking and Currency Committee, Records of the U.S. Senate, Record Group 46. The photograph, Number 306-NT-178368 C, is held by the Still Pictures Branch at the National Archives in College Park, Maryland.

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