A History of Notable Senate Investigations
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Subcommittee on Senate Resolutions 84 and 239
(The Pecora Committee)

Resolution passed: March 2, 1932
Report issued: June 16, 1934
Chairman: Peter Norbeck (R-SD), 1932-1933; Duncan Fletcher (D-FL), 1933-1934
Vice Chairman: Duncan Fletcher, 1932-1933; Peter Norbeck, 1933-1934
Committee members:
John Blaine (R-WI)
Edward Costigan (D-CO)
James Couzens (R-MI)
Carter Glass (D-VA)
John Townsend (R-DE)

Origins

Beginning in September 1929, the "Roaring Twenties" came to an agonizing halt as stock prices on Wall Street plunged. On October 24, tagged Black Thursday, a selling frenzy resulted in one-day losses that totaled $9 billion. The following Tuesday, October 29, the market traded 16 million shares—a record that would stand for 39 years. By November the market had shed some $26 billion in value. The market crash in 1929 led to the Great Depression, the longest economic downturn in American history. By 1932 nearly one-quarter of all Americans were unemployed.

The financial crisis closed thousands of banks across the country. As depositors panicked, "bank runs" became a common sight on American main streets. To strengthen the financial sector and bolster sagging markets, President Herbert Hoover called on banks to enforce their internal regulations. Amid rumors that "bear raiders" were undermining his efforts, Hoover asked senators to investigate stock market practices.

Process

On March 2, 1932, senators passed Senate Resolution 84 authorizing the Committee on Banking and Currency to investigate "practices with respect to the buying and selling and the borrowing and lending" of stocks and securities. The committee made little progress, however, during its first eleven months. Banking executives repeatedly denied committee requests for bank records and internal documents. Witnesses easily evaded questions posed by counsel.

In January 1933, the committee hired a new chief counsel, former New York deputy district attorney Ferdinand Pecora. Banking and Currency committee member Peter Norbeck (R-SD) called Pecora a "happy discovery."[1] Chairman Duncan Fletcher (D-FL) offered Senate Resolution 56 to expand the scope of the inquiry to include private banking practices.[2]

Public Relations

Pecora subpoenaed high profile bankers to testify, calculating that their appearance and testimony would guarantee maximum press coverage. Indeed, national and regional newspapers carried daily front page accounts of the Banking and Currency investigation. Americans, some of whom had lost their savings in the crash, eagerly followed news coverage of the investigation. They responded to the investigation by mailing letters to members of the Committee on Banking and Currency, expressing their support for the inquiry. Some letters described personal financial loss. Others encouraged the committee to continue its work. Many more expressed the overwhelming distrust that many Americans held for the financial industry.

Investigation

Using the power of subpoena, Pecora obtained the records of the nation's largest financial institutions. He and his staff pored over thousands of internal documents to prepare for testimony. An astute prosecutor with a sharp wit and acerbic tongue, Pecora sensed that public opinion had turned against the captains of the financial industry. During the peak of economic growth in the 1920s, Wall Street titans had enjoyed celebrity status. Shortly after the stock market crash, they earned a new moniker: "bankster."

The hearings began with the testimony of several Wall Street titans including New York Stock Exchange president Richard Whitney, and chairman of National City Bank, Charles Mitchell. The committee selected National City not only because it was the second largest bank in the country, but also, as former committee chairmen Peter Norbeck explained because of "its recognized leadership in the orgy of speculation which led to the business collapse."[3]

Pecora proved a skilled interrogator with a keen memory for facts. His ability to recall minute details of banking transactions surprised witnesses and earned him great respect from most committee members. He elicited confessions from Mitchell, for example, that severely damaged the chairman's reputation. Under Pecora's careful questioning, Mitchell confessed that his income in 1929, including bonuses and salary, totaled $1,206,195.02. He acknowledged selling National City stocks to a family member at a considerable loss in 1929 to avoid paying income taxes.[4] Though Mitchell had not violated any laws, many judged his personal financial dealings as unethical. One editor expressed the sentiment of many when he asserted that "the only difference between a bank burglar and a bank president is that one works at night."[5]

Pecora asked Mitchell to recount some of the bank's questionable lending schemes. In the early 1920s, the bank had made several loans to Cuban sugar interests, but by 1927 the loans were in default. National City Bank issued $50 million in bank stocks and, without the knowledge of investors, transferred this money to the National City Company to purchase controlling interest in the Cuban sugar industry. Pecora forced a reluctant Mitchell to admit that these were indeed "bad short term loans."[6] Shortly after his appearance before the Senate Banking and Currency committee, Mitchell offered his resignation to the board of National City Bank. He left Washington a discredited man.

Days later, Pecora called Edgar Brown to the stand. An investor with National City Company, Brown had lost all his personal wealth in the 1929 stock market crash. He recounted how, before the market crash, National City brokers encouraged him to convert $225,000 in government bonds to a stock portfolio managed by National City Company. When stock values began to slide in 1929 Brown told his brokers he wanted to sell. Brown recalled that he was "placed in the category of the man who seeks to put his own mother out of his house," and he was shamed into holding onto his declining stocks. When the value of his portfolio collapsed with the market, National City Bank refused his application for a personal loan, even though the bank continued to offer non-collateral loans to its brokers. [7]

Outcome

The committee issued its four-hundred-page final report on June 16, 1934. The report offered careful analysis of a variety of banking practices, though it stopped short of making concrete legislative recommendations. This was in part because Congress had already passed major legislation in 1933 and 1934, relying heavily on the revelations offered during testimony before the Senate Banking and Currency Committee.

Congress passed several pieces of legislation aimed at curbing some of the more egregious abuses uncovered by Pecora and his investigative team. On June 16, 1933, it passed the Banking Act, also known as the Glass-Steagall Act. The act restructured the American banking system, separating investment firms from commercial banks. It established the Federal Bank Deposit Insurance Corporation, now known as the FDIC, to guarantee individual bank deposits.[8]

In 1934 Congress considered the Securities Exchange Act of 1934, also known as the Fletcher-Rayburn bill. Lawmakers received hundreds of letters from average Americans who described their support for, or opposition to, the proposed legislation. One letter writer applauded the efforts of the committee to expose wrongdoing, writing that "millions of citizens" deprived of their "hard earned savings" should be protected in the future by such legislation. "Your stock market regulations bill is none too severe and perhaps not drastic enough to forever stop this form of daylight and legal robbery."[9] One man of San Mateo, California, opposed efforts to weaken the bill, encouraging Chairman Fletcher to "make it more drastic."[10] Petitioners from Maryland entreated Senator Millard Tydings to oppose the bill which they argued was "destructive to elemental human liberties—even the liberty to lose one's money in one's own way."[11] Opposition to the bill was weak, however, and President Franklin Roosevelt signed the legislation into law on June 6, 1934.

The Committee on Banking and Currency's investigation of Wall Street established several historic precedents. It regularized the practice of Senate committees subpoenaing materials from individuals as well as institutions. In recognition of the central role played by the committee's chief counsel, it became popularly known as the "Pecora Investigation."[12] (It was not called the "Pecora Commission," however.) Under Ferdinand Pecora's direction, the committee staff had set a high standard for thoroughness and offered a model of excellence for future Senate investigators.

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[1] *Congressional Record*, May 11, 1933, 3231.
[2] *Congressional Record,* April 3, 1933, 1101-1102.
[3] *Congressional Record* May 11, 1933, 3232.
[4] Congress, Senate, Subcommittee on the Committee on Banking and Currency, *Stock Exchange Practices: Hearings before a Subcommittee of the Committee on Banking and Currency, Part 6,* 72d Cong., 2nd sess., 1812-1814.
[5] "'People Can Stand Truth About Nation,' Asserts an Editor, *Chicago Tribune*, 25 Feb 1933, 19.
[6] Ibid., 1788-1797.
[7] Ibid., 2177.
[8] David Kennedy, *Freedom from Fear: The American People in Depression and War, 1929-1945,* (New York: Oxford University Press, 1999), 366.

[9] Letter from Mr. Lammert to Senator Duncan Fletcher regarding stock exchange regulation, 2 April 1934; Papers pertaining to Senate bills, S. 3420 (SEN 73A-E1), Records of the U.S. Senate, Record Group 46, National Archives Building, Washington, DC.

[10] Letter from John Kruttschnitt to Senator Duncan Fletcher in support of stock exchange regulation, 9 March 1934; Papers pertaining to Senate bills, S. 3420 (SEN 73A-E1), Records of the U.S. Senate, Record Group 46, National Archives Building, Washington, DC.

[11] Petition to Senator Tydings from Baltimore, Maryland against stock exchange regulation, 29 March 1934; Petitions referred to the Committee on Banking and Currency (SEN 73A-J8), Records of the U.S. Senate, Record Group 46, National Archives Building, Washington, DC.

[12] The first instances of references to the "Pecora investigation" can be found in the *Congressional Record.* See January 20, 1934, p.1008 and 26 April 1934, p. 7430. The print media quickly picked up these references. See Herbert S. Wood, "Tax Favors for Big Speculators," *New Republic*, 7 Mar 1934.