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OP-ED CONTRIBUTOR

Where Is Our Ferdinand Pecora?

By RON CHERNOW
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BARACK OBAMA has assigned a top priority to financial reform when the new Congress assembles today. If history is any guide, legislators can perform a signal service by moving beyond the myriad details of the rescue plans to provide a coherent account of the origins of the current crisis. The moment calls for nothing less than a sweeping inquest into the twin housing and stock market crashes to create both the intellectual context and the political constituency for change.

Ted McGrath; Photograph of Ferdinand Pecora by Associated Press

For inspiration, Congress should turn to the electrifying hearings of the Senate Banking and Currency Committee, held in the waning months of the Hoover presidency and the early days of the New Deal. In historical shorthand, these hearings have taken their name from the committee counsel, Ferdinand Pecora, a former assistant district attorney from New York who, starting in January 1933, was chief counsel for the investigation. Under Pecora’s expert and often withering questioning, the Senate committee unearthed a secret financial history of the 1920s, demystifying the assorted frauds, scams and abuses that culminated in the 1929 crash.

The riveting confrontation between Pecora and the Wall Street grandees was so theatrically apt it might have been concocted by Hollywood. The combative Pecora was the perfect foil to the posh bankers who paraded before the microphones. Born in Sicily, the son of an immigrant cobbler, Pecora had campaigned for Teddy Roosevelt and been imbued with the crusading fervor of the Progressive Era. As a prosecutor in the 1920s, he had shut down more than 100 “bucket shops” — seamy, fly-by-night brokerage houses — and this had tutored him in the shady side of Wall Street.

With crinkly black hair and flashing eyes, Pecora was an earthy populist who appealed to Depression audiences. He was fond of playing pinochle and was often portrayed with a thick cigar clamped between his teeth. When he was hired for $255 per month by the Senate committee, Pecora was earning less money than most Wall Street mandarins disbursed weekly in pocket change.

Pecora was meticulous in preparation and legendary in stamina, mastering reams of material and staying up half the night before interrogations, aided by John T. Flynn, an Irish-American journalist, and Max Lowenthal, a Jewish lawyer. As Flynn wrote, “I looked with astonishment at this man who, through the intricate mazes of banking, syndicates, market deals, chicanery of all sorts, and in a field new to him, never forgot a name, never made an error in a figure, and never lost his temper.”

As Pecora relentlessly grilled the most famous names in finance, the nation relived the 1920s boom in a collective act of national remembrance. The hearings started in a modest committee room, but as the public was swept up in the drama, they shifted to a stately caucus room, illuminated by chandeliers and flashbulbs. As it gained momentum, the inquiry expanded until it shined a searchlight into every murky corner of Wall Street. Pecora exposed a stock market manipulated by speculators to the detriment of small investors who could suddenly attach names and faces to their losses.

Bankers had been demigods in the 1920s, their doings followed avidly, their market commentary quoted with reverence. They had inhabited a clubby world of chauffeured limousines and wood-paneled rooms, insulated from ordinary Americans. Now Pecora defrocked these high priests, making them seem small and shabby.

On Black Thursday of 1929, the nation had applauded a seemingly heroic attempt by major bankers, including Albert Wiggin of Chase and Charles Mitchell of National City, to stem the market decline. Pecora showed that Wiggin had actually shorted Chase shares during the crash, profiting from falling prices. He also revealed that Mitchell and top officers at National City had helped themselves to $2.4 million in interest-free loans from the bank’s coffers to ease them through the crash. National City, it turned out, had also palmed off bad loans to Latin American countries by packing them into securities and selling them to unsuspecting investors. By the time Pecora got through with the bankers, Senator Burton Wheeler of Montana was likening them to Al Capone and the public referred to them as “banksters,” rhyming with gangsters.

With a public aching for retribution, Pecora was playing with combustible chemicals, and Wall Street complained that he was destroying confidence. President Franklin Roosevelt retorted that the bankers “should have thought of that when they did the things that are being exposed now.” It was hard for Wall Street to mount a legitimate defense as Pecora pilloried them daily.

His prosecutorial methods grew questionable when he turned to the mysterious world of private banking, exemplified by the House of Morgan. In implacable style, Pecora badgered Morgan partners into admitting that they had paid no taxes for 1931 and 1932 — an incendiary revelation when the country was undertaking huge public works projects to combat unemployment. That the Morgan men had avoided taxes because of stock market losses was lost amid the hubbub.

No less inflammatory was exposure of Morgan’s “preferred list” by which the bank’s influential friends participated in stock offerings at steeply discounted rates. The renowned names on the list, including Calvin Coolidge, the former president, and Owen J. Roberts, a Supreme Court justice, shocked the nation with its unseemly association of money and power.

One Morgan partner, George Whitney, lamely explained that the intent was to safeguard small investors by preventing them from assuming such risk. To which Pecora responded tartly in his best-selling book, “Wall Street Under Oath,” “Many there were who would gladly have helped them share that appalling peril!”

Such was the furor over the Morgan testimony that Senator Carter Glass of Virginia shook his head and sighed, “We are having a circus, and the only things lacking now are peanuts and colored lemonade.” Seizing on the comment, a press agent for the Ringling Brothers Circus took advantage of a pause in the hearings to pop Lya Graf, a midget in a blue satin dress, on the lap of the portly and surprised J. P. Morgan Jr. The committee chairman, Senator Duncan Fletcher of Florida, pleaded with newspapers not to print the pictures, which only made them rush to do so.

The photo of Morgan with a circus midget planted on his lap became the signature shot of the hearings, emblematic of Wall Street’s fallen state. An embittered J. P. Morgan Jr. said Pecora had “the manners of a prosecuting attorney who is trying to convict a horse thief.”

Whatever their failings, the Pecora hearings laid the groundwork for financial reform legislation. By the time they ended in May 1934, they had generated 12,000 printed pages of testimony, collected in several thick volumes. These documents have served generations of historians. Our national narrative of stock market mayhem in the 1920s is largely composed of characters and anecdotes gleaned from their pages.

Pecora not only documented a litany of abuses, but also paved the way for remedial legislation. The Securities Act of 1933, the Glass-Steagall Act of 1933 and the Securities Exchange Act of 1934 — all addressed abuses exposed by Pecora. It was only poetic justice when Roosevelt tapped him as a commissioner of the newborn Securities and Exchange Commission.

Our current stock market slump and housing bust can seem like natural calamities without identifiable culprits, creating free-floating anger in the land. A public deeply disenchanted with our financial leadership is desperately searching for answers. The new Congress has a chance to lead the nation, step by step, through all the machinations that led to the present debacle and to shape wise legislation to prevent a recurrence.