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2011

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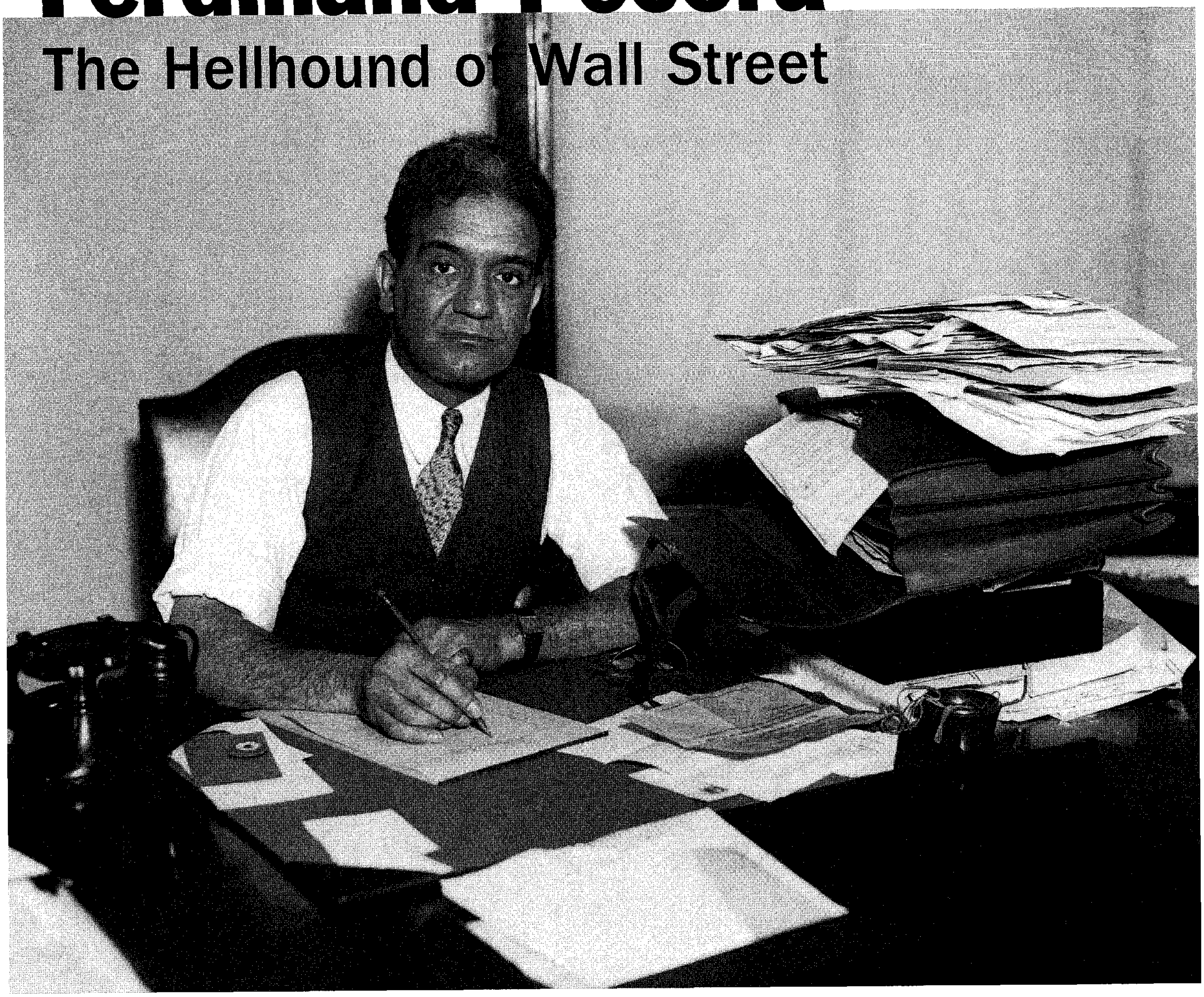
Ferdinand Pecora
The Hellhound of Wall Street



By Michael Perino

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Saturday, March 4, 1933—Inauguration Day—was one of those raw March days when it seems that spring will never come. The thick layer of steel gray clouds sheathing the sky threatened rain, and a northwest wind whipped across Capitol Hill. Sunshine broke through on occasion, but it was dull and fleeting and did little to relieve the dreariness of that damp, chilly day.

Image: Corbis Images

Historians would later pinpoint that winter as the nadir of the Great Depression, but Americans hardly needed to be seers to realize that the economy could not get much worse. Thirty-eight states had closed all their banks, and everywhere else withdrawals were sharply curtailed. Outright bank failures numbered in the thousands annually. In those days before deposit insurance, one in four families lost their life savings. The economy was in full retreat, industrial production was half what it had been just four years earlier, and unemployment was an appalling 25%. Farm incomes were decimated after a decade of plummeting crop prices. Shantytowns of the dispossessed, sarcastically dubbed Hoovervilles, dotted the landscape, and breadlines stretched around many blocks. Homes were foreclosed, renters evicted, and signs of malnutrition among schoolchildren were increasingly evident. On Friday, March 3, the Dow Jones Industrial Average was 86% off its wildly inflated pre-crash peak in September 1929. At the end of trading that day, the New York Stock Exchange announced that it would be closed indefinitely.

In the midst of the economic chaos, a shivering crowd of at least 100,000 gathered near the east portico of the Capitol to hear Franklin Roosevelt's plan of attack, some perched in the icy, bare trees, others crammed in bleachers or crowded atop adjacent buildings. Pundits from all points of the political spectrum were openly calling for Roosevelt to assume dictatorial powers to address the crisis. In some parts of the country the possibility of revolution was openly discussed, and Lloyds of London was doing a booming business in riot and civil disturbance insurance.

The previous spring, tens of thousands of unemployed World War I veterans and their families had marched on Washington, demanding early payment of a promised bonus for wartime service, many protesting on the very spot where the inaugural crowd now gathered. The bonus never came, and in late July, the Army chief of staff, General Douglas MacArthur, let loose his cavalry, sabers and bayonets drawn, on the thousands still milling in the capital. Through clouds of tear gas, the tanks and soldiers drove the bonus army from the city and burned their encampment along the Anacostia River to the ground. Seven months later, Washington still had an ominous, wartime feel. Government buildings were heavily guarded, police patrols ringed the White House, and machine gun nests were strategically placed along the inaugural parade route.

The new president made his way across the crowded platform, gripping his son Jimmy's arm with one hand and leaning on a cane with the other, giving the crowd the illusion that he was walking. After being sworn in by Chief Justice Charles Evans Hughes, Roosevelt turned to address the gathered crowd. Despite the chill March air, he shed his hat and overcoat. Grim-faced, his usual broad smile absent on this solemn occasion, he told the assembled crowd and radio listeners that the only thing they had to fear was fear itself—"nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance." Roosevelt's address is rightly remembered for that hopeful phrase and for his call for the government to launch a war on the Great Depression. Positioning himself in stark contrast with Herbert Hoover, who sat stonily just a few feet away, Roosevelt pledged "action, and action now."

The Inaugural Address, however, did more than just announce a vision for fixing the economy; Roosevelt used it to assign blame. Along with most everyone else at the time, Roosevelt pointed his finger at Wall Street, but his goal was not demagoguery. He wasn't trying to accrete power, but to stoke reform. The largely silent crowd stirred when Roosevelt told them that the "rulers of the exchange of mankind's goods have failed, through their own stubbornness and their own incompetence, have admitted their failure, and abdicated. Practices of the unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men." Applause erupted for the first time when Roosevelt proclaimed that the "money changers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths."

Somewhere in Manhattan, perhaps sitting by the radio in his Upper West Side apartment, Ferdinand Pecora must have been smiling. It was Pecora, more than anyone else, who deserved credit for those lines. Though Roosevelt claimed that the lines had come to him a week earlier while he was sitting in a service at St. James Episcopal Church, it was Pecora—the man reporters called the Hellhound of Wall Street—and the Senate hearings he'd wrapped up just two days earlier that had made those lines true.

Few Americans today know who Ferdinand Pecora was, although he was once a media superstar, a nearly daily fixture in newspapers and radio broadcasts across the country. With the onset of our current economic woes his name has slowly begun to crop up again. In April 2009, House Speaker Nancy Pelosi called for a new "Pecora Commission" to investigate "what happened on Wall Street." The next week, the Senate invoked Pecora's name in voting to create an independent committee to investigate the financial crisis, and in January 2010 the Financial Crisis Inquiry Commission held its first hearings.

economic impact, and long-lasting legislative accomplishments, Pecora's investigation must rank as the most successful inquiry in the more than 200-year history of congressional probes.

Those hearings are largely forgotten now. Those few who have heard of them frequently get the basic facts wrong. And, of course, even at the time not everyone applauded Pecora's efforts. Raymond Moley, a key member of Roosevelt's Brain Trust, said that "Pecora was like a police chief who rounds up all the suspicious characters in town to solve a jewel robbery." Pecora was accused of grandstanding, with one writer calling him "three-quarters righteous tribune of the people [and] one-quarter demagogic inquisitor." Critics charged that his reckless unveiling of Wall Street's sins only exacerbated the banking crisis gripping the country.

Pecora was ambitious, and he certainly loved the limelight, but he was no more a demagogue than Roosevelt. He was avowedly liberal and reform minded; to those who knew him best he was an idealist with "an inveterate passion for justice." No Wall Street expert, his conclusions about the impropriety of certain stock market practices were sometimes

It's almost impossible not to hear in today's financial problems the echoes of those hearings held more than 75 years ago.

Pecora, a diminutive Sicilian immigrant and a former assistant district attorney from New York City, was chief counsel for the Senate Committee on Banking and Currency, charged with investigating the causes of the 1929 stock market crash. As he recounted in his own memoir of the hearings, *Wall Street under Oath*: "Before [the committee] came, in imposing succession, the demigods of Wall Street, men whose names were household words, but whose personalities and affairs were frequently shrouded in deep, aristocratic mystery. . . . Never before in the history of the United States had so much wealth and power been required to render a public accounting." In terms of rapt public attention,

off base. In the end, though, those missteps didn't matter. His success lay not in his talent for inciting passions and inflaming prejudices nor in the intellectual purity of his arguments, but in his ability to crystallize the zeitgeist of the early Depression years—the politicians' vague and vitriolic denunciations of Wall Street and the bitter grousing of a broken-down populace—into hard facts and concrete evidence.

Ultimately, the acclaim Pecora garnered was justified because the hearings he led fundamentally changed the relationship between Washington and Wall Street. Before 1933 the federal government had taken a hands-off approach to the stock market. But the hearings, and the public clamor they created, changed all that. In his inaugural address, Roosevelt declared, "There must be an end to a conduct in banking and in business which too often has given to a sacred trust the likeness of callous and selfish wrongdoing," and he called for "strict supervision of all banking and credits and investments." Many would argue that the former is still all too true, but Roosevelt at least delivered on the latter. Over the course of Roosevelt's famous first 100 days in office and then in the year following, Congress passed and Roosevelt signed a flurry of banking and securities legislation, most of which still governs our financial markets today. The first federal securities laws, federal deposit insurance, and the creation of the Securities and Exchange Commission all trace their roots back to that fertile political soil.

Pecora made it all possible because his investigation created the sensational headlines necessary to galvanize public opinion for reform. As Benjamin Cohen, a lawyer and one of the primary drafters of those laws, put it, bankers were "so discredited in the public eye that Congress was ready to pass anything." Securities and Exchange Commission historian Joel Seligman argues that "effective securities legislation might not have been enacted had Pecora's revelations not galvanized broad public support for direct federal regulation of stock markets." Even Roosevelt drew a direct link between the wrongdoing Pecora uncovered and his ability to push through reform legislation. The legislative changes flowed right out of the hearings. "We built completely on his work," James M. Landis, former commission chairman and another drafter of the securities laws, observed. Most famous congressional hearings take the name of the committee chair, but Pecora's stellar performance was so dominating, his questioning so riveting, and his investigations so thorough that the Banking and Currency hearings eventually became known simply as the Pecora hearings.

In short, the hearings played a critical role in our financial history. And they almost didn't happen.

Almost, that is, but for Pecora's prodigious legal skills mixed with a healthy dose of luck and what can only be described as impeccable timing. In fact, most of the Pecora hearings would never have occurred without a single, decisive turning point, a key moment that made the rest of the hearings and reform legislation possible. Before Pecora's appointment as chief counsel, the hearings had dragged on for nearly a year. Despite a great deal of early effort and promise, they had made little discernible headway and the resolution authorizing the investigation was about to expire. Nearly everyone believed the probe would limp quietly offstage, accomplishing nothing and leaving Wall Street untouched. The turning point—and the primary inspiration for Roosevelt's line about the money changers fleeing the temple—came in late February 1933, just a few short weeks after Pecora was first appointed counsel. It was just 10 days, the 10 days in which Pecora examined the officers from National City Bank (now, a few name changes later, Citigroup), particularly its chairman, Charles E. Mitchell. Pecora too recognized the key role this brief period played, writing that in those few days "a whole era of American financial life passed away."

Although he too has faded from memory, Mitchell was one of the best-known bankers of his day. Edmund Wilson, writing for the *New Republic* in 1933, said that "Sunshine" Charlie was "the banker of bankers, the salesman of salesmen, the genius of the Nevi Economic Era." The son of a produce dealer and the one-time mayor of gritty Chelsea, Massachusetts, Mitchell started off as a $10-a-week clerk for Western Electric, moved to Wall Street, and made a fortune by fundamentally changing how it operated. He almost single-handedly pioneered the sale of stocks and bonds to middle-class investors. At the height of the bubble, he proclaimed that the market had nowhere to go but up, and he was constantly on top of his salesmen, hectoring, berating, bullying, and cajoling them to sell more and more of the securities City Bank "manufactured."

At first glance, the confrontation between Pecora and Mitchell hardly seemed like a fair fight, though the two men were not completely dissimilar. Both were smart, hardworking, and shared a burning ambition—Mitchell for wealth and Pecora for acclaim. But that's where the similarities ended. Mitchell had testified in congressional hearings before and had emerged unscathed. Pecora had been committee counsel for just a few weeks and had almost no time to investigate the bank's complex and far-flung operations. Mitchell was a world-renowned banker and an adviser to Presidents Harding, Coolidge, and Hoover on economic matters. Outside New York, almost no one had ever heard of Ferdinand Pecora. Mitchell was a member of New York's social elite, with all the trappings of Wall Street success—a Fifth Avenue mansion, houses in Tuxedo Park and the Hamptons, country club memberships, and a garage full of big, fast cars. Pecora was an Italian immigrant who was still struggling to overcome the bigotry and stereotypes of the day. After years of government service, he had managed to save just a few hundred dollars. Mitchell had the wealth and resources of City Bank at his disposal, and he strode into the hearing room surrounded by the most expensive legal talent in the country. Pecora had just cobbled together a tiny staff of first-generation immigrants, all earning the same meager salary he did. Nobody was expecting very much from Pecora.

Just 10 days after the City Bank hearings began, Mitchell would walk out alone, discredited and disgraced. The bank quickly accepted his resignation. Pecora had shown that the bank and its securities-trading arm had engaged in all sorts of unsavory behavior. It sold worthless bonds to investors without fully disclosing their risks, manipulated its own stock price and the stock prices of other companies, and lavishly compensated its executives as the country plunged into depression. It's almost impossible not to hear in today's financial problems the echoes of those hearings held more than 75 years ago. Most Americans then blamed Wall Street and the banking sector for the ills facing the country. There was populist outrage over excessive executive compensation. The markets seemed to be awash in manipulative short selling, in favorable deals for the fortunate few, and in dodgy loans that were foisted on unwary investors. Against the backdrop of the then-exploding banking crisis, the disclosures were riveting and, ultimately, revolutionary.

The relationship between Wall Street and Washington was forever altered.

While the investigation continued to produce stunning revelations for months—including a dramatic confrontation between Pecora and J.P. Morgan Jr. later that spring—it was those 10 days that set the tone for everything that followed. It was then, when banks across the country were shuttering, when City Bank's executives were in the dock, and when Pecora led America through the bank's financial machinations, that the federal government crossed its regulatory Rubicon. This was the turning point in which the relationship between Wall Street and Washington was forever altered.

Even more than that, it seemed to be a visible turning point in American society. In an ornate hearing room in Washington, one of the new Americans, so long dispossessed and marginalized, was firmly in control of the machinery of federal government. An Italian American, a member of a group almost universally regarded as crime-prone and lawless, was exposing the lawlessness of the Anglo-Saxons who ruled Wall Street. Those 10 days were a vivid sign that something fundamental had changed in the power structure of the country. ■

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