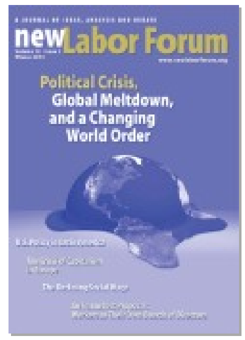
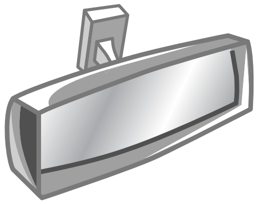
In the Rearview Mirror: When Congress Roared

Steve Fraser, Joshua B. Freeman



New Labor Forum, Volume 19, Number 1, Winter 2010, pp. 90-92 (Article)

Published by The Murphy Institute/City University of New York



By Steve Fraser and Joshua B. Freeman

IN THE REARVIEW MIRROR

When Congress Roared

Whatever the complex causes of our economic calamity, no one doubts the culpability of the financial and business elite. Their avarice, fraud, hubris, incompetence, and a willful suspension of disbelief about their own speculative fantasies laid the country low. However, their misdeeds, and the underlying reasons they committed them, have so far escaped systematic scrutiny by our representatives in Congress. Senators and House members berated a few CEOs of companies that were bailed out by the government for giving huge bonuses to bankers and traders who nearly destroyed the world economy. After that, virtual silence.

This is remarkable. During the Great Depression, the banking and corporate leaders who led the nation into economic collapse were subjected to a barrage of congressional investigations that undermined the credibility and legitimacy of the old ruling class. Those inquiries helped make possible the rise of the New Deal order, which endured for nearly a half-century.

Of the half-dozen major congressional investigations that targeted the country's business establishment, the "Pecora Committee" garnered the most attention. Ferdinand Pecora, a Sicilian immigrant, had been a stalwart supporter of Teddy Roosevelt's Progressive Party. Later, as an assistant district attorney in New York, he went after shady Wall Street operations. In January 1933, the Republican-led Senate Banking and Currency Committee made Pecora, known for his impeccable integrity and refusal to be intimidated by the high and mighty, the chief counsel of its very public investigation of the financial community, which kept making news well into 1934. Running concurrently, the Senate Finance Committee conducted its own inquiry. Together their hearings utterly discredited the country's leading financiers.

Before the Senate committees, men like Wall Street speculator Bernard Baruch, William Atterbury (the president of the Pennsylvania Railroad), Myron Taylor (the head of U.S. Steel), and Jackson Reynolds (of the First National Bank) admitted they had no solution

New Labor Forum 19(1): 90-92, Winter 2010

ISSN: 1095-7960/10 print, DOI: 10.4179/NLF.191.0000013

to the economic crisis. Pecora exposed a whole host of shenanigans committed by Wall Street's most august figures. It turned out that Jack Morgan and many of the senior partners of the House of Morgan had paid no income tax for years. Morgan, along with other investment banks, had regularly engaged in insider trading, compiling "preferred lists" of notables—such as Owen Young of General Electric and former secretary of war and Democratic Party powerhouse Newton Baker—who were offered stock at low prices by Morgan-controlled investment trusts, which would then manipulate the market to send the price soaring until dumping the stock onto the public. The major investment houses also had favored insiders through rigged stock pools, the deliberate hyping of bad investments ("Peruvian bonds" were the subprime mortgages of that era), and outsized bonuses. Charles Mitchell, the chairman of the nation's largest bank (National City), short-sold the stock of his own firm because he knew, long before the investing public did, how shaky it really was.

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Like today, financiers fiercely defended the old order. Richard Whitney, vice president of the New York Stock Exchange, pronounced it a "perfect institution." Others warned that regulating the capital markets would freeze up credit, stifle innovation, amount to pointless scapegoating, and end up in national disaster or communism (or both). Sound familiar? But they could get no traction in front of their congressional inquisitors. The head of the white-shoe Wall Street firm of Dillon Read was compelled to admit that firms like his had never invested in frontier industries until, as in the case of automobiles, they were well established. As the investigations captured headlines, the once untouchable titans of finance were publicly ridiculed by prominent intellectuals like Walter Lippmann and Edmund Wilson. Even FDR noted that "the Stock Exchange crowd" displayed an "inability to understand the country or their obligations to their fellow men," and needed "a [k]indergarten education on those subjects."

The congressional inquiries became the incubators of critical legislation like the Glass-Steagall Act (repealed in 1999), which separated commercial from investment banking, and the law creating the Securities and Exchange Commission, to which the president appointed Pecora. Nor did Congress limit its attention to the financial sector. Robert La Follette of Wisconsin chaired a Senate subcommittee which conducted hearings into the labor relations practices of the nation's leading industrial companies. It uncovered an appalling picture of corporate intimidation and bellicose resistance to unionization, one that included legions of spies, private armies, stockpiled armaments, and other means for preserving industrial autocracy. The committee's findings shocked the country, painted an ugly picture of the country's captains of industry, and contributed measurably to the organizing successes of the labor movement in basic industry. Gerald Nye of North Dakota chaired the Senate Special Committee on Investigation of the Munitions Industry, which investigated war profiteering by the Morgan interests and leading industrialists during World War I. Hugo Black, a senator from Alabama and future Supreme Court justice, conducted an investigation of the utility industry which helped discredit the moguls who ran it by showing how their elaborate pyramids of holding companies had sucked dry the underlying operating businesses. Black's hearings established an evidentiary basis for the 1935 Public Utility Holding Company Act. Yet another congressional exposé unearthed the indefensible subsidies paid to the airplane and ship industries.

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No one would argue that these congressional interventions were unqualified successes. Some of the legislation that emerged from them was effectively diluted by the very business elements under assault. Still, how differently matters stand today. Public outrage notwithstanding, our financial overlords continue to reward themselves lavishly for a job just about everyone agrees they thoroughly screwed up. Nonetheless, there is little apparent will, or courage, to subject the whole financial and business meltdown to sustained public interrogation. Why is Congress so supine? The decline of congressional authority in favor of the executive branch is a long story that began, ironically, during the New Deal years under Roosevelt. Republican progressives like La Follette and Nye no longer exist, while the Democratic Party—which moved steadily to the left during the 1930s—has moved steadily to the right over the last quarter-century. With no organized Left comparable to the one that existed in the thirties to provide a counterweight, "Blue Dogs" intimidate the party's congressional leadership at precisely the moment when the power of conservative Democrats ought to be dwindling. The president encourages this misguided attempt to find friends on the right—where they really don't exist—and so undercuts the historical momentum to move in the opposite direction. For their part, business leaders have largely succeeded in presenting themselves as bland technocrats, harder targets for populist inquiries than their more flamboyant predecessors (like Richard Whitney, the Groton- and Harvard-educated scion of a Social Register family). All this means that, too often, Congress acts as if "business as usual" prevails when, on the contrary, a once-in-a-century crisis has suspended all business as usual.