

# Congress Investigates: The Senate Investigation of the Stock Exchange during the Great Depression

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## Handout 1: Background Summary of the Pecora Investigation

Investigating has been an important responsibility of Congress throughout its history. The Senate Banking Committee investigation of the financial industry, referred to as the Pecora Investigation, began after the stock market crash of 1929, and was one of Congress' most successful and influential investigations. The information it brought to light led to reforms that stabilized the nation's banking system and stock exchange for more than 50 years after.

**The Public Demands More Congressional Investigation of Banks and Wall Street** The Great Depression was the longest economic crisis in American history. By 1932 nearly one-quarter of all Americans were unemployed. In the face of widespread poverty and fear, the public demanded a congressional investigation of the nation's economic institutions, widely believed to bear responsibility for the financial crisis..

### **Congress Launches the Pecora Investigation**

On March 2, 1932, the United States Senate passed a resolution authorizing the Committee on Banking and Currency to investigate. At first, the committee made little progress, as banking executives refused the committee's requests for records and internal documents, and witnesses called to testify easily dodged the committee's questions.

### **Ferdinand Pecora Takes Charge of the Investigation**

The turning point in the investigation occurred early in 1933 when the committee hired a new chief counsel, New York assistant district attorney Ferdinand Pecora. Pecora had previously investigated securities fraud and was familiar with many of the industry's suspicious practices. The relentless investigator immediately set to work digging 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.

Pecora subpoenaed several well-known Wall Street titans to testify in front of the Senate committee. The witnesses were unprepared for his withering lines of questioning. Pecora's extensive research had given him detailed knowledge about each banks' activities. When a witness misrepresented facts under questioning, Pecora produced documentation from their own banks' records to refute them.

In March 1933, the incoming Senate Banking Committee chairman, Duncan Fletcher (D-FL), introduced a resolution which expanded the scope of the inquiry to include private banking practices. This expansion of authority was important because it allowed Pecora to investigate J.P. Morgan Jr., who ran the nation's most influential private bank, J.P. Morgan & Company.



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Pecora forced Morgan to admit under oath that he had avoided paying U.S. income taxes in 1930 and 1931. Pecora also revealed evidence of preferential stock deals Morgan gave to a number of politicians and public figures from both parties, suggesting that the deals had been traded for favors. Pecora's intensive study of J.P. Morgan & Company records exposed to the public the fact that Morgan Company partners controlled 89 other corporations worth \$19 billion. Many Americans were shocked and horrified to discover the power and influence over the economy held by one man and the firm he led.

## Public Opinion

The 1929 stock market crash and the later bank failures personally affected more Americans than any of the previous bank panics in American history. As a consequence, the public was angry at the banks and paid close attention to press coverage of the Senate investigation. The high level of public engagement was reflected in the large amount of correspondence that conveyed people's opinions to the Senate Banking Committee.

## Expanded Regulation

The Pecora Investigation inspired three major pieces of legislation that expanded federal regulation of the financial industry. The Banking Act of 1933, better known as the Glass-Steagall Act, was the first. It created the Federal Deposit Insurance Corporation (FDIC) and separated commercial and investment banking businesses.

In addition to banking regulation, the investigation also led to passage of the Securities Act of 1933, which created increased regulation of the stock market. A year later, the Fletcher Rayburn bill proposed creation of the Securities and Exchange Commission as a federal agency to enforce the new regulations of the stock market. The debate over this bill in the spring of 1934 attracted a great deal of correspondence from individuals who shared strong opinions for and against increased regulation.

Enacted with strong public support and over opposition from Wall Street, the laws were hailed for the transparency and stability they produced. Although the increased regulation of Wall Street did not immediately lift the nation out of the Great Depression, it encouraged renewed business activity and helped stabilize banking and the stock market.



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