

# It's Time for New Pecora Hearings

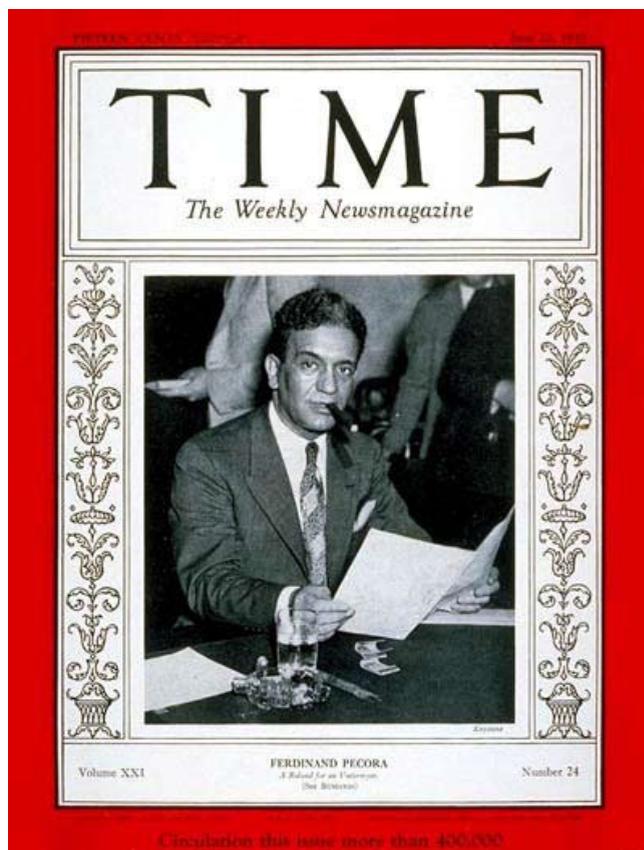
by EIR Staff

*This report is adapted from an article by Lonnie Wolfe, "The Morgan Fascist Coup Plot and How FDR Defeated It," which appeared in EIR Aug. 11, 2006.*

On Sept. 18, 2008, Lyndon LaRouche heartily endorsed House Resolution 1452, introduced on Sept. 17, by Reps. Marci Kaptur (D-Ohio) and Scott Garrett (R-N.J.), "Establishing the Select Committee on Financial Bailouts." The legislation, which LaRouche dubbed a new "Pecora Commission," would create a Select Committee on Financial Bailouts, to investigate the recent actions of Treasury Secretary Hank Paulson, Federal Reserve chairman Ben Bernanke and others, in engineering the taxpayer bailouts and bank takeovers of Bear Stearns, the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), Merrill Lynch, American International Group, Lehman Brothers, and others. The bill would empower the Select Committee to "investigate the role that political influence may have had on the oversight of the financial markets by both the Congress and the Federal regulatory agencies," and would require the Committee to submit a report to the House of Representatives "no later than Dec. 31, 2008."

LaRouche's reference to the Pecora Commission hearkens back to a set of widely publicized hearings, held in 1933, under the direction of the Chief Counsel of the U.S. Senate Committee on Banking, Housing and Urban Affairs, Ferdinand Pecora.<sup>1</sup> The mandate of these hearings was established in March 1932, to investigate the causes of the 1929 financial crash, but it was not until Franklin Delano Roosevelt was elected President, in November 1932, that the hearings began to take shape as a powerful weapon against the Wall Street predators. FDR used the hearings to crack the popular

1. One of the best records of what these hearings were about came from Pecora himself, who published a book entitled *Wall Street Under Oath*, in 1939.



*Ferdinand Pecora, as chief counsel of the Senate committee investigating the causes of the 1929 Crash, took on the House of Morgan, exposing their arrogant corruption. He is featured here on the cover of Time magazine, June 12, 1933.*

delusion that these bankers, whose names were household words, were more powerful than our government, and beyond its control. By shining the spotlight of what FDR liked to call "pitiless publicity" on their arrogant corruption, he laid the basis for sweeping regulation of their practices that even their lackeys in the Congress and mass media were unable to prevent.

In late 1932, Roosevelt approved the Committee's hiring, as its special counsel, Ferdinand Pecora, a former New York district attorney with a reputation for fearlessness. Pecora planned to place the most powerful people on Wall Street in "the dock," and try them in a way that would have been impossible in court, given their ability to "purchase" justice.

In the opening hearings on the commercial banks, Pecora established that some of the most powerful bank officers, such as Charles Mitchell of National City, and Albert Wiggin of Chase, had lied to their shareholders, manipulated stocks for their own benefit, and had made

profits beyond anything reasonable, without the least bit of concern for the national interest. Pecora refused to accept their evasions, and his questioning often made them look ridiculous. Public sentiment, aroused by Roosevelt's speech on "the money changers," was then further aroused with concrete evidence.

In early March, Pecora fired off a series of detailed and embarrassing questions about the operations of the House of Morgan and its relationship to other banks, corporations, and clients. Morgan counsel, Democratic Party 1924 Presidential candidate, and former ambassador to Great Britain, John W. Davis, declared the questions to be outrageous. But Morgan was forced ultimately to answer them, and then to submit to hearings in May and June that shook the foundations of the "secret government."

Pecora and his staff spent most of February, March, and April 1933 in New York, working long days in the offices of J.P. Morgan and Company, poring over its records of financial dealings since the war. He told no one, with the possible exception of the White House, what he was looking for and what tack he would take, fearing that that information would be leaked to Morgan.

The hearings opened on May 24, to packed chambers. J.P. Morgan, Jr. was the first witness. In his opening statement, printed in the next day's *New York Times*, Morgan heaped praise on himself and on the "honorable tradition" of private banking in the United States, which he said performed an essential function. Morgan had once stated that he would never invest in "unfinished industry," since he sought to maximize his clients' monetary profit. That edict, which was shared by most private bankers, meant that there would be no real economic development and there was limit placed on entrepreneurship—totally contrary to the American System principles to which FDR subscribed.

As would become clear in the Senate testimony of the days following, what Morgan meant by "private banking" was the unregulated financial manipulations by an oligarchical club, in which the rich and powerful were allowed to reap enormous profits, and through which, the House of Morgan was able not just to buy and sell securities, but to gain control of most of U.S. industry, to buy politicians and diplomats, and effectively, to control the most powerful banks in the United States.

Pecora wrote, five years later, in his book *Wall Street Under Oath*: "Undoubtedly, this small group of highly

placed financiers, controlling the very springs of economic activity, holds more real power than any similar group in the United States."

The meek response of the Morgan partners to these charges was that, while it might appear that they had control of many companies and banks, they were merely performing a "service" and exercised no control other than the "power of argument and persuasion."

Thomas Lamont, the partner who effectively managed the firm, told the committee that the common belief in the great power of the House of Morgan was "a very strong popular delusion." All the firm did was offer advice, which its clients could take or leave. "We are credited with having what is known as power or influence; and we admit that we hope that our counsels are of some avail. . . ."

On the very first day, it was revealed that J.P. Morgan, arguably the most powerful banker in the nation, and all the 20 partners in his Morgan and Co. and its Philadelphia operation, Drexel and Co., had paid no income taxes in 1931 and 1932, and had paid only small amounts in previous years! Morgan defended himself, claiming that he had merely taken advantage of tax laws: "If the laws are faulty, it is not my problem," he arrogantly told the committee. It was also shown that the Internal Revenue Service (IRS) had never examined Morgan's transactions—anything that was prepared by the bank was simply passed on by the examiners without even a cursory glance!

Pecora fought to have various items entered on the public record: lists of companies in which Morgan partners held directorships, lists of banks on which they were directors, lists of banks which held their deposits, and the firm's balance sheets for the previous three years.

Most shocking were the lists of "preferred clients" and friends of the bank, who had been let in at a below-market price on a major 1929 speculative stock offering. The list revealed two tiers of Morgan "cronies." The first were true "friends of the firm" who were Morgan allies and operatives, and the second was a "fishing list," from which they sought prospective new operatives, with whom they would deepen their relations. *It showed that Morgan had effectively controlled those who made U.S. financial policy for more than three decades, as well as the leadership of both political parties, and much of the Federal bench!*

Pecora showed, and the partners confirmed, that Morgan handled one of the most confidential and criti-

cal aspects of British financial policy—the Bank of England’s pound stabilization fund operations. This was handled, on this side of the Atlantic, by J.P. Morgan, Jr., personally, and his top henchman, Thomas Lamont. In London, the office of Morgan Grenfell, from which two partners were members of the House of Lords, coordinated continental European operations.

A similar fund was set up to market \$24 million in securities for Mussolini’s Fascist Italy (and an additional £5 million in securities), administered by Morgan Grenfell, and a syndicate of private bankers including Hambros and N.M. Rothschild and Sons. Additional securities and currency accounts were set up with Morgan by the Fed, the Bank of England, and Hjalmar Schacht’s Reichsbank.

It was brought up that such operations might in fact be against the interests of the United States and some of the “clients” Morgan represented in the U.S.A. Morgan categorically denied this. When Pecora pointed out that members of the Morgan firm in London were members of the House of Lords and officials of the British government, Morgan and his partners blustered that there

was a “wall” between business and politics. When Pecora pursued the issue, the Tory fascist Morgan simply stated that there could be no conflict in policy between U.S. and British interests as such, and if there were such an “absurd” eventuality, the House of Morgan would behave as “reliable bankers”!

Throughout the country, even the Morgan-controlled press was forced to print the daily dispatches from the hearings. Given what was being said, and Morgan’s attitude, it was impossible to edit them so as to place Morgan in a favorable light. The *New York Times* meekly editorialized that there was nothing sensational in what was being revealed, that it was all “old news.” It even tried to praise Morgan for pointing up inadequacies in income tax law!

Wrote Pecora: “The power of J.P. Morgan was not ‘a very strong popular delusion,’ as Mr. Lamont would have it, but a stark fact. It was a great stream that was fed by many sources: by its deposits, by its loans, by its promotions, by its directorships, by its pre-eminent position as investment bankers, by its control of holding companies which, in turn, controlled scores of subsidiaries, and by its silken bonds of gratitude in which it skillfully enmeshed the chosen ranks of the ‘preferred lists.’ It reached into every corner of the nation and penetrated into public, as well as business affairs. The problems raised by such an institution go far beyond banking regulation in the narrow sense. It might be a formidable rival to the government itself.”

Senate Banking Committee hearings investigating the New York commercial banks, convened by Roosevelt allies in the Senate, continued through the second week in June 1933.

After that, Pecora turned his guns on Kuhn, Loeb and its flamboyant head, Otto Kahn, who was instructed by the cabal to put on a more congenial face than the stiff Morgan partners. The Dillon Read partners were similarly congenial, as Pecora brought out more evidence of the private bankers’ manipulation of the financial markets and their highly irregular practices.

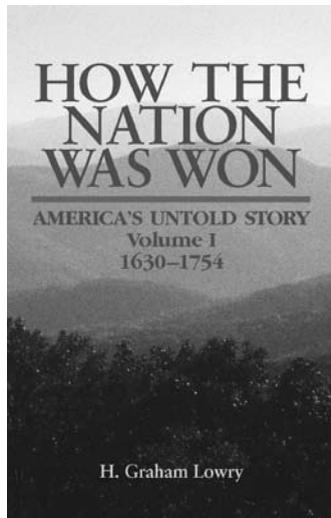
During the course of these hearings, FDR was able to pass a raft of legislation which reined in Wall Street—with a climate of widespread public support.

The hearings were suspended until late Fall, when they resumed to examine certain specific speculative swindles; the effect FDR desired had already been achieved, as the press reflected the “common man’s” anger at the corruption and arrogance of international finance.

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