STOCK EXCHANGE PRACTICES

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

FIRST SESSION

ON

S. Res. 84

(72d CONGRESS)

A RESOLUTION TO INVESTIGATE PRACTICES OF STOCK EXCHANGES WITH RESPECT TO THE BUYING AND SELLING AND THE BORROWING AND LENDING OF LISTED SECURITIES

AND

S. Res. 56 and S. Res. 97

(73d CONGRESS)

RESOLUTIONS TO INVESTIGATE THE MATTER OF BANKING OPERATIONS AND PRACTICES, TRANSACTIONS RELATING TO ANY SALE, EXCHANGE, PURCHASE, ACQUISITION, BORROWING, LENDING, FINANCING, ISSUING, DISTRIBUTING, OR OTHER DISPOSITION OF, OR DEALING IN, SECURITIES OR CREDIT BY ANY PERSON OR FIRM, PARTNERSHIP, COMPANY, ASSOCIATION, CORPORATION, OR OTHER ENTITY, WITH A VIEW TO RECOMMENDING NECESSARY LEGISLATION, UNDER THE TAXING POWER OR OTHER FEDERAL POWERS

PART 15

NATIONAL SECURITIES EXCHANGE ACT 1934

FEBRUARY 26 TO MARCH 16, 1934

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trust companies all over the country so they might have a liquid form of loan which they knew they could give back to their customers and to their depositors at any moment. To illustrate: As I understand it, a bank in New York has so much commercial paper, so much permanent loans, time loans and so much demand loans on the market. They have a debit balance in the clearing house at 9 o'clock in the morning of $1,000,000, and they want so many brokers' loans. If, on the other hand, they have a credit balance of so much money, they loan so much money in the market and that gives them the opportunity of using the floating money in their bank that may be called out tomorrow. It gives them an opportunity.

Mr. CORCORAN. What the ultimate simplicities of that argument come down to, Senator, are just this, that society should take on all the burdens we have had with margin speculation in the market so that the New York banks will have a place where they can lend liquid funds. That is what it ultimately comes down to.

Senator KEAN. I think you are right in that the margins ought to be sufficient. If you create a margin of 35 or 40 percent, I think that you are doing all you can in this matter to protect the individual. I think if we insist upon that kind of a margin and that becomes the law, that margin will be so great that it will protect the public from losing their money the way they have on many occasions.

Mr. CORCORAN. To summarize, we have on the one hand the argument of social policy against margin money in the market, both from the point of view of its effect upon business and upon the social fabric which was described to you yesterday, and from the point of view of loss to the individual investor.

Against that we balance the advantages of liquidity in the market from the standpoint of having a place where banks can lend liquid funds and where investors can realize on securities. I am not trying to make that balance. For me there would be no choice. If I had to sacrifice liquidity of the market in the sense that sales had to be within a quarter of a point rather than within two points to prevent 1929 from occuring again, the decision would be easy for me; but that is a question of policy. If you do, as a matter of policy, decide that you want to limit margins, then you are up against the propositions that to effect that policy you must limit margins in banks as well as in brokers' loans and that you must make a real limitation of margins, if you are going to have any effect upon the market big enough to carry out the purposes of your social policy. And to be able to make the margin limitation effective, you must have a bright, rigid line with any discretion removed or made as difficult of application as possible.

Mr. REDMOND. Do I then understand that this bill really carries out the social principles of the persons who drafted it?

Mr. CORCORAN. No; not the social principles of the persons who drafted it, any more than the social principles of Mr. Goldenweiser who talked here yesterday. It embodies the philosophy that too much borrowed money in the market is a dangerous thing for the economic structure of the country as well as for the people who go into the market on borrowed money. To the extent that it embodies that philosophy, it does embody not only the philosophy of most of the people who drafted it, but of a lot of other people as well.

Senator GORE. You stated earlier in your statement who did draft the bill. I was not here.

Mr. CORCORAN. It was drafted as the result of cooperation between two groups. Senator Fletcher asked Mr. Landis of the Federal Trade Commission to cooperate with Mr. Pecora, who is counsel for the investigating committee and counsel for this committee, now. He asked Mr. Landis and Mr. Pecora to cooperate in the drafting of a bill. Mr. Landis asked several persons to help him. I was one of those. Mr. Pecora had several members of his investigating staff helping him; and the two groups cooperated in the drafting of the bill.

Senator GORE. Do you know who Mr. Pecora's assistants were?

Mr. CORCORAN. Mr. Pecora is here himself, sir; he can tell you.

Senator GORE. I thought maybe you knew. He is not a witness. I would be glad to have it in the record, however.

The CHAIRMAN. I do not see that it makes any difference at all. Is not the conception really that the purpose of reducing these loans and reducing the amount of money flowing into speculation is to leave some funds for agriculture, commerce, and industry throughout the country?

Mr. CORCORAN. That is true to a certain degree, sir. To be perfectly fair, as Dr. Goldenweiser pointed out yesterday, the stock market does not really divert funds from industry; it merely redistributes funds as between agriculture and industry. But the fact is that it did take money from agricultural communities and put it into securities of large corporations, and it took money that normally would have gone to the financing and developing of small corporations and routed it into the coffers of large corporations.

Senator GORE. Do you not think it acted as sort of a suction drawing funds from all parts of the country into New York?

Mr. CORCORAN. That is true, sir; but to be perfectly fair, that money, it went into the purchase of securities and hence into the coffers of the corporations offering those securities or it went out in the expenditures of persons who made profits on the securities and eventually got back into the channels of trade somewhere.

Senator GORE. But in consequence of that, the concerns floating the stock took advantage of the opportunity to get this money which might otherwise have remained in the interior parts of the country devoted to carrying on legitimate business; so that the crash, when it came, might have found a real cushion instead of a more or less artificial one?

Mr. CORCORAN. That is true, sir.

Senator GORE. It not only withdrew money from my part of the country, but from Europe as well. Europe sent immense funds over here.

The CHAIRMAN. Proceed.

Mr. CORCORAN. Section 7. We have talked about margins in the sense of getting credit into the market through the borrowings of persons operating in the market. Section 7 deals with an attempt to control the amount of credit that goes into the market by restricting borrowings of brokers. You will notice in section 7 that it provides [reading]: