The Very Man

By George Creel

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PRESIDENT ROOSEVELT never beamed more effulgently than on that fair June day, back in 1934, when he affixed his signature to the Securities and Exchange Act. A short-lived joy, however, for almost on the instant he was confronted by the necessity of selecting a chairman for the Commission.

A period of painful brooding, and then the smile came back to smooth away every little care line.

"Joe Kennedy!" It was a joyful cry that rang through the White House, causing all to look up from the magazine article or radio speech on which they were working. "The very man!"

Mr. Kennedy, it may be explained at this point, was and is a redheaded, barrel-chested Irishman of forty-six with a pair of hot blue eyes lighting up a freckled and very combative face. Also a millionaire, having managed to bite and kick a way to the top from a start about ten feet back of scratch. Mr. Kennedy was reached at his home just outside of New York, where he lay with his leg in a cast, due to a fall from a horse. Called to the telephone, he received the President's suggestion with a distaste that must have made his Gaelic forebears turn in their graves.

"You know how I've made most of my money," he said. "Right in the stock market. Well, think of the howl that will go up if you name a Wall Street man."

"Very likely," Mr. Roosevelt answered cheerily, "but it doesn't seem a bad idea to have a chairman of a Securities and Exchange Commission who knows something about securities and exchanges. See you Monday."

Joe Kennedy left New York with the derisive "yah-yah" of the investment world ringing in his ears, and reached Washington to find an atmosphere only a little less frigid. Others on the Commission, you see, were James M. Landis, a brilliant young product of the Brandeis-Frankfurter school of *thought*; Ferdinand Pecora, the fiery Italian who had just finished his investigation of stock exchanges for a Senate committee; George C. Mathews, a hard-bitten Wisconsin progressive, and Judge Robert E. Healy, former counsel for the Federal Trade Commission, who had succeeded nobly in living down his Vermont conservatism. All were polite enough, to be sure, but a certain glassiness of eye amply indicated their opinion of a Wall Street operator.

Mr. Kennedy wasted no time on interviews, radio talks and banquet speeches. After one long, comprehensive look around, he disappeared from view.

It is known now that those months of silence were devoted to a searching study of the law, and the building and testing of an organization of experts. These things done, Joe Kennedy emerged from concealment and, seeking out the sullen, recalcitrant investment bankers, bluntly demanded to know what was eating *them*.

Courteously but firmly, Mr. Kennedy begged them to remember that they were not talking to a "come on" from the sticks. He had been in the game himself and knew it as well as any of them. If he had made money, it was because he never risked a thin dime without learning every little thing about the stock, spending money and time on investigators and accountants. What chance, he asked, did the average investor have to get that information? And why wasn't it his *right* to have it?

As for frightening investors and destroying confidence, the sorrel-topped visitor intimated plainly that such talk gave him a pain in the neck. What scared investors off was a steady succession *of barefaced swindles* that robbed the poor suckers of their savings. Of course there was no security market now. People had been stung too often. But what better way to restore confidence than for honest men to get behind a law that had no other object than the elimination of swindlers and swindling? In the matter of "governmental interference," would they kindly tell him *when* they had ever shown any disposition to clean house themselves? Was there even an attempt at investigation and reform that they hadn't fought tooth and nail?

And what was that about the law being *radical?* Would any of them say that the English were radical? Well, then, England has had laws for the protection of the investor since 1844, and a good deal stricter than the American statute. And enforced, too!

Nothing to Worry About

Crisply but still politely, he asked them to cut out the guff and talk sense. As much as anybody else, he himself wanted the law to *work*. Let them point out the stupid, the unnecessary and the unjust, and changes would be made. At the risk of being personal, he mentioned the fact that he had a wife and nine growing children, and sincerely trusted that no one present would think him fool enough to take part in anything that would menace their future.

A detail that seemed to agitate the investment men to the point of fever was the *criminal and civil liability* of directors for false or misleading statements. Mr. Kennedy refused to share this sense of outrage. If a man wasn't willing to accept responsibility, then let him stay off the board.

Protests against the publicity features of the law failed to bring tears to Joe Kennedy's eyes. The government had no concern with corporations that borrowed their money privately, but when they went out into the open and asked men and women for their savings, that minute they ceased to be private in any honest sense of the world.

With respect to delays and expense, Mr. Kennedy admitted that the Commission had already *found* things that could be improved. He pledged expedition and inexpensiveness. Anything else? All right, then. If they were on the square, they'd play ball. If they weren't on the square, they couldn't play at all.

He kept his word. When every possible reform had been effected, the Commission sat back happily and waited for business. None came. Weeks went by, and no corporation showed up with a fine juicy issue ready for the oven. There were still doubt and distrust. And then the break came.

On March 7, 1935, Swift & Company knocked at the door with a \$43,000,000 issue. On March 8th, Pacific Gas and Electric walked in with a \$45,000,000 issue. On March 18th came Standard Gas and Electric with two issues aggregating \$20,212,590; March 29th, Commercial Credit Company, \$27,177,864; March 30th, Southern California Edison with the largest issue of them all, \$71,905,000; and then the Union Oil of California with \$21,075,000, and National Steel with \$50,000,000. Many of the issues were refunding operations, and a striking characteristic was that the new bonds carried interest rates appreciably lower than the old.

Protection that Works

What still kept the Commission on the anxious seat was how the new organization had acquitted itself in the important matters of expense and speed. At the earliest moment they took the first ten big issues okayed by the Commission and compared them with ten issues of equal size put out before the government "butted in." What they *found was this*: the cost of the ten put out prior to 1934 was one half of one per cent as contrasted with three tenths of one per cent for the Commission issues. Moreover, the total items of expense directly chargeable to the Commission amounted to less than one fifth of the money paid to underwriters. As for speed, the maximum time from the filing of the application to final clearance was twenty days.

So much for the operation of the Commission from the standpoint of the seller of securities. How about the buyer? Up to May 1, 1935, the number of applications filed was 1,400, aggregating \$2,049,000,000. In other days these bonds would have been dumped on the investing public overnight, and their sale high-pressured by bankers, brokers, glib young men and tipster sheets. What happened under the new dispensation?

Of the 1,400 applications, 1,016 were approved, a total of \$1,720,000,000. Exactly 76 were turned down, representing \$40,000,000 kept off the market; 202, amounting to \$101,000,000, were withdrawn, and 106, totalling \$188,000,000, were still under examination at this writing.

Even with these figures, it is not possible to estimate accurately the amount saved to investors, for issues withdrawn and issues rejected tell only half the story. The mere fact that they would have to run the gantlet of examination has kept hundreds of fakes and skin games out of the field.

Only a year old, yet the organization is far-flung and effective. The headquarters in Washington are working with speed and precision, and regional offices have been set up in New York, Chicago, Boston, Denver, Fort Worth and San Francisco. The field force has a triple function, reporting on applications, watching out for skin games, and also checking up to see that money derived from new issues is spent as promised. If they find a diversion of funds, or other use than that specified, down comes a heavy hand.

"And just one other thing," Joe Kennedy concluded, signing his secretary to bring the next caller. "We're not trying to kill speculation. Crooked stuff, pool operations and market rigging have got to go, but how can you stop a man from buying stock on the hope that it will go up? All we can do is to give him the information that will enable him to buy intelligently, and guard him against rascals, sure-thing men and the get-rich-quick boys. And I think we're doing it."

PHOTOGRAPH BY IFOR THOMAS COLLIER'S STAFF PHOTOGRAPHER

Joseph P. Kennedy, chairman of the Securities and Exchange Commission