

August 10, 1934

Dear Mr. Farley:

With reference to Mr. Griffin's letter and chart, which I am returning herewith, I have, of course, known and realized the existence of a considerable and growing adverse sentiment against the Administration in Wall Street.

As far back as last February criticism was outspoken. I doubt, however, if there is any organized clique of banking and industrial interests in Wall Street who are deliberately spreading propaganda at this time. Such criticisms as one hears, in my opinion, is the type of gossip and rumor that from time to time sweeps over the street and spontaneously gathers such momentum that it appears as though it were inspired. If such a clique does exist, the Securities and Exchange Commission at the moment has no jurisdiction over it, as that section of the Act which would bear on this matter does not become effective until October 1st.

My own view of the recent decline in the stock market is that it was largely due to the realization of the unfavorable aspect of certain economic developments, such as the drought, the railway pension bill, labor disturbances, and political uncertainties abroad, rather than the result of any organized bear propaganda.

There was a certain amount of short selling during the recent decline. Undoubtedly the people who were bearish on the market did not hesitate to express their views.

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That there was only a very small increase in the short position between June and July is borne out by a report furnished us by the New York Stock Exchange which shows an increase of slightly less than 6000 shares. Undoubtedly certain interests which have not approved of the Administration policies are deriving some measure of solace from the decline in security prices, but it must be borne in mind that most banking interests and industrialists own large amounts of securities. I doubt very much if their desire to embarrass the Administration would anywhere nearly compensate them for either the paper or actual losses resulting from declines in the security market.

There is no question but what, as the time approaches when the Securities Exchange Act becomes effective, bankers and insiders have perhaps hesitated to form support-groups in the stock in which they are interested. If we ultimately decide that support-groups can function in the public interest, when that time comes, we will do everything in our power to encourage what might be considered their legitimate activities, provided they are carried on within the scope of our rules and regulations.

With respect to the market predictions sent out by so-called "advisory services", I believe Mr. Griffin has magnified the importance of such advices.

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Temporarily and in a small way they may influence the market and to some extent they do color opinion. When the Securities Exchange Act becomes effective, we undoubtedly will endeavor to curb all such practices of advisory services as we deem contrary to the interest of investors. In the meantime we have no authority to control this type of propaganda.

Sincerely yours,

Joseph P. Kennedy,  
Chairman.

Hon. Jas. A. Farley  
Postmaster General  
Washington, D. C.

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