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THE CASE OF THE PEOPLE VS. WALL STREET

By Cyrus Eaton

The recent U.S. Justice Department crackdown on the New York money monopoly was an absolute necessity. The nation simply will not stand for the continued concentration of financial control in a few hands and in one place, because it has been amply demonstrated that such control militates against the creative and constructive finance that is the keystone of our free enterprise system.

The Justice Department action took the form of an antitrust suit, under the Sherman Act, against 17 Wall Street investment banking firms and the Investment Bankers Association of America.

The traditional role of the investment banker, or security underwriter, as he is often called, is to furnish the long-term funds needed by railroad, utility and industrial companies, and by states, counties and municipalities, as contrasted with short-term borrowings from commercial banks. . This function the investment banker performs by purchasing issues of securities from companies and political subdivisions seeking money, and by reselling these securities to other security dealers and to ultimate investors, including individuals, banks and insurance companies, universities, foundations and other endowed institutions.

The Wall Street Conspiracy

The Justice Department complaint, which covered almost 50 closely crowded pages, cited the 17 defendant firms and their puppet, the Investment Bankers Association, on scores of counts of conspiracy to monopolize the securities business of the United States. On the day the suit was filed, as one writer put it, "almost all the banking

houses named by the Goverment erupted via mimeograph," and the burden of their newspaper statements was that the suit would disrupt the now serene workings of the capital markets.

The sad fact is, however, that investment banking had already fallen on evil days. It is at the lowest ebb, both in profits to itself and in usefulness to the nation, that I can ever remember in my forty years in business. One important reason for this sorry state of affairs is that too many investment bankers, instead of doing their proper job, have been devoting a major part of their time and energy to conspiring to stifle competition.

The downfall of investment banking began with the sharp decline of security underwriting strength in the interior when the commercial banks were, properly enough, barred by federal law from further underwriting of securities, after the 1931 banking crisis. Small provision has since been made to replace the security underwriting services formerly performed by interior commercial banks.

Concentration Discourages Competition

To bring themselves new business -- deposits, trusteeships and registrarships -- to make up for their lost underwritings, the New York commercial banks, either singly or in groups, fostered the formation of a number of new investment banking houses, including Morgan Stanley & Co. (offshoot of J.P. Morgan & Co.), First Boston Corp., Harriman Ripley & Co. and Smith Barney & Co., and gave every encouragement to such existing eastern houses as Kuhn Loeb & Co., Dillon Read & Co., Blyth & Co., Lehman Brothers and Goldman Sachs & Co. and to a number of smaller concerns.

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(Needless to add, these are the firms that have been indicted by the Justice Department.)

Thus came about the concentration of investment banking strength in New York. And with it came a form of cooperation among the new and old houses that has discouraged competition from the rest of the country, and has resulted in the participation of all of the major firms in all of the financing managed by each of them, with about the same average percentages of interest in every issue of securities underwritten.

As is always the case when business rivals group together in too close cooperation, the emphasis in securities underwriting is now placed on the accomplishment of conservative and safe financing only. It is this refusal of the major New York houses to take normal business risks that has brought the federal government into banking on such a large scale, to supply the funds so badly needed by all kinds of commercial, industrial and agricultural ventures.

N.Y. Fraternity Fears Risks

Up until 1930, the older New York houses and the bank-predecessors of the newer ones were up and coming concerns, accustomed to making substantial commitments, and able and willing to help the creation of new enterprises and to foster those in existence. Now the major New York houses form a colorless fraternity banded together to do only the riskless business and to divide it up into tiny participations, according to fixed percentages, with the houses that should be their competitors.

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Together they seize on every means possible to belittle and hold down the investment banking leadership of the rest of the country, and to persuade the country that no financing is respectable unless it is managed by one of the major New York houses and shared in by all of the others. Together they seek to dominate all American business and to influence the selection of corporation officers and directors, in order to assure themselves of freedom from interference with their financial skullduggery.

In recent years, widespread adoption of compulsory competitive bidding in the issuance and sale of public utility, railroad and telephone company securities has cramped the style of the New York money ring. The 17 houses and their numerous satellites in the investment banking business have refused to accept the requirement of competition even in the financing of publicly regulated corporations, and it has been their never relaxing effort to sabotage competition in this field that finally caused the Justice Department to act.

Parasites Produce No Pig Iron

The nation realizes that Wall Street is an artificial community. It grows no corn. It digs no coal. It makes no pig iron. Its multitude of sharp-witted parasites live by betting on what the real producers are going to do.

Therefore the nation will deamdn that the Justice Department persist in its present course until the Wall Street monopoly has been given the coup de grace. If, at the same time, the Department of Commerce, the Treasury and the Federal Reserve Board will exert their great influence to encourage the upbuilding of investment banking houses throughout the country, the United States can at last have true democracy in finance.

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