THE REVOLUTION IN WALL STREET

BY *HAROLD FLEMING*

Some people say that Wall Street is just a street that starts at a church and ends in a river, but others think of it as something vast and powerful. To some it is an ogre; to others a financial octopus — even today the latest Moscow line for European consumption shows Wall Street pulling the strings which operate the Marshall Plan for the ensnarement of the toiling masses of Europe.

Perhaps Wall Street once had such power, but it is doubtful if it has it today. For almost a generation its fortunes have been ebbing. While the rest of the country has been growing, Wall Street has been slipping back in power, prestige — and pelf. Here are some of the typical things that have happened to it:

Less than twenty years ago most of the gold of the United States lay in the subterranean vaults beneath the towers of the Wall Street district. Today the United States Treasury owns it all. In 1929, when the national income was running around $90 billion a year, over 1,125,000,000 shares were traded on the New York Stock Exchange. But last year only 272 million shares were traded there. While national income has more than doubled, stock trading has shrunk to a quarter of its former volume.

Not so very long ago the partners of J. P. Morgan & Company wielded the most powerful financial influence in the United States; but last year J. P. Morgan & Co., Inc., reported a net profit of a mere $3.75 million. In the same year United States Steel (which Morgan once put together) earned $166 million; General Electric, $125 million; American Telephone, $225 million; and General Motors (which was not even born when the elder Morgan was in his heyday), $600 million.

Less than twenty years ago, New York banks, led by the Federal Reserve Bank of New York, controlled the nation's "money market" — which in turn heavily influenced the interest rates paid by manufacturers in St. Louis, by farmers in Minnesota, and by cattle-men in Texas. But last

HAROLD FLEMING *is a free-lance business and financial writer whose articles on Wall Street have appeared regularly in the* Christian Science Monitor *for the past twelve years.*

year Senators and government officials argued strenuously, in Congressional hearings, that either the United States Treasury or the Federal Reserve Board in Washington was actually controlling the nation's interest rates. Nobody even mentioned Wall Street.

In the old days, and up to 1940, the long-term swings of the stock market were an accepted barometer of financial weather ahead. But in 1940, and again in 1946, when the stock market took a long swing down, business took a long swing up. Wall-Streeters sadly commented: "The market, as a barometer of business, is busted."

In a static economy, any city, state or business may be said to be holding its own if its figures on such things as production, population, and bank debits hold steady. But in a fast-growing dynamic economy like ours, everybody must, as the Red Queen said to Alice in *Through the Looking Glass*, keep running to stay where they are. And in this sense Wall Street is certainly slipping. Take, for instance, the yardstick of loans, once the bread and butter of the commercial banks of New York. In 1929 they were running around $6.5 billion (for central reserve city member banks in New York). But in the 1930's they slid off to around $3.5 billion, and did not recover much ground until 1945. Today they are running only around $7.5 billion, while the rest of the economy has gone galloping ahead. (Bear in mind that in the twenty years since 1929 national income has risen from around $87 billion to over $225 billion; average factory wages, from about $20 a week to about $50; and corporation earnings before taxes, from about $10 billion to almost $35 billion.)

Another measure of health in the banking business is bank debits, or checks drawn. And here the Federal Reserve Board's statisticians have laboriously compiled figures which tell the startling story of New York's lag behind the nation. Here are the figures for member banks in New York City and for banks in "140 Other Centers Excluding New York City," in billions of dollars:

	New York City	*All Others*
1920	241	241
1930	384	277
1949	453	1231

II

One of Wall Street's largest industries is investment banking — the sale of new issues of bonds and stocks; but the investment bankers are barely doing as much business today as they were doing in the 1920's. From 1926 to 1930 new security issues averaged around $9 billion — and that's all they have averaged since the war. Furthermore, the most lucrative parts of the business, like new corporation common stock issues, are way down, and the least lucrative, like state and municipal issues, are way up.

Perhaps the stock market itself has been hardest hit. In only one "statistic" does it show any gain whatsoever over the 1920's. The New York Stock Exchange has more than doubled the number of shares listed and qualified for trading on its floor. But alas, listing and trading are two different things — and the members make their living out of trading commissions. The annual rate of turnover of listed shares on the exchange has dropped to the lowest levels on record. In the 1920's it ran between about 60 per cent and 120 per cent. Last year it fell to 13 per cent. For the entire prosperous 40's, the volume of share trading averaged only about a million shares a day, while for the entire 20's it averaged about 1.8 million. Bond trading did even worse than stock trading, for the number of listed bond issues has fallen some 40 per cent in twenty years, and the volume of trading in bonds (at par value) is scarcely a third of what it was two decades ago.

The pay-off is in the price of stock exchange "seats," which shows how much it is worth to be a member of the exchange. In 1929 they reached a high of $475,000, and, at the depth of the 1932 depression, they sank as low as $64,000. But in 1940 they were down to $31,000, and in 1942, to $17,000. Today, with business somewhat revived, they are up to around $50,000. Measured in dollars and compared with the past, a member's life cannot be a very happy one.

Wall Street was once comparatively free and untrammelled — "self-regulated," the word is. But since 1933 it has become enmeshed in a gossamer of laws and regulations. Like Gulliver when the Lilliputians tied him down, it can hardly move today without permission from Washington. One after another its operations have been put under the day-to-day check of some government department. First the investment banking business was checked under the Securities Act of 1933; then the two stock exchanges, under the Securities and Exchange Act of 1934; then the banks, under the Banking Act of 1935; and finally, the commodity futures markets under the Commodity Exchange Act of 1936.

The Pecora investigation of 1932 had its first legislative result in the "truth-in-securities bill," which became the Securities Act of 1933, regulating the investment bankers. Its goal was "full disclosure" of all facts about a new issue to would-be investors; and to assure this goal Congress made investment bankers heavily responsible for everything in their security offerings — including not only facts misstated but facts omitted.

As first passed by Congress, this act imposed great risks on everyone connected with new security offerings, and it practically brought the investment banking business to a standstill. It provided, for instance, that for ten years after any offering, not only buyers but buyers-from-buyers of any such issue could sue the issuers for virtually any loss from virtually any cause; and this liability ran personally against just about everybody who had any hand in the original offering, including the investment bankers, the directors of the borrowing corporation, and even the lawyers and accountants. Though subsequently modified, the law is still studded with "teeth."

In the following year Congress gave the Securities Exchange Commission broad powers over all the stock exchanges, which the commission proceeded to use to the fullest extent. These powers were soon enlarged. The Richard Whitney scandal in 1937 enabled the commission to force a complete reorganization of the New York Stock Exchange. In 1936 Congress gave them control of "unlisted trading" on the New York Curb Exchange; and between then and 1940 it further extended SEC power to cover the "over-the-counter" market, large corporate bankruptcies, protective committees, stockholders' proxies, investment trusts, and investment counseling firms. The McKesson and Robbins scandal opened the door to surveillance of corporate accounting and auditing practices, and it would take a book to relate the ways in which the SEC now regulates the doings on the exchanges of "specialists," floor-traders, floor-brokers, short-sellers, and so on.

The country's leading commodity futures markets are in the Chicago Board of Trade and have never figured prominently in Wall Street activities. But Wall Street does contain the New York Cotton Exchange, the Coffee and Sugar Exchange, the Rubber Exchange, the Commodity Exchange, and the Produce Exchange. Most of these were affected when Congress re-wrote and stiffened the Grain Futures Act of 1922, in the Commodity Exchange Act of 1936.

The commercial banks were also placed under new controls as a result of the Pecora investigation and the disastrous depression. First, they were required to divorce their investment banking departments and affiliates (except those dealing in municipal and state securities); then, a potential new contestant for controls over them, the Federal Deposit Insurance Corporation, was set up. And finally, in the Banking Act of 1935, the powers of the Federal Reserve Board in Washington over the member banks of the Federal Reserve system were vastly increased.

In the meantime, Congress began to create competition for Wall Street in Washington. It did not begin as competition, or as anything that might ultimately take over the functions of the Street — it started with "emergency" agencies of the government, like the RFC, the HOLC, the FHA and the CCC, to supplement private enterprise and the private banking system. But with the emergency over, most of these agencies are still with us, and growing like Topsy. And as they grow, the country's need for the functions of Wall Street lessens considerably.

The competition began with the Reconstruction Finance Corporation, a "temporary" agency conceived by President Hoover to tide over, during the depression, such hard-hit groups as banks and railroads. For a time it was the largest bank in the world, and it still thrives, having astonished nearly everybody by running up a half billion dollars of earnings (with the aid of both Jesse Jones and World War II), after all charge-offs of losses. The Home Owners Loan Corporation, which took over millions of sour home mortgages, was also able to convert from ugly-duckling to swan and pay off, with the help of the war. And the Federal Housing Administration, which has now insured over $7 billion worth of mortgages on more than a million small homes, has operated on a margin which bankers in pre-depression days would have considered preposterously thin; but it has nevertheless paid out, and in doing so has replaced the mortgage and title guarantee companies of pre-depression Wall Street.

Add to this such organizations as the Federal Home Loan Bank system, built from the top down as a reserve system for building and loan societies; the Export-Import Bank, which has made over $2 billion of foreign loans while Wall Street, for one reason or another, has virtually stopped making them; and the Commodity Credit Corporation, now engaged in a fantastic program of cornering crops. All told, the various government corporations and credit agencies now show nearly $23 billion of assets and liabilities, which is more than the total deposits of all the Wall Street banks; and they control nearly $12 billion worth of loans, which is 50 per cent more than the total of bank loans on Wall Street.

III

Many people, both in and out of Wall Street, are inclined to attribute all of Wall Street's troubles to political reasons — to the attacks of Congress and the hostility of voters, to punitive "regulation" and to financially reckless government competition. But much of what has happened to Wall Street in recent years seems essentially little different from what happened to the buggy-builders when the automobile came along, or to the phonograph people when the radio came along, or to the radio-set market when television came along. Wall Street suffers in part because times have changed in more than merely political ways.

One of the hardest-hit business divisions of Wall Street, for instance, has been that of investment banking. The business of floating new corporate issues has been dented in the last twenty years for both borrower and lender. And the change has had little or nothing to do with the ambitions of Congressmen and government bureaus to move across the railroad tracks and be just as important as the respectable Main Street bourgeoisie. Big business itself is actually by-passing Wall Street, which is (by comparison) becoming Little Business. Both borrowers and lenders of really large funds, who once could meet only in Wall Street, are outgrowing their financial breeches and meeting uptown, across the river, or down in Washington.

One of the chief substitutes for Wall Street today is called "private placement." Mention it to a Wall Street investment banker and he sees red. Life insurance companies, bulging with funds, have taken, in recent years, from 30 to 50 per cent of the bond issues of corporations — by-passing entirely the elaborately developed distribution machinery of Wall Street. And corporate borrowers themselves have developed new ways of raising money without going to Wall Street. One of these sources is depreciation funds. Another is the "plowing in" of earnings. Of the enormous outlays of American business since V-J Day on new plants and equipment, an unprecedentedly small proportion was financed through new issues of stock and bonds. The overwhelming proportion came from corporate depreciation charges and plowed-in or reinvested earnings.

What this means in effect is that American industry has outgrown its traditional relation to Wall Street. Financially, the child has become a man and the man has become an old man. While Wall Street earnings are counted in millions, American industry's earnings are now counted in hundreds of millions. When "Big Steel," which was put together by the father of the House of Morgan, can earn $166 million in a year while the House of Morgan itself earns only $3.75 million, the financial capacity of even

Morgan Stanley & Company is small *vis-à-vis* the Morgan corporate child.

Yet back of all this there seems to be a predominantly political cause — the progressive income tax, which has eliminated the rich man as a financial factor. Wall Street's once financially dominant machinery was, in the last analysis, built on the rights, powers, and surplus risk-capital of the wealthy investor. When rich men ran the country, and had money to venture, they went in part to Wall Street, where they found informed bankers and brokers. But today, due to the progressive income tax, they have no money to venture. Most of the country's savings pile into the insurance companies' coffers today in millions of small amounts; and the insurance companies, with a solemn trust to widows and orphans, fear to risk this money but are glad to lend it to large reliable borrowers.

The stock markets feel the drain of the progressive income tax just as heavily. Their customers are no longer wealthy men with money to risk, but small-income men with money to conserve. While the wealthy man needs an 8 per cent gross return on his money to yield him 2 per cent after income tax, the small investor is afraid of the stock market and puts his money, if not into an insurance policy or savings bank deposit, then into one of the new investment trust funds, which tend to center in Boston rather than in New York. Thus Wall Street, once the biggest thing financially in the country, has now dropped out of the competition between the big industrial corporations, which need more money than the Street can profitably raise, and the biggest lenders (the insurance companies) who have more money than Wall Street can profitably lend.

An even more fundamental reason for the decline of Wall Street involves the decline and fall of the prestige of the gold standard and the general theory of central banking. These two practices actually went together — and Wall Street was the heart of the system that handled them. The theory was that credit expansion was based on gold reserves, and both practices were actually managed in Lower Manhattan. When the relation between gold supply and credit expansion became far-flung and thin, then New York would put on the brakes; when gold was ample but credit small, then New York would step on the gas.

The theory failed — so far as voters are concerned — in 1933. Its final demise was indicated last year when the president of the Federal Reserve Bank of New York threw at the assembled bankers of the country, at the American Bankers Association annual convention at San Francisco, a lengthy explanation of why the country couldn't afford to return to the gold standard. And the coffin-lid of the whole theory was in a sense nailed down (along with the idea that central bankers should adjust the relation between gold reserves and credit expansion by moving interest rates up or down) when the head of the President's Council of Economic Advisors told a Congressional committee this year that "low interest rates are always desirable."

Wall Street was the guardian of the gold standard and of the theory of central banking. If they ever come back, their most competent administrators by far will be found in the Street. But if they don't — and their return now seems very remote — then it is unlikely that Wall Street will ever again hold the strings of the national economy. For better or for worse, its political and economic power is fading away. Perhaps it is significant that for twenty years now, no new building of importance has been started in the Wall Street district. This is in sharp contrast with the enormous growth of Washington in the same period. And while plenty of new office buildings are now going up in New York City, they are in the midtown or uptown areas.

A Rip Van Winkle visiting the Wall Street district today, after a twenty years' sleep, would find its external appearance very little changed. And if he proceeded inside the huge buildings which still bracket the canyons of the Street, he would find commercial bankers worried over the trend in the market for government bonds, investment bankers troubled over the narrowing profit-spread on the shrinking volume of new issues, and stock brokers worried over the break-even-point in trading volume. But nowhere — or hardly anywhere — would he find an echo of the arrogance of 1900 or the confidence of 1929. He would find Wall Street a very deflated "octopus" — physically, mentally, morally, and financially.

THE RED, RED LOVE

A STORY

BY *RITA LIEPA*

GREEN IS HOPE, Malvina used to say on Monday morning, when she took the girl between her fat knees and tied a yard of ribbon in her hair. Maya nodded sullenly, bored with Malvina and prettiness. But this was the run of things, and the week should be started with hope.

"Blue stands for faith," Malvina would explain on Tuesday — and a blue bird sat down in Maya's hair.

"Yellow means jealousy," was to be announced at midweek — and the flame of ill will leaped on Maya's head.

"White is innocence," Malvina would sigh on Friday, looking so much relieved, as though they had escaped from some mischief always lurking around the corner.

After she had carried Hope, Faith, Jealousy and Innocence on her curly head the week through, Maya was presented with what she desired above everything. Love was reserved for the weekends. On Saturday morning, the pressure of Malvina's knees softened, and her voice would take an elevator to heaven.

"Red is love, red is love, red is love," she would ring. This is how Maya came to know that the candy which Konstantin gave her was the candy of love.

He had lots of candy in the bag: pure white Innocence along with pale green Hope and delicate yellow Jealousy. They all rained into the demanding palms the girls held out to him, as he was leaning there against the chestnut tree in the backyard. Maya was standing aside, but her eyes held Konstantin like two tight lassoes.

This was a special day. The roofs were about to lose their snow hats. The sky was hanging low and mellow as if sweet cream were to pour down from the clouds. Spring had planted its first anemone amid snow. The air

RITA LIEPA *was born in Riga, Latvia, where she studied philology and worked on newspapers. She suffered a decade of refugee life, some of it as a waitress, and later, as a librarian with the American forces. She learned English by herself, without any formal education, and this is her first published story in English.*