8 The American Century

The twentieth century is known as America's, and it owes this designation as much to Wall Street as to any other institution. Prepared by the developments and innovations of the nineteenth century, Wall Street was poised to become the epicenter of a global financial architecture that framed America's commercial and cultural hegemony in the twentieth century. This did not occur automatically or immediately. First, the country had to overcome two great financial imbroglios – one in 1907 and a second in the 1930s – before its public monetary system and regulatory regime were sufficiently robust to withstand periodic cyclical crises. Second, it had to overcome an isolationist political and cultural legacy forged out of the nation's geographic illusion as a continental island, separated on the east and west from the rest of the world by two great oceans and bordered north and south by friendly nations. Wall Street knew this illusion when it saw it, but the rest of the country did not. Paradoxically, an internationalist Wall Street savored its worldwide reach and battled conservative isolationist tendencies even when it put itself at odds with its natural political allies on the right of the American political spectrum, who did not share this internationalist perspective.

Seen through the lense of Wall Street, American politics consistently presented a dilemma. Should it associate itself with the emerging progressive political alliances of regulatory reformers that were both more internationalist, but at the same time committed to making Pennsylvania Avenue representative of a broader civil society, one of whose targets for reform was the private money center on The Street? Or should it opt for an alliance with an anti-government ideology that would be more convenient for its domestic financial pursuits, but one that was unwilling to assert America's worldwide role and, therefore, was not suited to The Street's international requirements? Wall Street could not have it both ways: support for its international expansion and protection from public regulation. It opted for protection from public regulation, whenever this conundrum surfaced, and aligned itself with the isolationist Republican Party for the most part. It was not until the end of century that this political and doctrinal conundrum was resolved in President Bill Clinton administration's embrace simultaneously of an anti-regulatory posture and an aggressive international presence within the ideological construct of globalization. It fused together two previously competing philosophies into a Washington Consensus that was both internationalist and market-driven *laissez-faire*.

We owe the naming of the twentieth century as 'The American Century' to Henry Luce, founder of the magazine trilogy of *Time*, *Life*, and *Fortune*. To encourage the United States to abandon its isolationist posture some ten months before the bombing of Pearl Harbor, he wrote an article that conveyed the essence of the American idea that was to dominate the second half of the century. 'Consider the 20th century,' he wrote in *Life* magazine (February 1941) for a mass audience of Americans that spanned all classes: 'it is America's first century as a dominant power in the world.' He drew on the language of a revolution that was rooted in the ideal of a better world and comprised prosperous market economies, democratic political systems and technology – a composite that informs the global era of the twentieth century's *fin de siècle*. He said 'ours is also a revolutionary century, revolutionary ... in science and industry and also revolutionary in politics and the structure of society.' He concluded with a stirring call to arms: 'the world of the 20th century, if it is to come to life in any nobility of health and vigor, must be to a significant degree an American Century.'[1]

In this one brief essay Luce is able to conjure up the imagery of a United States poised to assert its assigned task, one that spoke to American symbols and ideals, a secularized evangelical faith in everything the previous century had been preparing. Set before a reading public, and edged in between *Life*'s photo essays, was a faith in technology, prosperity – read as the American system of manufacturing and what would later come to be called 'the market' – and the political system of democracy that harkens back to the idealism of Woodrow Wilson and his assertion of a right to self-determination as the organizing principle for nations after World War I. It must also be noted that it was possibly a century that could continue beyond the twentieth, because, as he said, it was America's 'first century as a dominant power in the world,' conveying to his audience that it might not be the last.

Luce's metric for assessing the century in 1941 evolved from the nineteenth century's *fin de siècle*. On the eve of the twentieth century, nearly $3 billion of foreign capital was invested in U.S. companies, a 50 per cent increase over the pre-Panic year of 1883. From a net importer of capital Wall Street in the 1890s became an exporter of capital to the rest of the world, a lender and creditor role that reversed its position earlier in the century as a debtor and importer of capital. One hundred million dollars of capital was exported to Canada, $2.2 million to China, to Sweden $10 million, Germany $20 million, Russia $25 million, and the United Kingdom, the largest sum of all, $227 million. It was an index of financial maturity and transformation that produced warnings of an American financial invasion of Europe echoed throughout the century. Count Goluchowski, the Austrian Foreign Minister, warned that 'European nations must close their ranks and fight, shoulder to shoulder, in order to successfully defend their existence' against the financial threat from Wall Street.[2]

To Luce in 1941 the path from the start of the century, when The Street was poised to assume its international calling, was not linear, however. It was made up of fits and starts, forward and backward movements, zigs and zags. Wall Street had to overcome the financial crisis of 1907 and the crash of 1929. For Pennsylvania Avenue it had to assert its role as the public's agent willing to curb The Street's excesses. For Main Street it had to find its political voice through trade unions, interest groups and a political party ready to take up its program.

MORGAN'S LAST HURRAH

J.P. Morgan's 1895 bailout of the gold-backed U.S. dollar was a prelude to his even bolder intervention in 1907 to save the dollar. The ten-year expansion that had begun in 1897, after the financial crisis of 1895, was sparked by the further expansion of the trust. A wave of mergers and consolidations occurred that would be unrivaled for nearly a century until the 1980s. The aggressive assertion of the Morgan-inspired Bankers' Code formed the ideology, in which money held by banks in trust for their customers' futures was transformed, almost magically, into great industrial trusts in which assets were privately held on behalf of the nation's future. When Morgan asserted this privilege over the dollar – the coin of the realm – he went too far and the public united against him. Main Street found its voice on Pennsylvania Avenue, asserted its claim to a public authority over national assets, and a place for civil society to regulate the activities of the great trusts if possible and disassemble them if necessary.

In the slightly more than 100 years of its existence, the nation had experienced episodic financial crises of a rather regular nature. As we have seen in this history of Wall Street, the country's birth in 1792 was accompanied by a financial crisis, and nearly every decade thereafter witnessed one. On all of these occasions, Wall Street was situated in the eye of a financial hurricane that tore up enterprises and financial houses by their roots, leaving individual wreckage and re-building in its wake – 'creative destruction,' in the famous formulation of the Austrian-born economist, Joseph Schumpeter. Each of these was preceded by a relatively new economic formation of uncertain market value, whose undertaking was at first attractive but then turned to ashes as speculators drove up valuations and investors attracted to the allure of rapid riches had to dip deeper into the barrel for less valuable investments. Whether it be railroads, new industrial products or commercial shipping, there was Wall Street offering two forms of services: a vehicle for raising funds for the launch of these new ventures and a means for speculative profit-seeking. Each of the functions needed the other but, in reality, the one – the dream of speculative riches – undermined the other. The requirement of a liquid financial market that enabled the bundling of large sacks of financial capital for investment in new products inevitably led to a speculative thrust that undercut the investment's initial purpose in launching a new product. This existential force on The Street reappears regularly, most recently in the dot.com's overvaluation and implosion at the turn of the twentieth century. Thus, the 'street of dreams' of an easy road to riches inevitably unravels and becomes a 'boulevard of broken hearts.' Such was the case with the consummate financial crisis in the nation's history to that moment in 1907.

It was prepared by the overextension of consolidations and mergers into trusts. Between 1895 and 1904 over 3,000 companies disappeared as a result of mergers, peaking in 1899 when some 1,200 enterprises capitalized at $2.27 billion were absorbed into industrial trusts with company names familiar to the twentieth century: Standard Oil, Carnegie Steel, United Fruit, National Biscuit and Union Carbide.[3] In virtually every one of these, the House of Morgan took the lead and his name on behalf of Wall Street was associated with managing these conglomerations through the legal and operational form of the trust. Morgan did not limit himself solely to private enterprise. He provided $40 million to the government of his sometime friend and other time foe, President Theodore Roosevelt, to purchase the Isthmus of Panama from the French in 1902 and then helped finance the building of the Panama Canal. The Canal was a symbol for an American Century, which embodied its essence: a public building project that overcame physical and medical obstacles such as malaria to become a monument to engineering similar to the monumentalism of the previous century's Erie Canal.

The 1907 financial crisis had its roots planted in these big financial undertakings. However, there was no central bank to manage liquidity expansion. The growth of the money supply was locked into a gold-backed position which limited the expansion of the money supply. This quandary, in which an economic expansion proceeds while money expansion does not, eventually implodes when the fig-leaf of prosperity is removed. Much the same story could be written about Argentina at the beginning of the twenty-first century, when its financial expansion overtook the limitation in liquidity caused by restricting money growth to the base of dollars in its treasury – in effect a dollarized restriction on money growth equating with the gold-based restriction on money growth imposed in the United States in the first decade of the twentieth century.

The signaling marker is debts that accumulate and cannot be serviced, fed by a secondary speculation from those who are interested purely in the financial paper and not in the industrial foundations that underlie money and finance. Typically at this juncture small Main Street investors come in too late, picking on financial crumbs that have fallen off the high table where insiders feast. There is a queuing-up of financial returns and each tranche yields lower returns. The big Street players are there first and pick the ripest fruit. Main Street investors invariably come in later, lured by speculators who bundle funds together, and can only pick fruit that is not yet ripe, not yet ready for harvest, whose returns are too low to justify the inflated speculative price. This motif informs every financial crisis from the first in 1792 to the latest in the dot.coms of the twentieth century's *fin de siècle*.

Leading up to the specific 1907 crisis, the overextension of the trusts was revealed in their increasingly risky undertakings, the high interest rates they had to pay for borrowing as they dove deeper into the financial well, and the use of trust securities as collateral by Wall Street banks for their loans to the same trusts. As much as half of the collateral retained by banks for loans to the trusts were the stocks and bonds of the trusts themselves. The trusts' cash flow required to sustain this fiction of solvency was in excess of their potential and made the whole structure susceptible to runs on it. There was an unhealthy and incestuous relationship between trust debt to Wall Street banks and the trusts themselves. The collateralization of loans with highly leveraged trust securities was a recipe for implosion. It was a financial Potemkin village.

The precipitating event that burst this bubble was the collapse of United Copper, a Morgan-backed venture led by the President of the Knickerbocker Trust, Charles T. Barney. When Morgan turned aside his petition for assistance, he shot himself; this was followed by other suicides among his investors.[4] If Morgan had recognized the consequences of his decision, he probably would have been more forthcoming to Barney. But he did not, and in the wake of this decision confidence collapsed, exposing the rather flimsy facade covering this grand financial edifice. It was only a short time after that on 22 October 1907 that Morgan once again had to preside over the financial rescue of the country from his beloved library, surrounded by one of the great private collections of ancient illustrated manuscripts that revealed to him a physical representation of the civilized world. This fitted nicely into Morgan's appropriation of the mantle of organizer and impresario for a financial world that he considered the highest form of contemporary civilization.

On 22 October the U.S. Secretary of the Treasury, George B. Cortelyou, put $25 million at Morgan's disposal to stabilize the American financial market and quiet fears of a default among foreign investors. Two days later, to avert an impending domestic financial implosion, the President of the New York Stock Exchange, Ransom H. Thomas, visited Morgan, walking across Broad Street from his office to Morgan's and informing him that widespread defaults among brokerage houses were imminent unless he, Morgan, came up with more than $20 million to dam the flood of losses on The Street. Summoned by Morgan, one banker after another strode into his office and by 2:16 in the afternoon, shortly before the market's close at 3 p.m., he had raised $25 million for loans to brokerage houses, thereby performing a central banker's 'lender of last resort' function. A messenger was sent to the floor of the Stock Exchange, and in the mythology that accompanied this drama, it is said that a roar so loud went up from the floor that Morgan could hear it across the street in his office.[5]

This did not immediately end the crisis, but the tide was turned. It took about two weeks for it all to end, during which time depositors lined up to withdraw money from their bank accounts in such numbers that city police handed out numbered chits to manage the queue, as in a bakery today. On 28 October George C. McClellan, the mayor of New York, asked Morgan for a $30 million bailout and was granted it, the first of four Morgan-bank-led bailouts of New York with the most recent occurring in the 1980s.[6] Amassing a total of $80 million in just one week, Morgan rescued Wall Street, New York and the U.S. Treasury's standing in foreign financial markets. Not since Alexander Hamilton had such a feat been accomplished, but this time it was by one private individual.

Morgan was a hero, certainly on Wall Street, in the City of London and other European financial centers and in the city of New York, but less so in other parts of the country. On the many Main Streets people were both in awe of his power, on the one hand, and alarmed, on the other, by the fact that one unelected man could have so much control over the public purse in a democracy. Morgan's finest hour for some – The Street – was his last hurrah for others as Main Street beseeched Pennsylvania Avenue to do something to rein in what came to be called the *Money Trusts*. The spectacle of the U.S. Treasury going to Morgan for a second time in a dozen years to rescue an unstable financial edifice that was largely of his own creation gave the decades-long populist political movement an opening it had not had before. Here was a foe that central casting could not have scripted better to suit its requirements: large and bear-like with a scarred face, bailing out his rich friends while throwing Main Street's small investors to the wolves. It was a melodrama of good and evil, similar to the spectacles played out on the stages of little theaters everywhere across the country in the form of the innocent deceived by the black-coated, bordering-on-demonic, mustachioed villain. Morgan was perfectly cast: aristocratic and contemptuous of popular democracy, flaunting his idea of a Bankers' Code, holding in trust the nation's most iconic asset: its money, the dollar. He also favored black, vested suits. There were no spin doctor's to help Morgan through this political minefield that was laid out on a public tableau with which he was not familiar. He could not forever preside privately from his office or his library in the solitary contemplation he preferred but instead had to appear in an unfamiliar and uncomfortable public milieu. All that was left was a stage and director's set to be composed and a script to be written. The grandeur of the U.S. Congress was the theater, and the stage set was provided by hearings of the House Banking and Currency Committee.

THE PUJO HEARINGS

The aftermath of the 1907 financial crisis and the Morgan-directed rescue was greeted like none other before. Celebrated on Wall Street as the success of a system of privately self-regulated finance, it was received elsewhere as simply further evidence of the concentration of economic power that answered not to a wider public but solely to the interests of the inner circle of finance. Evidence supported this. Morgan and his partners held 72 directorships in 112 corporations, underwrote some $2 billion in securities in the first decade of the century, and 78 major corporations used the Morgan bank. Among this conglomeration of corporate concentration was Morgan's control of banks – Bankers Trust and Guaranty Trust, among others – insurance companies, and securities underwriting, all captured in the emotive 'Money Trust,' whose origins are attributed to Charles A. Lindbergh Sr., a member of Congress from Minnesota.[7] A new progressive alliance forged out of older populist impulses, that had its roots in Andrew

Jackson's opposition to the second National Bank, merged with a new professional belief in the effectiveness of government to modulate private excesses. They found a presidential ally in Theodore Roosevelt.

In 1906 the Pure Food and Drug Act was passed, following on the previous century's Interstate Commerce Act regulating railroad rates, and the Sherman Anti-Trust Act to deal with monopoly power. Wall Street, however, in the form of its concentration of money and finance, was not yet explicitly addressed by these measures. Taken together, these new public agencies began to form a mosaic that decades later would complete an architecture of economic regulation. They fell under the rubric of the 'progressive' movement, an amalgam of the professionalization of public administration, impulses toward 'good government' and were energized by populist political reform. The gathering political direction alarmed The Street, as in this commentary from the *Commercial and Financial Chronicle*:

> adverse legislation, national and state, directed against railroads primarily, but also against corporations generally; political attacks against men of wealth and men of capital; the serious advocacy of political and economic doctrines which would completely change the theory of our Government and revolutionize social relations – these and kindred matters had threatened the security and stability of investment values.[8]

Into this breach a Louisiana Democratic Congressman, Arsene Pujo, convened Hearings of the House Banking and Currency Committee to investigate whether there was a conspiracy of money interests and what legislation was needed to regulate this industry. His counsel was Samuel Untermyer, a New York trial lawyer, described by a Morgan biographer as no 'scruffy radical but an affluent lawyer who sported fresh orchids in his lapel ... whose pedigree collies had once beaten Pierpont's in competition.'[9] Hearings of Congressional committees come and go and few become a hinge point in changing public attitudes. The Pujo Hearings were one such event that did and, like most such hearings that become significant, there was a defining moment when the reclusive J.P. Morgan was forced out of his Wall Street office and library at home to present himself to a large public who knew of him but had never seen him in a setting he did not orchestrate.

The colloquy between Untermyer and Morgan pivoted on the issue of competition versus combination, because combinations in restraint of trade were illegal under U.S. anti-trust law at this time and very much in the public's lexicon. 'You are opposed to competition, are you not?' asked

Untermyer. 'No, I do not mind competition,' replied Morgan. 'You are an advocate of combination and cooperation,' pressed Untermyer, 'are you not?' 'Yes: cooperation, I should favor,' replied Morgan ('cooperation' was a less culpable word and one offered by Untermyer, thereby lowering Morgan's guard for a follow up series of questions in which he asked Morgan to explain his view of combination and concentration). 'The question of control,' Morgan began. 'Without ... control, you cannot do anything.' Feigning confusion, Untermyer probed: 'Unless you have got control, you cannot do what?' 'Unless you have got actual control,' expressing annoyance that someone could not understand something so simple, Morgan continued, 'you cannot control anything.' Now Untermyer understood and replied, 'Well, I guess that is right. Is that the reason you want to control everything?' The trap having been laid, Morgan now tried to wriggle out: 'I want to control nothing.' 'What is the point, Mr. Morgan, you want to make?' Untermyer replied, returning to his staged incomprehension by way of exposing Morgan's evasion, 'because I do not quite gather it.'[10]

This series of questions and responses achieved for Untermyer his objective of showing the mindset of Morgan and by extension of the others for whom he spoke. While adhering to an idea of competition, it was not the one associated with *laissez-faire* economics, one approximating competition on Main Street among small businesses and farmers who had to tough it out in markets they did not control, passively respond to price fluctuations, face interest rates and credit conditions controlled in New York's money center banks. The emblematic representative of these money center banks was J.P. Morgan, who was now for the first time sitting before the public and being questioned in a court of public opinion.

Following on this exchange, Untermyer next probed into Morgan's idea of the 'trust,' holding assets in his private control on behalf of the nation. Just what was this all about? How did Morgan see his function, weighing his own private interests and the public's? Untermyer began with a series of questions about why Morgan would want to amalgamate large corporate concentrations, except for reasons of private gain for which the control discussed earlier was essential. 'If it is good business for the interests of the country to do it, I do it,' said Morgan. To which Untermyer nearly leaped out of his chair in a follow-up question: 'But Mr. Morgan, is not a man likely, quite subconsciously, to imagine that things are for the interests of the country when they are good for business?' 'No sir,' shot back Morgan. 'You think that you are able to justly and impartially differentiate, where your own interests are concerned,' asked Untermyer, 'just as clearly as though you had no interest at stake, do you?' 'Exactly, sir,' a now contemptuous Morgan replied. With an incredulity that spoke volumes to his larger public audience, Untermyer concluded, 'And you are acting on that assumption all the time, are you not?' 'I always do, sir,' and Morgan went on to become the questioner, not aware of the conflict between his statements to the committee and his standing at the top of a pyramid of corporate and financial concentration. 'What is your question?' he asked. To which Untermyer replied, 'That the wish to bring these interests together may lead you to believe that the country is not injured by that sort of concentration.' 'I do not think so,' Morgan responded firmly but with a weariness that betrayed his contempt for having to explain his outlook to Untermyer and apparently failing to convey his views effectively.[11] For Morgan it must have been frustrating arguing over a premise which for him was so obvious but not having the language to represent his position in the context of a competing premise accepted by the Committee and by the larger Main Street public it was courting.

Two large points of contention were established by Untermyer which set up a final dialogue. Having constructed the case that revealed Morgan's views of concentration versus competition and Morgan's private interest aligned with his assertion of the public interest, it remained to set up Morgan's core belief in the Bankers' Code, its accord or conflict with historic American values.

As always in such hearings, among the several volumes of text one exchange stands out. Morgan came to describe his philosophy of the Bankers' Code, the preeminence of character in the world of finance, and his beloved idea of 'trust' – trust in the character of the individual with whom you were engaged in a transaction, the trust as warden over the assets of an individual, a company, and indeed the nation's assets. Untermyer asked Morgan, 'is not commercial credit based primarily upon money or property?' 'No, sir, the first thing is character,' Morgan answered. Stacked against Morgan's denials, obfuscation and challenge to the committee's legitimacy, this revelation stood out in stark clarity. To the audience on Main Street it was received with disbelief. Here was a statement that the big banking houses on Wall Street were indeed a closed club where 'character' trumped the transparent balance sheet. For small farmers, shopkeepers and workers who had to provide so much paper to their local bank for a tiny bit of credit, what to Morgan was obvious and innocent was shocking to Main Street. As this colloquy proceeded Untermyer probed into Morgan's underwriting criteria. Does the 'banking house assume no legal responsibility for the value of the bonds it backs?'

'No, sir, but it assumes something else that is still more important, and that is the moral responsibility' of the bond holder to see that the management of the enterprises he holds in trust is performing properly. This confirmed Morgan's interest in protecting the bond holder. In the interpretation of his biographer, by this statement, Untermyer extracted from Morgan 'his rationale for the one-man control of the railroads' and other trusts he sponsored.[12]

The Pujo committee did not conclude there was a Money Trust – a conspiracy that would have been in violation of law – despite considerable circumstantial evidence. Instead they used the term 'community of interest,' born out of the club-like atmosphere among Wall Street bankers, their shared values and common interest in seeing themselves as the most effective custodians of financial wealth, emphatically requiring no regulation from Pennsylvania Avenue. The hearings, however, did irreparable damage to the reputation and awe with which these bankers had previously been endowed. Main Street saw them as rather arrogant men who appropriated great wealth and wielded power over them with a rationale that was at odds with the popular democratic principles taught in Main Street's schools. There seemed also to be a double standard, one for banking on Wall Street and another for banking on Main Street when it came to the criteria for the extension of credit and loans.

Morgan thought he had made a stout defense of his life and his view of the world. 'Father made a magnificent showing,' Morgan's daughter Louisa wrote in her diary, 'Untermyer *nowhere*,' reflecting not just a daughter's fidelity to her father but larger sentiment on Wall Street.[13] It was not received that way by the public, however. In his bewilderment this served only to confirm Morgan's predisposition toward reclusiveness. He went into semi-retirement after the Pujo Hearings and spent his time on his art and manuscript collections, among other interests such as the Episcopal Church and various New York museums he underwrote. He became ill in 1913 during his annual European trip and on 31 March he died in Rome. 'There will be no successor to Morgan,' said the *Wall Street Journal*. 'Now Wall Street is beyond the need or possibility of one-man leadership.'[14] His body was returned at the behest of his erstwhile foe, Secretary of State William Jennings Bryan, the great opponent of Morgan's cherished gold standard, and on 14 April 1913 trading was suspended on the New York Stock Exchange from 10 till noon in his honor and memory, the first time this was done for a private individual. That year also saw the passing of the torch to a new Morgan, John Pierpont Jr. (known as 'Jack'). Symbolically it was marked with the laying of a cornerstone by him on 30

December for a new Morgan headquarters at 23 Wall Street. It contained a copper box with Pierpont's will, a copy of Pierpont's Pujo committee testimony, the articles of partnership for the house of Morgan and, in a nod toward the Morgan's origins in British merchant banking, the form used for a letter of credit.[15]

THE MONEY QUESTION

The year Morgan died, 1913, produced two additional and significant developments on the path to financial reform. It was the year Congress established the Federal Reserve System, thereby resolving a controversy over a national bank that dates back to the founding of the country and Hamilton's first National Bank, carrying through to Jackson's successful challenge to Biddle's second National Bank in the 1830s.[16] It also saw a powerful critique of Wall Street's 'moneyed oligarchy,' as it was labeled, coming from a new source of progressive legal scholar whose writings appeared in the American mainstream media. Louis D. Brandeis, known as the 'people's lawyer' and who later became a Justice of the Supreme Court – whom Morgan's biographer describes as the 'most cunning and resourceful foe the House of Morgan would ever face' – launched a searing critique of The Street's banking rule by a handful of houses and did so in the popular and large circulation *Harper's Weekly*. He coined the phrase, 'other people's money,' to characterize succinctly the issue.[17] 'The development of our financial oligarchy followed ... [a] usurpation,' he wrote for a lettered and influential audience, thus legitimating a critique that had previously been outside the mainstream of elite opinion, 'proceeding by gradual encroachment rather than by violent acts [produced] subtle and often long-concealed concentration of distinct functions, which are beneficent when separately administered and dangerous only when combined in the same person.'[18]

Shortly after the publication of his articles, the editor of *Harper's Weekly*, Norman Hapgood, invited Brandeis to meet Thomas W. Lamont, later Morgan Chairman, at the University Club on Fifth Avenue (December 1913). 'Your are picturing our firm,' Lamont said, 'as having this gigantic power over men and matters,' implying that Brandeis did not really know how the financial world worked – a common ploy between critic and target for critique. 'It has the power, Mr Lamont,' shot back Brandeis. 'You may not realize it, but you are feared, and I believe the effect of your position is toward paralysis rather than expansion.' 'You astonish me beyond measure,' replied a dismissive Lamont. 'How in the world did you arrive at the belief that people are afraid of us, or that we have this terrific power?' 'From my own experience,' a calm Brandeis retorted.[19]

Brandeis perfected the substantive challenge to the concept of the Bankers' Code more effectively than anyone, created the argument for arm's-length banking arrangements that would break the intimate ties between banker and enterprise to which money was lent, and pressed the case for separation among various forms of banking that would inform the later New Deal reforms of the 1930s. This sophisticated attack on financial concentration coincided with the inauguration of the new Federal Reserve System.

The United States did not have a central bank until this moment; instead, Wall Street money-center banks – so called because they were the depository and manager of deposits from banks throughout the country – acted as a *de facto* private central banking system. They controlled the expansion of credit and acted as a lender of last resort as with Morgan in 1907. Morgan's confrontation with the Pujo committee wrote the final chapter on this anomalous arrangement for a country whose financial system was as large and important for worldwide finance as was the United States.

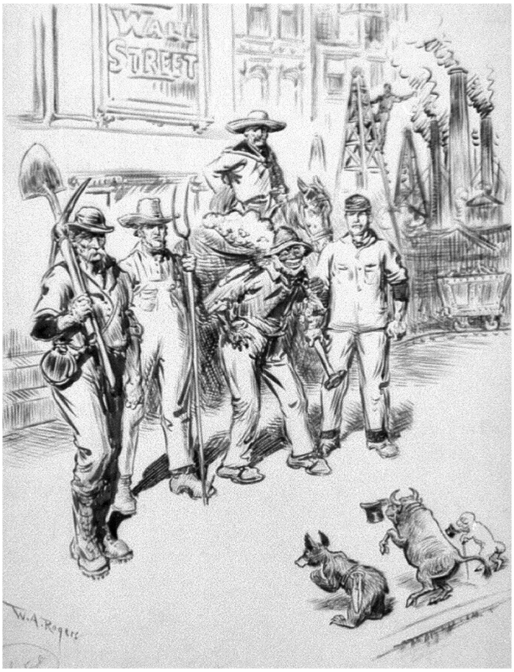
The background to this nearly century-long debate over a national bank is curious in that Wall Street and Main Street held shifting positions on what came to be known as the *money question*. During the Jacksonian period, Main Street opposed the Second National Bank and the alleged oligarchy of money rule from the northeast. They reversed position and came to support a public national bank after the Civil War, however. The reason for this switch was their experience without a public national bank and Wall Street's appropriation of its functions. Wall Street's money-center banks were seen as restricting credit to borrowers on Main Street in favor of large Wall Street and foreign borrowers. The subtext for this dispute was easy or hard money, a rigid adherence to a gold standard or a looser currency backed by a combination of the more expansive combination of silver and gold. Wall Street supported the hard-money, gold-standard position, it argued, to restrain inflation and prudently calibrate the expansion of liquidity in order to solidify its creditworthiness among European bankers. In their conventional role as protectors of the value of existing wealth, The Street's bankers feared inflation above all else and saw themselves as the custodian of a strong dollar. Main Street's soft-money posture offered an alternative argument for economic growth through more liberal credit and the creation of new wealth. Lines were drawn: protect existing wealth (Wall Street) or create new wealth (Main Street). Since Main Street bankers were dependent on Wall Street for their lending capacity, their hands were tied when potential borrowers came to them for loans. Additionally, they were tethered to Wall Street through their deposits in The Street's money-center banks, because these banks paid interest on idle deposits. Consequently, Main Street bankers' interest in the protection of their wealth was coincident with The Street's hard-money, anti-inflation bias for the most part. Main Street's bankers found their prosperity linked to Wall Street's.

The money question figured prominently in the origins of the American populist political movement drawn from outside the northeast and made up of farmers, small businesses on Main Street and an emerging labor movement. Although difficult to pinpoint in its origins, a likely candidate for the formal establishment of the populist political movement was a meeting held in Lampass County, Texas in 1877 when the Knights of Reliance was organized. It warned against an impending future 'when all the balance of labor's products become concentrated into the hands of a few, there to constitute a power that would enslave posterity.'[20] The Knights were reconstituted in a few years as the Farmers Alliance, which a decade later spread from the Dakotas in the west to the Carolinas in the east.

Money was not a commodity for management by experts on Wall Street, argued these Populist Alliances, but was at its core a political question open to democratic adjudication by all classes and mediated through the political system. Says a chronicler of the Federal Reserve, 'money' was a

> political question – a matter of deliberate choice made by the state. ... Money was an everyday argument among competing interests, in which some would benefit and some would lose ... a social plan that rewarded or punished, stimulated or restrained. Money might encourage democratic aspirations or thwart them.[21]

Nineteenth-century discourse was rife with these debates; ordinary citizens were familiar with the nuances and the polemics of the arguments, unlike the muted discussions over what had become an abstraction in the twentieth century. The money question exercised the nation's politics in the three decades leading up to the establishment of the Federal Reserve. In 1886 the various Farmers Alliance chapters meeting in Cleburne, Texas drew up a platform plank with principles that embodied federal regulation of the banking system and a national currency whose expansion was not constrained by gold. This was refined further at the St. Louis Alliance convention in 1889 where these principles were elaborated into detail that framed the architecture of a central bank. This movement powered the



14. The 'Money Question'

Another view of the bulls and bears (and lambs – lower right) of Wall Street, published in 1916. Here the powerful images of Main Street in the person of from left, the miner, farmer, African-American share-cropper, Hispanic rancher and generic factory worker challenge The Street's claim that it is the source of American wealth creation. Meekly the bulls and bears (and lamb) are portrayed as supplicants to the 'real' creators of wealth symbolized by the factory, mining car and oil rig (to the right). (By William Allen Rogers for the New York *Herald*, 16 October 1916, Library of Congress, Prints and Photographs Division.)

trajectory toward its realization, which, however, looked quite different from the ultimate Federal Reserve.

The St. Louis plan envisioned a central bank administered by an elected board with broad representation and decentralized to take account of distinct regional requirements. The 1913 Federal Reserve system accepted the idea of regional adjuncts of the central bank but placed them under direct ownership and control of private banks in a region. Rather than directly elected governors, it imposed an indirect democratic process in which governors of the Federal Reserve were appointed by the President with Senate approval. 'The money creation system that was adopted in 1913,' argues an historian of the Federal Reserve System, 'preserved the banking system as the intermediary that controlled the distribution of new money and credit.'[22] This was not what its originators had in mind.

Money-center banks on Wall Street lost little influence after the creation of a Federal Reserve they initially opposed. They prospered in two ways. First, the U.S. government and the Treasury now assumed the burden of lender-of-last-resort when bail-outs of the financial system were required, relieving The Street's banks of this expensive and troublesome obligation. Second, this Federal Reserve system ultimately de-personalized the money question and placed a cloud of mystification around the banking system. There no longer was an individual such as Morgan who could so readily be identified with Main Street's complaints. The melodrama faded and its villainous heavy was replaced by a modern, ambiguous and professional managerial class which was less easy to target by a political opposition. As a peculiar American institution of the reformist twentieth century, the Fed, as it came to known, was a mixture of the private and the public, blurring the lines between the political and private spheres of activity. It was the quintessential representative of the Progressive era in which professional public administration would manage national assets presumably for a public's interest while tied closely to and dependent upon a powerful private interest – The Street's banks. Modified twice by Congress – in 1935 and 1980 – the Federal Reserve became, in alliance with Wall Street, one of the most powerful forces in the consolidation of the American Century.

THE GREAT CRASH AND ITS AFTERMATH

The Federal Reserve and Morgan's death in 1913 were but two of the prophetic events of that year. The third was the ensuing consequence of World War I for Wall Street. From a net debtor of more than $3 billion in 1914 it became a net creditor of $5 billion to the rest of the world by 1917. As the *Manchester Guardian* editorialized, 'It can hardly be doubted that under these circumstances, New York will enter the lists for the financial leadership of the world. ... American bankers will have acquired the experience they have hitherto lacked in the international money market and all this strengthened financial fabric will rest upon an economic fabric which the war will have much expanded.'[23] It was a role, however, that produced an ambivalence. Was the country better off as an island enclave disengaged from the world or should it assert its ordination to spread the American idea?

Wall Street was given a crude example of what this dilemma implied on 16 September 1920 when a horse-drawn wagon loaded with 500 pounds of iron sash-weights and explosives parked on The Street between Morgan's building and the U.S. Assay Office on the other side. In the explosion which ensued the iron weights traveled like machine gun projectiles through a lunchtime crowd, killing 38 and wounding 300, narrowly missing the young Joseph Kennedy, father of the Kennedy dynasty. The Morgan building's Tennessee marble was scarred and damaged with pockmarks that have been kept unrepaired to this day as a memorial to the two bank employees who died.[24] This incident was as alarming to Wall Street in 1920 as the attack on the World Trade Center in 2001. A wave of anti-immigrant sentiment engulfed the nation. The bombing itself was associated with immigrants. As great as the shock was to the nation and to Wall Street, the bombing came to symbolize the dilemma faced by a nation unsure of whether it wanted to join the world or remain apart from it. The decision to enter World War I evoked this controversy, and incidents such as this were seen as extensions of that decision, confirming the isolationist predisposition of many Americans.

In the aftermath of the war and the ensuing decade of the 1920s an aggressive bull market engulfed Wall Street. With the automobile transforming the way Americans moved about, electricity coming into its own

15. Bombing
In the aftermath of the bombing on Wall Street that was directed at the Morgan building, as police officers and citizens survey the damage to an over-turned automobile. (Library of Congress, Prints and Photographs Division.)

in changing the way people lived in their houses and worked in the nation's factories, and the telephone expanding into homes and workplaces speeding up the flow of information, the country seemed to be set upon a path to permanent prosperity. No one saw the flimsy base upon which this edifice was constructed, as is always the case with a classic bubble economy.

When the bubble burst on Thursday, 24 October 1929, it started on Wall Street with the failure of the unfortunately named Bank of United States, the fourth largest in New York with 450,000 depositors, whose name gave it more importance than it actually had.[25] This started a minor run on banks and symbolically was the trigger for the crash. One unresolved question surrounding the collapse of the Bank of United States is why the Morgan bank did not intervene to stem the run. There has always been speculation that it was due to prejudice against Jews on Wall Street, because the Bank of United States was Jewish-owned and catered to a Jewish clientele. As Morgan's biographer conjectures,

> with so many Morgan rescues occurring in those years, all backed by high-flown rhetoric about saving the banking system, it's hard to believe religion wasn't a major factor behind Wall Street's refusal to act. Hundreds of thousands of Jewish depositors were not worth one Charles Mitchell. [National City Bank] Jews were always a blind spot in the [Jack] Morgan vision, no less than in the days when Pierpont Morgan had vied with Jacob Schiff.[26]

The panic moved on the next day to the Stock Exchange where a wave of selling attacked share values. Heavily margined holders of stocks – the practice of buying stocks with leveraged debt – saw their brokers call in loans, and a cascade of falling share values followed as everyone needed to sell to cover these margin calls. No one was buying. The actual losses for the economy were small but the symbolic value was large. The best estimates are that in 1928 only some 3 million individuals out of a population of 120 million owned securities, concentrated in 600,000 margin accounts in the large cities with few such accounts among workers, farmers or small business people.[27] They held their savings in banks, which also began to fail, or purchased stocks with cash. The fall-out from brokers calling in loans from margined stock holders on Wall Street caused The Street's banks to run short of cash. They then called in their loans to banks around the country on Main Street which were tied into the money-center banks on Wall Street. The resulting domino effect produced a withdrawal

16. Anticipating the Crash of 1929

In the expressionist style of this period, the artist in 1926 foreshadows a Wall Street in panic that occurs three years later, with prices falling (upper left), aside a broker about to shoot himself, and the stock ticker machine from center to bottom left, where the tape is in the hand of a dark somber face. Accompanying this lithograph is a poem by Vachel Lindsay: 'What will you trading frogs do on a day when Armageddon thunders through the land, when each sad patriot rises, mad with shame, his ballot or his musket in his hand.' (By William Gropper, *New Masses*, v. 1, October 1926. Library of Congress, Prints and Photographs Division.)

of money from the economy, a contraction of liquidity – the very opposite of what was required. The Federal Reserve was created to handle precisely these sorts of financial problems.

Facing its first management crisis, the Federal Reserve defaulted. They followed the lead of a Wall Street ever fearful of inflation, not understanding that the problem was deflation, and placed priority on calming the fears of foreign clients and protecting bond holders. Instead of expanding liquidity to cover the market's contraction of liquidity by pumping money into the system, they adopted a *laissez-faire* position, allowing the financial system to contract. The subsequent contraction of liquidity in the banking system spread beyond the financial to the manufacturing sector and a vicious downward cycle of deflation and depression ensued. Its origins were in a financial bubble in which share values were driven up by speculation on leveraged margin accounts, all motored by an inequality in income that produced idle funds at the top and inadequate resources for consumption in the middle to bottom. However, the Fed was culpable, too, in following Wall Street's lead against aggressive intervention, in bending with the hurricane-like forces of the wind instead of standing against them. Main Street's suspicions were confirmed: the Federal Reserve was not on its side, but had instead been appropriated by The Street to do its bidding. This set the stage for a confrontation between Pennsylvania Avenue and Wall Street unique in the nation's history. It followed on Franklin D. Roosevelt's election to the presidency in 1932.

A NEW AND BETTER DEAL

Franklin D. Roosevelt's election heralded a New Deal for the ordinary American and a new wave of regulatory constraints for Wall Street. Shortly after his inauguration in March 1933 he asked Congress for banking legislation that would be based on the 'ancient truth that those who manage banks, corporations, and other agencies handling or using other people's money are trustees acting for others,' with an obvious nod to J.P. Morgan's philosophy and Brandeis's critique, but now asserting Pennsylvania Avenue's role in assuming and defending trusteeship over the value of the nation's money. This clear statement followed on another challenge to bankers in his inaugural address: 'the money changers have fled from their high seats in the temple of our civilization [and] we now restore that temple to the ancient truths.'[28] These were words Wall Street had never before heard from Pennsylvania Avenue but their defenses were down, having been shattered by a financial and economic reality and decades-long public debate. Now the representatives of a popular politics on Main Street had the upper hand, and The Street found itself in an unfamiliarly defensive position. In the summer of 1932, alarmed by Roosevelt's embrace of banking reform making its way through Congress, Russell Leffingwell – a Morgan bank top manager, later Chairman of its board and one of those few in the House who had voted for Roosevelt – wrote to 'Frank': 'You and I know that we cannot cure the present deflation and depression by punishing the villains, real or imaginary ... and when it comes down to the day of reckoning nobody gets very far with all this prohibition and regulation stuff.' Undeterred, Roosevelt, who by now was seen by many on The Street as a traitor to the New York aristocracy from which he came, bluntly replied by saying, 'I wish we could get from the bankers themselves an admission that in the 1927 to 1929 period there were grave abuses and that bankers themselves now support whole-heartedly methods to prevent recurrence thereof.'[29]

As before after the 1907 crisis, Congress convened hearings, this time in the Senate Subcommittee on Banking and Currency under the direction of chief committee counsel, Ferdinand Pecora, former Assistant District Attorney from New York. As a representative of a new class of immigrants, who made their way to power through the city's political machine, Pecora knew well the haughtiness and disdain with which he and his fellow immigrants were held by The Street's denizens. He was born in Sicily and his thick, wavy, peppered gray hair betrayed his origins. As Assistant District Attorney, he had tangled with Wall Street's operations, from bucket shops to money-center banks. His investigation started before Roosevelt's inauguration in January 1933 and carried through May 1934, filling eight volumes and 10,000 pages.[30] In the popular idiom bankers were transformed into 'banksters' by the hearings.

Three decades earlier in the Pujo hearings, the central confrontation was between the committee's counsel, Untermyer, and the head of the House of Morgan – J.P. This was to be repeated in the colloquy between J.P.'s son, Jack Morgan, and Pecora, whom he once in private called a 'dirty little wop.' Now J.P.'s son was engaged in verbal sparring with another ethnic. After Morgan's initial refusal to cooperate with the committee and open its records to investigators, the Senate ordered the House of Morgan to comply. For the first time outsiders were able to examine the files at 23 Wall Street. By extension the public was able to peer into the workings of the great House of Morgan and its operations. Finally on 23 May 1933 the awaited showdown occurred between Jack Morgan, now 66, and the

53-year-old Pecora, the 'imperturbable Bourbon and the assertive immigrant,' in the characterization of Morgan's biographer.[31]

Jack Morgan's opening prepared statement took its lineage from his father's: 'The private banker is a member of a profession which has been practiced since the middles ages,' he began.

> In the process of time there has grown up a code of professional ethics and customs, on the observation of which depends his professional reputation ... if in the exercise of his profession, the private banker disregards this code, which could never be expressed in any legislation, but has a force far greater than any law, he will sacrifice his credit.

Thus once again a reversion to the Bankers' Code, Morgan's birthright, as having more strength in exercising trusteeship than any act of Congress. Here we see the core point of dispute. Should Wall Street remain a self-regulating private organization or be subject to the rule of law enacted by elected members of Congress? Would The Street be subject to regulation by a democratically elected Congress or would it be construed as a voluntary organization regulated by markets? Would Pennsylvania Avenue assert its rule-making and refereeing claims on Wall Street on behalf of a Main Street that had no access to influence on The Street?

As the hearings wore on, Morgan dug himself into a deeper hole by his testimony. Take this exchange with Senator Duncan U. Fletcher of Florida and Chairman of the committee. Fletcher wanted to know whether Morgan and his kind would accept anyone's business, in just the way it was done on Main Street. 'I suppose if I went there [to Morgan's bank], even though I had never [seen] any member of the firm, and had $100,000 I wanted to leave with the bank, you would take it, wouldn't you?' 'No; we should not do it.' 'You would not?' an incredulous Fletcher asked. 'Not unless you came in with some introduction, Senator.' It did not end there at this colloquy on the Bankers' Code. Pecora was able to show from the investigation of Morgan's records that he and his partners held 126 directorships in 89 corporations with $20 billion in assets. Yet Jack had paid no income tax between 1930 and 1932 and all 20 Morgan partners likewise paid no income tax in either 1931 or 1932. The flood gates were open. Nothing could protect The Street's defense of its code from Congressional legislation, not even a public relations stunt, designed to 'humanize' Morgan and promoted by Charles Leef of the Ringling Brothers Circus. He had the 27-inch, 32-year-old midget, Lya Graf, brought to Capital Hill from the circus and sat her on Morgan's knee. A photo of this appeared in virtually every newspaper the next day and became a signature Depression photo. Morgan actually appeared bemused and fatherly toward the adult on his lap, but the unintended subtext was of a large man of power and a fragile tiny woman, the one sitting throne-like and the other a supplicant on his lap. The man of power, the banker, could obviously at any moment throw the significantly weaker Graf off his lap onto the ground. It summed up main Street's understanding of the distortion of power between itself and Wall Street and, once again, personified it in a Morgan.

Morgan was frustrated by his inability to convince the public of his and his house's fidelity to the country and its financial morality. The consequence of the hearings became for Morgan a form of psychologically and self-imposed internal exile in his own country, albeit still with immense wealth and power. He could never overcome his sense that he let his father down and was the personification of the defeat and demise of the Bankers' Code. Lya Graf's fate was far more tragic, however. Projecting her into a celebrity spotlight produced humiliation and jokes about her minute size that she could not tolerate. Half Jewish – her real name was Lia Schwarz – she returned to her native Germany in 1935 and two years later was sent to Auschwitz where she died, a victim of the dual stigma of being Jewish and stunted in her growth. Morgan was to know nothing of this or how his meeting with her for a public relations stunt to smarten up his image was to be the cause of this tragedy.

In quick order and in the midst of these epochal hearings the first legislation regulating Wall Street's securities markets was passed by Congress: the Securities and Exchange Act of 1934, forcefully opposed by Jack Morgan on behalf of The Street. The essence of this act was transparency, a truth-in-securities law that required registration and full disclosure with enforcement powers in the SEC (Securities & Exchange Commission) and the Federal Trade Commission, whose existing powers were expanded to cover new issues of securities. *Caveat vendor* supplanted *caveat emptor* as a regulatory principle that has performed imperfectly but certainly provided a degree of protection for buyers of securities they would otherwise not possess. A year earlier the Glass–Steagall Act (1933) had offered coordinate protection for ordinary bank depositors by, first, prohibiting commercial and savings banks from investing in the stock market's securities, and second, establishing a bank insurance fund for protection of depositors: the Federal Deposit Insurance Corporation. In essence, this legislation took direct aim at the House of Morgan, segmenting the banking industry between commercial bank short-term lending and long-term capital financing through investment banks' underwriting of stocks and bonds.

A financial institution had to choose which of these it wanted to pursue – investment banking or large, customer-based commercial banking – and a firewall was erected between the two functions of banking. The Morgan's chose investment banking, harking back to its origins in the merchant banking system of the City of London.

The intellectual source for the conceptualization of all this legislation was attributed to the now Supreme Court Justice, Louis Brandeis, and his famous work of 20 years earlier, encapsulated in 'Other People's Money.' This phrase found its way into President Roosevelt's speeches and its use was not lost on the Morgans. Early in 1934 after a re-issue of Brandeis's book, Russell C. Leffingwell – Morgan partner and conduit to the Democratic Party – wrote to Thomas W. Lamont, Chairman of the Morgan house, placing responsibility for the Glass–Steagall banking reform legislation on the pen of Brandeis in less-than-flattering terms. 'I have no doubt that he inspired it, or even drafted it. The Jews do not forget. They are relentless.' Leffingwell understood the depth of the political problem facing the Morgans and the banking oligarchy on Wall Street. 'I believe we are confronted with the profound politico-economic philosophy,' he told Lamont, 'matured in the wood for twenty years, of the finest brain and the most powerful personality in the Democratic party, who happens to be a Justice of the Supreme Court.'[32]

Brandeis was no doubt influential, more through his writings than direct drafting. The actual designer of banking legislation, particularly Federal Reserve reform, was an unlikely luminary who emerged from far outside The Street in the person of Marriner Eccles: a Mormon from Ogden (Utah), owner of the First National Bank in Ogden, who mounted one of the few successful ploys to stem the run on banks in the early 1930s. Folksy, like Jimmy Stewart in Frank Capra's 1946 film, *It's a Wonderful Life*, when lines started to form among depositors wanting to withdraw their money from his bank, he made a display of the cash his bank had on hand, so they could see the reserves he possessed. 'Many of you have been in line for a considerable time,' he said to the throng waiting at the bank's teller windows. 'Instead of closing at the usual three o'clock, we have decided to stay open just as long as there is anyone who desires to withdraw his deposit or make one.' To make this work, Eccles had arranged for the regional Federal Reserve in Salt Lake City to bring a large amount of dollars to the Ogden bank, and he showed this off proudly. With a transparency unusual for banks, he said to the crowd, 'As all of you can see, we have just brought up from Salt Lake City a large amount of currency that will take care of all your requirements. There is plenty more where that came from.'[33] This exercise taught him another lesson: when the Federal Reserve assumed its rightful role as lender-of-last-resort, it could plug leaks and the dam would hold out against a potential flood of depositors' withdrawals.

Roosevelt named Eccles Chairman of the Federal Reserve in 1934, a position he held for 14 years. An unlikely choice, drawn far from the geography and ideology of Wall Street, Eccles was the populist's dream: a banker of solid probity from the West, unburdened by the East's albatross of the Bankers' Code, and tutored in the banking needs of small borrowers on Main Street – much like the clientele he served in Ogden, Utah. He steered banking legislation he had drafted through the Congress. He reformed the Federal Reserve by placing control of monetary policy in a new Open Market Committee, thereby removing it from the control of The Street's money-center banks where it had been since 1913.

Taken together, these and other measures for the first time inserted Pennsylvania Avenue into the triad that included Main and Wall Streets, placing Pennsylvania Avenue on the side of Main Street and relegating Wall Street to a defensive position in which, for the first time since 1792, it began to lose the argument that it was a private, self-regulating membership organization and knew how to protect the public better than Pennsylvania Avenue. We hear echoes of this at the turn of the twenty-first century in the self-regulated accounting industry's assertion of precisely this point after the collapse of Enron, WorldCom and others and the revelations of accounting misfeasance and malfeasance. Of course, this idea goes back to the very origins of Wall Street when it used exactly this defense in 1792 against prospective regulation by the state legislature of New York.[34]

During Eccles's tenure and supported by Roosevelt's equally populist Secretary of the Treasury, Henry Morgenthau, Jr., monetary and financial policy began to approximate to what Main Street sought from Pennsylvania Avenue: an honest hearing and attention to its requirements, persistent challenges to Wall Street hegemony on behalf of Main Street, and credit policies that placed them as co-equal with bond holders on The Street. This did not last beyond a decade or two, as Wall Street regrouped and adapted to a new political reality, but at least for a time the nation was exposed to the way a balanced and proportional financial system could function, leaving it an historical record against which prior and subsequent arrangements could be measured. The far-reaching banking and monetary reforms of the New Deal framed public policy for nearly half a century until the deregulatory thrust of the 1980s undid them. From Pennsylvania Avenue as rule-maker and umpire for the game of money and finance, it retrogressed after the 1980s to its pre-1930s role as cheerleader on the sidelines, but ever ready to bail out the banks when they overextended themselves.

THE ERA OF GLOBAL FINANCE

The regulatory regime established during the 1930s prevailed until its undoing in the deregulatory movement of the 1980s. In that half-century the American economy grew faster than in any other comparable period in its history. It was also the only such half-century span without a major or even minor financial crisis on Wall Street, which had become accustomed to one every ten years or so from its origins in 1792 to the 1930s. The first pre-1930s-style financial crisis occurred in October 1987 and a more serious one 15 years later in 2002. Many on The Street would deny that the financial regime constructed during the 1930s had anything to do with this half-century record of stable economic growth. While grudgingly accepting and adapting to Pennsylvania Avenue's attention during the 1930s, The Street resisted any further incursions into its private self-regulating world, notwithstanding the advantages of the stability brought to Wall Street by the Roosevelt reforms and the post-World War II international financial regime.

At the end of World War II, Wall Street and the nation now assumed the worldwide leadership role the United States could objectively claim. It was the moment for Luce's American Century, and with some fits and starts the country had asserted its title by the 1950s. This was prepared for by an extraordinary conference toward the end of World War II at Bretton Woods, New Hampshire – convened in a turn-of-the-century grand hotel that backed onto the White Mountains – where some 730 delegates from 44 countries met to plan for the post-war world economy, which had been laid to rubble, initially by the breakdown of the world economy during the Great Depression, and, secondly, reduced literally to ruins by the war itself. The lone remaining economy left standing after these twin disasters was that of the United States. The conference planning had actually begun shortly after America's entry into the war. On 14 December 1941 – a week after the Japanese attack on Pearl Harbor – President Roosevelt wrote to his Secretary of the Treasury, Henry Morgenthau, Jr., 'to think about and plan for an Inter-Allied Stabilization Fund [that would] provide the basis for post-war international monetary stabilization arrangements; and to provide a post-war "international currency".'[35] In this endeavor Roosevelt involved both the Soviet Union and Great Britain, the three principal allied governments during the war. The Soviet Union took little interest in this project. The British, however, did, and Churchill assigned the task of developing a plan to John Maynard Keynes, the most important living economist. Morgenthau gave the portfolio to one of his deputies, Harry Dexter White, the son of Jewish immigrants from Lithuania and virtually unknown when he was given this assignment. White, however, came to be every bit as clever as Keynes in the negotiations over the institutions that would govern the world economy, and, of course, he was aided by the fact that the U.S. held most of the strong cards in the deck by virtue of its relative economic and financial strength.

What came out of Keynes's and White's exchange of memos and proposals were institutions that for the first time represented a publicly established set of boundaries over the operations of the world economy and finance to accompany the New Deal's inspired boundaries around the domestic financial regime. At Bretton Woods two new international institutions were established: the World Bank (officially called the International Bank for Reconstruction and Development) to raise and channel capital to where it was needed, and the International Monetary Fund, whose original function was to assist in the stabilization of foreign exchange rates and act as a lender-of-last-resort when they fluctuated beyond some agreed band. These arrangements effectively extended the policy architecture for the domestic U.S. financial system in several ways. First, transparent rules were written. They were next enforced and supported by an international organization that was governed both by national governments and by independent managers, drawn from many countries and, supposedly, answerable to neutral financial principles, rather than to national governments. In short, this was in essence an extension of the Progressive movement's faith in public administration and the application of objective theories to empirical information. Second, the Bretton Woods system asserted a public role in managing worldwide financial markets to complement the public's function in doing the same in domestic financial markets.

Put into operation in 1946, the Bretton Woods system represents the zenith of this set of ideas. It had roughly a 25-year run before it began to unravel between 1971 and 1973, largely for lack of imagination on the part of governments in the 1960s and their unwillingness to update the Bretton Woods institutions and adapt them to a set of new economic conditions.[36] Nonetheless, during that quarter-century the world economy grew faster than during any 25-year stretch before or since. And there was no financial crisis during that period, either.

Wall Street, as always, opposed the Bretton Woods arrangements even though its residents came to benefit enormously from it. In fact, it is fair to say the system established in New Hampshire in 1944 was the enabling device that established The Street as the uncontested leader of world finance. The dollar became the world's reserve currency, to the dismay of Keynes and the British who tried to forestall this by advocating a new world currency separate from any one nation's. White and the U.S. opposed this and prevailed over Keynes's objections. The Street, however, was stuck in its ideology of opposition to any public role in finance, which they continued to construe as a private market affair arranged among a self-regulated membership organization, whether it be formal – as with the New York Stock Exchange – or informal as among friends and family.

The American Bankers' Association reacted to Bretton Woods, by proclaiming in one of the worst forecasts ever made that '[we] find provisions which, in our opinion, are financially unsound and, if adopted, might retard rather than promote enduring recovery.' Morgenthau replied with characteristic bluntness: 'Is it better for us to take the risk and spread it among forty-four partners or to have five banks in New York dictate foreign exchange rates ... and having London lead us around by the nose, which they have done in the last one hundred years.'[37]

A new composite governing economic philosophy was emerging, one in which a publicly established envelope of rules created regulatory boundaries that banded economic and financial instability, not so much that innovation was stifled, but just enough to allow more investment and creativity to be launched. A degree of stability and predictability that reduced risk and uncertainty, bounded by and guaranteed by the public, would allow the private market economy to function better by encouraging investment and innovation within a range of constrained risk. In this way the tables were turned on conventional economic thinking in a way that is at odds with the prevailing philosophy today which re-emerged in the 1980s atmosphere of privatization and de-regulation, namely that unbounded risk freed from the nuisance of public regulation is required for investment and innovation. What has also reappeared, however, is financial instability and crises that were all but obliterated during the quarter-century of the Bretton Woods regime. An editorial comment from the *Christian Science Monitor* in February 1945 sums up the distinction in these viewpoints:

> At the heart of the matter is the fact that this machinery [Bretton Woods] would be put into the hands of public servants, paid executives of the

> governments involved, rather than in the group of private and powerful international bankers in 'The City' in London, and in lower Manhattan in New York. You can see at once why there is a row involved. It depends on whether you think public servants can do the international job better than big private banks ... who have been doing it in the past.[38]

The evolution from an international economy between 1946 and 1971 – that was made up of one part public and the other part private – to a global one was incubated in the early 1970s with control centered in the private market. It came in bits and pieces with no grand plan. It was hastened along by the 1970s epochal changes in the technologies of communications and information – comparable to the role of the telephone and telegraph a century earlier.

During the Bretton Woods period Wall Street became one of the essential governors over a new international economic order that was not yet 'global' but was setting the conditions for a new global economy. The distinction between these two terms – 'international' and 'global' economy – turns on one important difference. An international economy reflects arrangements among nation-states in which countries set the rules and enforce them. This is the Bretton Woods financial regime. A global economy is a set of arrangements among private non-state actors – corporations, banks, media, technology and information systems – that circumvent, supersede, and eviscerate nation-state boundaries and public policies. They are supranational, transcending the boundaries of countries and their public policy reach in the first instance. Secondly, they resist effectively any envelope of regulation emanating from an international organization or country unless they conform to and reinforce the direction laid down by the private arrangements of markets. In effect, a global economy takes us back to the future with a new form of Morgan's Bankers' Code now written for a global era of communications and information management, whose speed, capacity and scope would have been unimaginable in Morgan's era.[39]

STREET OF DREAMS – BOULEVARD OF BROKEN HEARTS

In many ways Wall Street in the year 2000 would be unrecognizable to the Wall Street of 1800 or 1900. In other ways it would. It has always physically been an anachronism among American cities – 'an old city of Europe, with narrow, irregular streets and random congestion of its buildings,' is an apt description, where the 'essence of finance was ... an exchange across time

... between the past and the future ... the surplus accumulated from past endeavors was made available to new ventures, with the promise of future rewards for both.'[40] Nor is the revolution in telecommunications and information processing wrought by the computer and digitalization of the last quarter of the twentieth century not comparable to that of the telephone and telegraph a century earlier if measured by the degree of change relative to where Wall Street was in each of those quarter-centuries. Going from the speed with which an individual could physically move information by foot or horse to the transfer of information by telephone or telegraph is arguably a more dramatic transformation than the one associated with the computer and satellite communications that either replaced or supplemented the telephone and telegraph.

At some point, however, these quantitative changes in The Street metamorphose into something qualitatively distinct, and that is what would immediately confront the visitor from a century ago. The dazzling pace of transactions across such a multitude of financial products and tens of millions of investors, moved instantaneously to any spot on the globe would, to a nineteenth-century observer, leap forward into the realm of science fiction, a literary genre that had not yet been invented in that earlier century. From another perspective, however, the pace of nineteenth-century Wall Street was equally frenetic. Recall the curb market with its legions of brokers dressed flamboyantly to distinguish one from another as they relayed transactions to their clerks hanging from window ledges. Or the scurrying about of hundreds of runners – pad shovers – taking bits of paper from one office to another non-stop through the night, so that all buys and sells could be recorded before markets opened the next morning. Perhaps the difference is more perceptual: the one moving in physical and observable space, the other operating across abstract ethereal space.

There is one incontestable difference in today's Wall Street, however, compared to previous centuries. More financial activity has moved beyond The Street. The concentration is no longer exclusively situated in that small neighborhood of lower Manhattan. The target for 11 September 2001 was American global finance, but the attack was on the Twin Towers of the World Trade Center not Wall Street itself. There have been recurrent predictions of the end of Wall Street in its more than two-century history, but all of them have been shown to be as unreliable as the predictions of the markets' ups and downs. A wave of these appeared in 1992 on The Street's two-hundredth anniversary as in this faulty forecast on the occasion of the anniversary celebration. 'After the hoopla was over, the pesky question lingering on many minds was whether the Big Board, in anything like its current form, will still be round for No. 210.'[41] After a decade of unsurpassed expansion in the markets and subsequent collapse, Wall Street has remained the hub. Wall Street understood this better and in its anniversary proclamation it took out three full pages of newspaper ads, leading with just these words on the first page superimposed on the great columns of its building, 'This is not Just A Place,' and continuing onto the next double page: 'It's A Way Of Doing Business.'[42]

The explanation for The Street's persistence, therefore, is to be found not solely in the mechanics of buying and selling stocks and bonds. More significantly, The Street retains the iconographic mantle for America's global financial reach. It is the symbol, the keeper of the mythology, the metaphorical place from which the great power of American capital bestrides the planet. It is the custodian of the imagination that sums up everything the American Century brought to the world through the force of its financial invention. Newscasts end with a shot of the New York Stock Exchange's podium, with the bell clanging and some dignitary pounding the podium with an oversized gavel, while flashing across the screen are the market's closings with voice over from the news anchor reading out scores as if from a sports event. There is much symbolism here: a harkening back to a presumably more manageable and comforting past (the bell and the gavel), while enduring the hectic present with numbers in the billions of transactions whose dimensions are hard to grasp. Even though other markets challenge The Street – as they did in the nineteenth century – none can replace it in its monopoly over the American imagination, the country's infatuation with money as idol and the quixotic attachment to this one place that embodies the gambler's illusions that are scattered about the many Main Streets of America.

In this drama Wall Street needed a Main Street, for two reasons: first, as a source of supply of money from small investors that, when packaged together, became large bundles of capital for investment in the grand undertakings that powered the American economy from virtually nowhere to the supreme economy in the world in not much more than a century. Second, The Street needed Main Street to provide it with the popular political cover and support against a potential challenge from Pennsylvania Avenue. Main Street was invested in Wall Street both in the form of financial capital and in the guise of 'political' capital: that crucial identification with an individualist-based economy of which Wall Street was the premier emblem. Wall Street constructed the ideology of 'people's capitalism,' in which everyone could effortlessly participate in the big economic show. It put teeth into this with the formation of mechanisms for accomplishing its ideological objective, starting with Cooke's mass sale of bonds during the Civil War and continuing through the invention of small accounts for individual investors throughout the country in the twentieth century. The Street's ability to adapt itself and absorb political challenges are all part of the unique American creation of a financial market that reached from the loftiest towers of capital on and around Wall Street to the smallest Main Street in the smallest town in the United States. It was in the business not only of marketing securities but of manufacturing dreams.

As in the past, these longings continue to become broken hearts, renewed periodically by a new slate of seductive scoundrels and scandals. The American Century's *fin de siècle* of dot.coms that came and went, powered by overwrought IPOs (Initial Public Offerings), the inevitable follow-on of discoveries of scandal wrapped in a deceptive opaqueness – Enron, WorldCom, Arthur Andersen accounting practices and The Street's own contribution in the form of misleading investment reports – is not terribly dissimilar to what transpired in the past, starting with the very origins of Wall Street in 1792. But scandals and scoundrels are not the only history of Wall Street. It is a remarkable place that has adapted to change and survived longer than any other non-governmental institution in the United States. More than any such organization, it has helped shape the nation.

When infatuation turns to betrayal after a bubble's burst, there is always talk of the end of Wall Street. Main Street will never touch it again, proclaim the pundits. Pennsylvania Avenue will see to it that power is divested from The Street. This has been wrong in the past and will be wrong in the future. After all, we all need dreams – that pile of gold at the end of the rainbow – as in Judy Garland's plaintive rendition of E.Y. Harburg's, 'Somewhere Over the Rainbow.'[43] It doesn't matter that hearts have been broken in the past. Main Street and the nation will continue to be guided in their dreams by the walk with The Street's leaders, parting company for a time when it becomes a boulevard of broken hearts, only to return again when elapsed time obliterates a bad memory.