

# THE 1933 SENATE BANKING INVESTIGATION—AND THE BEGINNING OF A FRIENDSHIP

by  
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The Stock Market crashed in October, 1929, and the Great Depression set in. President Hoover and Congress struggled against odds, things got worse and Franklin D. Roosevelt, and a Democratic Congress, were swept into office in the November 1932 elections. Roosevelt took office on March 4, 1933, the month of the "bank holiday" and the closing of *all* banks, many of which were never again to open. For this major economic debacle a scapegoat should be found and the Roosevelt administration selected "Wall Street" and the Senate Banking Committee started a full-scale "investigation." For Chief Counsel, the Committee selected a smart, ambitious criminal prosecutor from New York City, Ferdinand Pecora, who had been born in Sicily. By his brilliant leadership and aggressiveness he soon dominated the Committee and the affair has come down in history as "The Pecora Investigation." For a criminal prosecutor this was the opportunity of a lifetime because the Senate Committee had unbridled power to subpoena persons and records, the investigator was not hamstrung by the sacred Rules of Evidence, counsel for those being "investigated" could sit at the hearing table with their clients but were not allowed to cross-examine—or even to speak unless specifically requested.

Pecora went after the big ones: in commercial banking, National City Bank and Chase Bank; in private banking, J. P. Morgan & Co., Kuhn, Loeb & Co. and Dillon, Read & Co. One of the administration's policies was to create employment and under Pecora's direction swarms of investigators moved in on the selected targets. Cotton, Franklin, Wright & Gordon, the firm to which I had been admitted to partnership in January, 1931, took the primary "defense" of Dillon, Read & Co. The preparation became the major work of both Dillon, Read & Co. and the law firm. Pecora investigators day after day would go through all the Dillon, Read files, selecting the letters, cables, memos, contracts, etc. which they wished photocopied and then had them marked with the identifying numbers so that they could easily be subpoenaed and put in

evidence. There were many investigators working daily at Dillon, Read & Co. but, in every case, someone from that firm or from the law firm, sat at the investigator's elbow. Whenever a photocopy was requested (and there were bales requested), three copies were made—one for the investigators, one for Dillon, Read & Co. and one for the lawyers. Then we spent hours and hours going over these photocopies trying to figure out what the point was, and what Pecora was driving at and trying to spell out. Then we could get the Dillon, Read partner responsible for the particular deal and begin to groom him for the rough interrogation which he would get before the Committee in Washington when Pecora went into operation.

In the preparation stage, I had two interesting assignments: (1) being the "tax partner" of the firm, it was my duty to ferret out every tax spot which could cause trouble and prepare the best possible explanation and "defense" and (2) I was sent to Washington to scout the National City hearing. The former task was fairly boring because it meant the most careful review and analysis of all tax returns since the inception of the company and long evening hours pouring over voluminous accounting records trying to figure out what had happened, how it had been reported in the Federal Tax Return, and why. But the Washington scouting assignment was fun.

Each morning I would be at the Senate Office Building Hearing Room when the doors opened and get a seat in the front row where I could get a good view of Pecora and his staff and how they went after the witnesses. From Pecora's standpoint, the National City Bank hearing was a *great* success. Charles ("Charlie") Mitchell, the Chairman of the Bank's Board, and a tycoon of the old school, was demolished. As a result of the hearing, the Bank Board fired Mitchell and he was later tried on a criminal charge and convicted of tax evasion on the basis of evidence dug up by Pecora and his investigating staff. (Shearman & Sterling, of which some twelve years later I was to become a partner, had represented National City Bank.) My report to Dillon, Read & Co. was two-fold: (1) Pecora is using the tax as a major offensive weapon (2) nobody who had responsibility on a particular deal must have died! National City Bank on several occasions when the going was bad, had said that the only man who knew about this transaction was dead. Pecora, a master hand, could almost convince the Committee (and the

spectators) that the poor guy had been murdered by the Bank in order to suppress his terribly damaging testimony.

I am getting ahead of my story, but there had been no deaths among essential Dillon, Read personnel! It went something like this:

*Pecora:* "Now I am going to ask about the \_\_\_\_\_ financing. Who handled that?"

*Answer:* "Mr. So-and-So and I."

*Pecora:* "Where is Mr. So-and-So?"

*Answer:* "He died but I am familiar with all details and am prepared to take full responsibility for the transaction."

This completely took the wind out of Pecora's sails and I several times noted a look of pained frustration.

Those "Pecora Hearings" were not nice affairs. They were rough.

National City Bank was followed by Chase Bank, and the head, Mr. Wiggam, was busted from the Bank although not criminally indicted as had been Charlie Mitchell of National City Bank.

J. P. Morgan was the first of the private banks. Their attorney, John W. Davis, had come up to the Supreme Court in an attempt to prevent Pecora from putting into the record the sacred cow of private finance—the J. P. Morgan & Co. balance sheet and the individual partner's respective interests. But he had lost. The balance sheet was to become public and the press was there in force. The big and pompous J. P. Morgan waistcoat and heavy gold watch chain and all, was in the witness chair. But, not long before the big question was to be popped, suddenly there was a very tiny female midget on the great Mr. Morgan's lap. To this day nobody for certain knows who hired her from the circus, smuggled her into the Hearing Room and popped her onto Mr. Morgan's lap. It happened in a flash. According to reports, Mr. Morgan started to brush her off his knee like a loathsome fly but, realizing that she was a human being, he asked: "Well, my little girl, how old are you?" to which she is reported to have replied, "Thirty-two." All the press cameras fired and the reporters rushed from the Hearing Room to their telephones. In the papers, the J. P. Morgan financial secrets were completely lost in the pictures and reports of the

midget episode. Today almost everyone remembers the midget but nothing about the balance sheet. I have always felt certain that Thomas Lamont, J. P. Morgan's number two partner, was responsible for this masterpiece of showmanship and publicity manipulation.

When news of this midget episode came over the wires, I was with Mr. Dillon at his New Jersey estate working on our preparation. He was hilarious! Now if only Otto Kahn, head of the big Jewish banking house Kuhn, Loeb & Co., which was to be next on the grill, would only show up at the Washington Hearing Room in Scotch kilts, this would definitely brand the whole thing as a circus and it would collapse and Dillon, Read & Co. would never be called. But this was not to be.

The Dillon, Read hearings extended from October 3 through October 13, 1933. The bankers had reserved the entire top floor of the Carlyle Hotel in Washington for the duration and bankers and lawyers about a week ahead, moved down in force with files, file clerks and secretaries. Some of the hotel rooms were converted into efficient file rooms and secretarial centers. Routines were established. A guard at the elevators allowed no one but authorized personnel onto the floor.

Pecora would give no advance notice to the bankers of what questions he would ask, but we had found that each afternoon at about four, following the day's hearing, he would hold a private press conference, and tip off the press as to the next day's questioning so that they could get ready their background material—and headlines. To secure one of the press as a spy, was relatively easy. He would go to a bar for a drink where our man would be alongside and out of the corner of his mouth our spy would say, "Rio de Janeiro" or "Bolivia" and with this tip-off our man would pay his bill, saunter out, taxi to the Carlyle and we would all go into action for the next day's preparations. This would consist of going over the pertinent facts with the partner who, on the morrow, was to face the Pecora ordeal, seeing that he got to bed for a good night's sleep, and some of the rest of us would work into the night organizing the files necessary for the particular issue.

Every day at the hearing opening play-acting would go on. Pecora would announce the subject matter of his day's inquiry and demand to know who would respond to his questioning. We would remonstrate: Why wouldn't Mr. Pecora tell us in advance? We had come prepared on

a number of possible issues but on this particular issue neither the crucial witness nor the files were in the Hearing Room. So the meeting would be postponed until someone could taxi to the Carlyle Hotel and get the particular witness and the relevant files. I never understood why Pecora put up with this nonsense and delay of the session's opening. Perhaps he didn't want to start the hearing too early because he consciously played each day to make a sensational headline about midafternoon and thus catch the evening newspapers.

Occasionally Pecora's suspicions and secretiveness tripped him up. For example, the Rio financing. A partner, Robert Hayward, testified that in Rio he had been very much impressed by a land project undertaken by the local mayor. In the center of the city's most valuable land there was a hummock of a mountain known as Castle Hill which was a hang-out for goats and the city's undesirables who continuously caused trouble in the city. Then there was a muddy section of the ocean bay which was not used; he was planning to build a sea wall and was chiseling off the small mountain and having it dumped into the sea, building the land out to the sea wall. This project when completed would give a substantial acreage in the heart of the city (very valuable land) and substantial acreage of good bay front property (also very valuable). At the top of the mound workers with pick-axes and shovels were loading the dirt into donkey carts. But as Hayward had observed the operation over a period, he discovered that many of the donkey carts never deposited their earth into the sea; they simply circled the hill, came around and got paid for the same load. Hayward had then gone to the mayor with his findings: at current rates of progress it would take over 20 years to get Castle Hill into the sea and have those two nice parcels of land. The mayor should accomplish this during his term of office and get full credit for this fine, imaginative piece of work. The way to do it was to hire a competent engineering firm and, with water pumped from the sea, sluice the earth down into the bay. For this, Dillon, Read would lend the money, repayment to come by way of lien on the two new land parcels. The mayor was thrilled and a contract for a Dillon, Read loan of \$12,000,000 was negotiated, the engineering firm selected to be satisfactory to Dillon, Read. The value of the two new parcels was estimated at \$50,000,000. The records showed that Hayward had resisted all suggestions of engineering firms

and in the end had forced the acceptance of a particular U.S.A. firm. Pecora smelled the possibility of a kickback and went after Hayward as to why he had insisted on the particular firm and when it developed that the head of the firm had been Hayward's roommate at Harvard, even Pecora joined in the laughter. It may not have been a laughing matter later when Pecora went after his investigators for not having turned up this old-school-tie element.

Laughter in the Hearing Room was a rarity. Most sessions were grim—and mean. For example, Clarence Dillon, head of Dillon, Read & Co., was testifying regarding the organization of the Investment Trust, U.S. & Foreign Securities Corp (of which company some years later I was to serve as Director and then as President), and its subsidiaries. Dillon staunchly defended his sale of the Preferred Stocks of these companies to the public. At an intermission, a member of the Senate Committee, Senator Couzens of Michigan, in a friendly way sidled up to Mr. Dillon and said, "Confidentially and off the record, do you really think those Preferred Stocks a decent investment?" (In the Market Crash, their values had gone way down.) Mr. Dillon replied, "Yes, I invested money of my grandchildren's Trust Funds in those stocks." Resuming the Hearing, Senator Couzens sneered and had Pecora ask Mr. Dillon how much of his grandchildren's Trust Funds he had in those Preferred Stocks. Unruffled, Mr. Dillon smiled at Senator Couzens as if to thank him for letting him put this fact in the record and replied, "Over two million dollars."

In Washington, while the hearings were in progress, I had two assignments: (1) helping get the files in order for the next day's hearing and (2) reading and correcting the transcript of the prior day's hearing. Pecora had agreed that we could read the transcript as it came from the court reporters and take up with him any corrections which we thought important before it went to the Government Printing Office. Occasionally I could get to the Senate Office Building for the hearings but mostly I had to grind away in my office at the Carlyle Hotel.

Washington (believe it or not!) was in the World Series, the Washington Senators vs. the New York Giants, and the city was baseball fanatic. The afternoon of one of the crucial games, the hearings adjourned and somehow Mr. Dillon had secured a block of over twenty

tickets so that all our gang, bankers, lawyers and staff could attend. I couldn't go because I had to get the darn transcript corrected and clear it with Pecora not later than 6 p.m. that day. I was hard at work in my room when Mr. Dillon, checking on the floor, walked in and demanded to know why I was not at the ball game. When I explained, he said, "Nonsense!" But I pursued the point: this record was being printed by the Government Printing Office and would be in the libraries of the world as an inside peek at the workings of Wall Street and the basis for books, Ph.D. theses, columnists' gossip over the years and strike suits, such as had already been brought against National City Bank; an error of the court reporter or a slip of a witness' tongue could give serious trouble over the years. Reversing himself, Mr. Dillon said, "You are absolutely right. I'll help you." So from that time on, Parlin and Dillon spent hours each day correcting transcript. Then I had to taxi over to Pecora's office and clear the corrections with him. Actually we did more than "correct." We sometimes rewrote the answer to a question and occasionally we could frame up a better and more accurate answer than the one the witness had given on the spur of the moment. We also eliminated most of the wise-cracks. Sometimes the reporter had loused up Pecora's questions and, in a spirit of helpfulness, we would try to straighten them out. Each time when I came back from my session with Pecora, Mr. Dillon would want a report which generally went, "All rewrite of answers accepted; on the bungled up question about so-and-so which we made read thus—he re-worded it to read thus-----."

In my first session I had explained to Pecora that our interest was to have the answers as correct and factual as possible and he agreed. Pecora was interested in the daily newspaper headlines and for the printed record, salted away months later on a library shelf, he had only minor concern. He had pride in the form of his questions and several times thanked me for smoothing out some messed-up language. But Mr. Dillon thought I was a genius to get *all* of our corrections accepted and I never felt it necessary to disillusion him.

Toward the end of the sessions, tax, the sensational issue in the National City and other prior hearings, was to come up. All of us, and I suppose I in particular, were tense. Pecora merely read into the record a memo from the chief to his tax investigating squad which said in substance that they had found careful work on tax matters and taking

advantage of tax saving opportunities but nothing which they felt necessary to bring specifically to the attention of the Committee. (Another feather in my cap.)

At the end of the hearing I went to Pecora to clear the final part of the transcript and thanked him for reading into the record the tax memo. He said he thought it only fair and then said, "When we showed up some of the banks, many said, 'And wow, wait till they come to Dillon, Read!' But actually we didn't have anything on them. Your client's reputation actually improved as a result of my investigation and yours was the only one that did."

I came away with a real admiration for Pecora. He later was appointed and served with distinction as a Justice of the New York Supreme Court. His advice was frequently sought by commissions and governmental agencies. He wanted to run for Governor of New York State (and he would have made a good one) but somehow he could never get the nomination from the Democratic Party. When he died a few years ago, he was very generously eulogized by the New York and Washington papers.

But the hearings left scars. Robert Christie, one of the younger Dillon, Read partners, who had worked so hard in preparation and thus borne some of Pecora's hardest pounding, went on a plane to the West where he was to attend a directors' meeting and then vacation. To his companion on the plane he said, "This is the first time in months that I have been able to relax but now here goes." He leaned back to relax and his heart stopped. The plane made an emergency landing but they could not revive him. A few months later, Robert Hayward, who had borne the brunt of the testimony on South American financings, died of heart failure. And George Franklin, my senior partner then only 52 years old, went off to a rest home to recuperate but he died there. These three men, all in their early fifties, were direct casualties of the hearing.

For some reason I was free one evening during the hearings and I contacted Tommy Corcoran and Alger Hiss and we had dinner and then spent the evening in Tommy's bachelor quarters. We had all been law clerks together at the law firm, but both Tommy and Algie had "gone to Washington" and were enthusiastic about, and rising rapidly in, the Roosevelt administration. We started with an agreement that we would



not discuss the hearing then in progress but we, nevertheless soon got into it. I was outraged by the performance but it was stoutly defended by the two rabid "New Dealers." I was to recall vividly Algie's argument that night. It was a duty of citizenship to submit to this type of thing. The Government can select a man by draft and send him to the trenches to be shot; it can also put a selected man in the spotlight and strip him of all privacy and publicly exhibit all of his secrets. This is for the public good; therefore a duty of citizenship. How many times I thought of this when a man named Whitaker Chambers came forward with a weird tale of espionage and secret codes kept in a pumpkin—and Algie, after a glare of hideous publicity, spent five years in a penitentiary.

Clarence Dillon had opened the hearing for Dillon, Read & Co. and covered the organization and the selling of the securities of the U.S. & Foreign Securities Corp. and U.S. International Securities Corp. He was magnificent! Every attempt to trip or harass him failed and in the end respectful questions as to his opinions on various points were asked by Pecora and the Senators—except for the old so-and-so from Michigan who, to the end, remained very bitter and hostile. A number of the suggestions advanced by Mr. Dillon found their way into the Senate Committee report and the new legislation. In the closing hours, Pecora and several Senators thanked Mr. Dillon for his cooperation and help, but Senator Couzens said he was unwilling to close the hearing "with the passing around of flowers" and proceeded to make a series of mean, nasty remarks about Dillon, Read and Mr. Dillon personally. Mr. Dillon had simply replied, "I am sorry, Senator, that you feel that way." Mr. Dillon always sensed what Pecora was leading up to and could work into an early answer the ultimate facts which took the wallop out of Pecora's final, clinching question. Years later when I was talking to Pecora, he reminisced about the Banking Hearings: he said J. P. Morgan was like a big elephant who just plodded ahead, although you could steer him somewhat; Dillon was like a panther—you would be chasing him and suddenly you discovered he was around biting you in the rear.

Christie was the worst witness and took the worst beating. A group of the lesser partners had sold some of their U.S. & Foreign shares through Dominick & Dominick, a prominent New York Stock Exchange firm. Pecora tried to make out of this some sort of a hideous operation

of a "Wall Street pool." Dillon, Read had never been a member of the Stock Exchange and Christie really didn't know too much about Stock Exchange trading. Pecora apparently thought he was either withholding information or lying and went after him viciously. To make it worse, some of the Dillon, Read people immediately after told Christie that he had done a rotten job (which he had in contrast to Mr. Dillon.) When Christie came back to the hotel he threw himself onto a bed in total exhaustion and despair. In view of what happened a week later, he might well have died right there that night.

Hayward had the burden of defending a series of South American financing which had gone sour but, in spite of Pecora's rough questioning, he always appeared jaunty. For example, he told of making extended trips in Russia and in China, similar to the trips he had made through South America, but had found no investment possibilities. In response to a question by the Chairman as to who he found as fellow-travelers in China, he had replied, "Frenchmen traveling with their mistresses. Senator, wherever in the world I go, I always find Frenchmen traveling with their mistresses." This was one of the wisecracks we censored from the record. None of us realized what the grueling was doing to Hayward.

Some months later I had an assignment to go to Turkey and I persuaded Miriam to go with me and help me take something of a needed vacation—ocean crossing First Class, Paris, the Orient Express First Class across Europe, Turkey; then to Egypt to see Luxor and the Pyramids and home by ship from Naples. The day before the sailing on the S.S. Majestic I discovered that Mr. Dillon was booked on the same boat. When I told Miriam, she wanted to change ships because she knew Mr. Dillon would monopolize me and it would be no vacation for her but I convinced her that Mr. Dillon, who had a big suite on the ship, would never see us. But early next morning we bumped into him walking the deck before breakfast! To his, "You didn't tell me you were on this ship!" my reply seemed to satisfy, "You didn't tell me!" Miriam had an unhappy day and, sure enough, he spotted us in the concert lounge after dinner and dragged us over to his table to join him, his wife and his spinster sister. Miriam was petrified because she had heard tales about the fabulous and ruthless Mr. Dillon who had all his

younger associates terrorized. As we were at the table, smoke from the sister's cigarette blew into his face and he flared up, "Stop blowing smoke in my face!" and he grabbed her cigarette and extinguished it by pounding it into the ashtray. Miriam relaxed and smiled—no mystery about this man—just a duplicate of her own father and a warm friendship developed. Mr. Dillon was always urging me to bring my wife along and she always thoroughly enjoyed the meetings. There were lively discussions of high-bred chickens, Old Testament archeology, Chinese culture and tradition etc. etc. No small talk for Mr. Dillon. I always gave Miriam credit for helping me develop the close association with Mr. Dillon that was to be so important in my professional career.

With Mr. Franklin, the top of the partners, out, Mr. Dillon turned more and more to me rather than the more senior partners. In 1935 he took me to Europe where we succeeded in doing some very successful financings. In his enthusiasm, he took me to Sulka and we each had a black velvet lounging suit made and then to one of the high-couture places for long, velvet multi-colored lounging dresses for our wives. (The Prince of Wales and Wally were in Paris getting their wedding wardrobes and these were doubles of what they were getting—"just the thing to wear for a quiet dinner at home") He also presented me with a fine Patek Philippe watch.

The following year, 1936, came the bombshell. After Franklin's death, Boykin Wright had become head of the firm and I was low man in a partnership of eleven. The telephone operator reported that a call was coming through from Bad Gastein, Austria, from Mr. Dillon. I called his secretary to ask what it might all be about and the only thing she knew about was he was considering bringing back a stallion to breed his horses on the farm. So I dashed out to the library and had on a yellow pad what little I could find about bringing in an Austrian fancy stallion. But the call was about the law. He said the firm of Dunnington & Gregg was breaking up for personal reasons (Dunnington was being divorced and his wife was a close relative and friend of Mrs. Gregg) and Dunnington would soon be in New York to offer me a partnership as Dunnington & Parlin with a very favorable financial arrangement. He had told Dunnington that if I went with him, his law work would go with me and that if I stayed with Cotton, Franklin,

Wright & Gordon, his work would stay, but this staying might not be permanent because the present set-up was not satisfactory—he had always dealt with the No. 1 man in every law firm he had used and to take around as *his* counsel the lowest man in the firm was beneath his dignity and was embarrassing to him. This position of Mr. Dillon led to a reorganization of the firm into Wright, Gordon, Zachry & Parlin with me one of four senior partners. There was a close connection with the afternoon when I stayed home from the World Series game to correct the transcript.