"The Free and Open People's Market": Political Ideology and Retail Brokerage at the New York Stock Exchange, 1913–1933

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Ever since its establishment in 1792, the New York Stock Exchange (NYSE) had endured antipathy. But in 1913 it faced political onslaught. Muckrakers had fingered the NYSE as the minion of monopoly capitalism. With the exchange caught in the cross hairs of Progressive reform, its future as a self-governing institution seemed in doubt. Would privately administered markets continue to value and circulate financial capital, free from any regulatory constraint?

Beginning in 1913, the stock exchange harnessed populist and Progressive rhetoric to sustain itself against an expanding state. This private association of stockbrokers and traders asserted that its structure of self-governing experts served only the investing public. Regulation, it alleged, would compromise access to its "free and open market." Beginning in 1922, the exchange endeavored to *enlarge* the shareholding class, but only after its leaders grew convinced that new shareholders would become political allies. In the 1920s, to promote universal stock ownership, the self-styled "people's market" promulgated an ideology of shareholder democracy.[1] It recast the corporation as a democracy of shareholders, the United States as a nation of stock owners, and the stock market as both an analogue and an instrument of political democracy and economic justice. Yet even as the NYSE portrayed the stock market as a means to achieve key social goals—the preservation of political liberty, the assurance of economic security, the democratization and stabilization of capitalism—it rejected any suggestion that citizen shareholders might benefit from a modicum of regulation. Instead, exchange envoys urged everyman to renounce the state as an agent for managing economic risk.

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[1] New York Stock Exchange (NYSE) authors appropriated the term "free and open market" from the economist Henry C. Emery. See Henry C. Emery, "Speculation on the Stock Exchanges and Public Regulation of the Exchanges," *American Economic Review,* 5 (March 1915), 74–80; Henry C. Emery, "Speculation on the Stock and Produce Exchanges of the United States," *Studies In History, Economics, and Public Law,* 7 (1896), 179, 181; and Henry C. Emery, "Results of the German Exchange Act of 1896," *Political Science Quarterly,* 13 (June 1898), 287, 318. For the first use of the term "people's market," see Seymour L. Cromwell, *The Problems and Policies of the New York Stock Exchange* (New York, 1923), 5. On other corporate- and financial-sector initiatives to promote stock ownership and to propagate shareholder democracy ideology in the 1920s, see Julia Cathleen Ott, "When Wall Street Met Main Street: The Emergence of the Retail Investor and the Quest for an Investors' Democracy, 1890–1929" (Ph.D. diss., Yale University, 2007).

As exchange emissaries encouraged an increase in the number of American stock owners—from a few hundred thousand before World War I (about 3 percent of U.S. households) to an estimated 8 million by 1929 (roughly a quarter of households)—they established basic economic precepts of modern political conservatism. They advanced the notion that laissez-faire financial markets facilitate individual opportunity, prosperity, and security while optimally allocating capital and economic risk. The NYSE identified the maximization of investors' returns as the paramount goal of state and corporate policy. Stock exchange public relations ranged far beyond the issue of self-governance. Also at stake were fundamental debates about the nature of liberalism, the fate of democracy, and the distribution of economic power under corporate capitalism.[2]

On the afternoon of December 30, 1899, the members of the New York Stock Exchange assembled. Yuletide greenery gaily festooned the trading floor. An "arch of incandescent lights" blazed "Welcome, 1900." Suddenly, the Seventh Regiment Band "burst forth in a lively tune" amidst a "highly colored snowstorm" of confetti. In a makeshift ring, bull battled bear (actually, "two colored pugilists" in disguise). When the bull scored a knockout, NYSE members boisterously debated whether the bear had thrown the fight. Frenzy erupted as confetti, bonbons, and "red rubber balls" were released from the gallery above. Members lobbed the balls at the heads of bald brethren. Hapless traders found themselves hooded, "hands seized from behind," as colleagues "buffeted" them about the floor. The bedlam abated only when the former Rough Rider Charles E. Knoblauch auctioned a "bull, a bear, and a lamb, and as is usually the case when they are dealt with by brokers, the lamb was turned away as worthless." (See cover.) Some prankster had removed his tail. Consequently, "no bid was made." The bear fetched $100; the bull, $200. Carousing then concluded with "a cakewalk."[3]

As exchange members fell in line to revel in their notoriety, they could scarcely have imagined that in the new century the lamb would have his day. By 1913 the protection of outsider investors of modest means would move to the center of economic reform

[2] For estimations that no more than 500,000 Americans owned *either* stocks *or* bonds prior to World War I, see United States Department of the Treasury, *The Second Liberty Loan of 1917: A Source Book* (Washington, 1917), 1; and United States Department of the Treasury, *1917 Annual Report* (Washington, 1918), 6. On stock ownership in 1929, from which a total of 8 million households may be derived, see National Industrial Conference Board, *Employee Stock Purchase Plans in the United States* (New York, 1928), 2, 35; Charles Amos Dice, *New Levels in the Stock Market* (New York, 1929), 198; National Electric Light Association, *Political Ownership and the Electric Light and Power Industry* (New York, 1925), 20; United States Securities and Exchange Commission, *Investment Trusts and Investment Companies* (Washington, 1939–1942), 362, 370; U.S. Congress, Senate, Committee on Banking and Currency, *Stock Exchange Practices,* 73 Cong., 2 sess., 1934, pp. 9–10; Twentieth Century Fund, *The Securities Markets* (New York, 1935), 50, 56–57; and Edwin Burke Cox, *Trends in the Distribution of Stock Ownership* (Philadelphia, 1963), 33. For larger estimates that aggregate the number of shareholders in individual corporations (with considerable replication), see Gardiner Means, "Diffusion of Stock Ownership in the United States," *Quarterly Journal of Economics,* 44 (Aug. 1930), 561–600; and H. T. Warshow, "Distribution of Corporate Ownership in the United States," *ibid.*, 39 (Nov. 1924), 15–38. See also Jonathan Barron Baskin and Paul F. Miranti Jr., *A History of Corporate Finance* (Cambridge, Eng., 1997), 177–78. For work that dates the ideology that gives priority to maximizing shareholders' returns to the 1970s, see William Lazonick and Mary O'Sullivan, "Maximizing Shareholder Value: A New Ideology for Corporate Governance," *Economy and Society,* 29 (Feb. 2000), 13–35; and Ernie Englander and Allen Kaufman, "The End of Managerial Ideology: From Corporate Social Responsibility to Corporate Social Indifference," *Enterprise and Society,* 5 (Sept. 2004), 404–50.

[3] "Bulls and Bears Frolic," *New York Times,* Dec. 30, 1899, p. 14; "Bulls and Bears in Wild Revel," *ibid.*, Dec. 23, 1900, p. 12.

Figure 1. This 1908 cartoon by W. A. Rogers, "Great Activity in Wall Street," typifies popular nineteenth- and early twentieth-century representations of the financial securities markets as artificial and deceptive. "Bulls," traders who scheme to drive prices up, "bears," who conspire to drive prices down, and "lambs," naïve investors, chase each other round and round to no effect. *Reprinted from the* New York Herald, *March 19, 1908.*

agendas. NYSE brokerages would embrace everyman's entrance into the stock market after World War I.

But in 1900 NYSE practices stood in stark opposition to the producerist ethos that shaped popular economic thinking. That producer-centered philosophy of political economy held that economic value derived from diligent labor and steadfast thrift, qualities utterly absent on the trading floor. Jeffersonians and Jacksonians, Populists and Progressives, organized labor, antimonopolists, and socialists had all denounced the exchange as the tool of unaccountable, rapacious elites. These detractors viewed stocks and bonds, those who traded them, and the private associations (such as the NYSE) that operated securities exchanges as antithetical to cherished political and economic ideals that celebrated independent proprietorship and production.[4]

In their New Year's frolic, exchange members toyed with those charges. Disguises and hoods confirmed that NYSE dealings involved artifice and trickery. The bout of brutes symbolically verified that oscillations in securities prices resulted from contests between "bulls," those traders who schemed to drive prices up, and "bears," those who conspired

[4] On the ability of exchanges, as cartels, to restrict competition via membership and the setting of trading commissions, see Ranald C. Mitchie, *The London and New York Stock Exchanges, 1850–1914* (London, 1987); and Robert Sobel, *The N. Y. S. E.: A History of the New York Stock Exchange, 1935–1975* (New York, 1975). On producerist and consumerist theories of political economy, see Lizabeth Cohen, *A Consumers' Republic: The Politics of Mass Consumption in Postwar America* (New York, 2003); Kathleen G. Donohue, *Freedom from Want: American Liberalism and the Idea of the Consumer* (Baltimore, 2003); Victoria C. Hattam, *Labor Visions and State Power: The Origins of Business Unionism in the United States* (Princeton, 1993); and Michael Kazin, *The Populist Persuasion: An American History* (Ithaca, 1998).

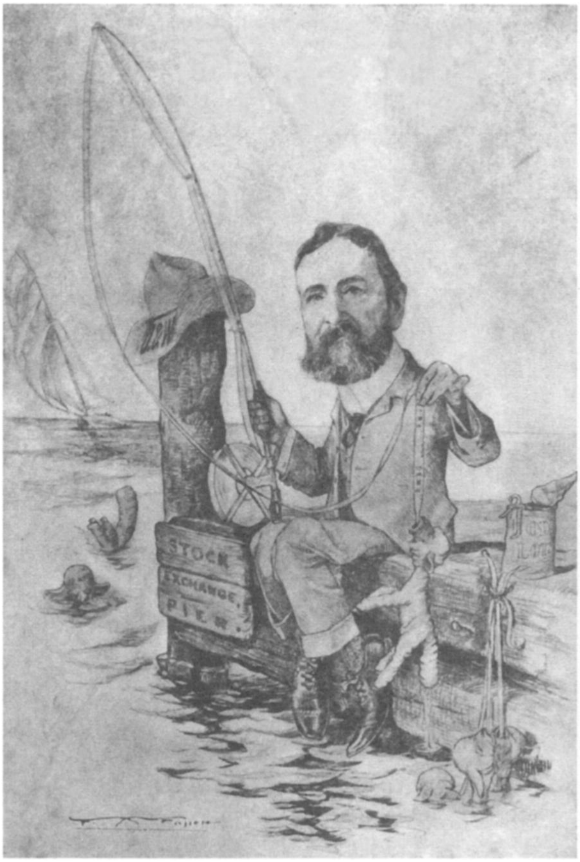

Figure 2. In 1904 members of the New York Stock Exchange (NYSE) commissioned the book *The Stock Exchange in Caricature,* a limited edition for private distribution. The caricatures reflect the way those who owned seats on the nation's leading securities exchange understood their work. Here, Robert S. Barclay, an NYSE member, lures lambs (small investors) with odd lots of stock and ticker tape. *Reprinted from* The Stock Exchange in Caricature, *vol. II (New York, 1904).*

to drive prices down. The outrageous bids offered for worthless toys likewise affirmed the perception that prices bore little relation to intrinsic value. In their closing cakewalk, NYSE members recapitulated innumerable representations of securities markets. (See figure 1.) Bulls and bears (and sometimes lambs) chased each other in a futile round. Stock and bond prices rose, then fell. However furious these fluctuations, they signified nothing.

The performance by musicians from the Seventh Regiment, a volunteer unit of the sons of the wealthiest New Yorkers, marked the financial securities markets as an elite province. As NYSE members cast the mangled lamb from their auction, they acknowledged that those few firms (commission houses) that offered brokerage service to outsider investors of modest means (retail investors) both ripped off (sheared) those investors and disdained the business of such sorry dupes. (See figure 2.) But in an economic and political system that honored production, the losses of lambs, perceived as passive nonproducers, warranted neither sympathy nor policy consideration.[5]

[5] Sven Beckert, *Monied Metropolis: New York City and the Consolidation of the American Bourgeoisie, 1850–1896* (New York, 2001), 118, 233–34.

According to critics, brokers' antics contributed little to productive enterprise or to citizens' economic well-being. Rather, they *imperiled* independent proprietorship, the most sacrosanct aspiration in both producerist political economy and republican political theory. Bonds, stocks, and the malefactors that traded them seemed to subvert the work ethic and to divert capital from productive, entrepreneurial pursuits. Moreover, the stock market made possible the much-criticized turn-of-the-century industrial mergers. First, promoters bought up companies. When they then sold shares in the resulting combination, its stock market capitalization exceeded the total cost of the constituent firms. To pay dividends on this overcapitalized (or watered) stock, critics alleged, corporations laid off workers, raised prices, and crushed independent competitors. American political culture had long held that citizens derived political virtue and independence from possession of productive property. Industrial corporate capitalism thus raised grave concerns about the survival of proprietary democracy.[6]

And so, in the first decade of the twentieth century, financial securities—especially corporate stocks—came to the fore in deliberations over the "trust problem." Many Progressives called for state-supervised financial disclosure by publicly traded corporations. They imagined that if investors were provided with truthful, adequate information, they would avoid overcapitalized enterprises, so those could not form. Such regulation would also ensure access and fair play for every investor. Proponents, including presidents Theodore Roosevelt and William Howard Taft, insisted that the state determine and enforce disclosure standards, rather than deferring to member-administered exchanges to monitor reporting by listed corporations.[7]

Meanwhile, mammoth industrial firms continued to merge, attracting the attention of novice investors, muckraking journalists, and reform politicians. After the panic of 1907, twenty-four states passed blue-sky laws that required securities brokers to obtain licenses

[6] On the relationship of property and citizenship in classic republican and liberal thought, see J. G. A. Pocock, *The Machiavellian Moment: Florentine Political Thought and the Atlantic Republican Tradition* (Princeton, 1975); Robert E. Shalhope, "Toward a Republican Synthesis: The Emergence of an Understanding of Republicanism in American Historiography," *William and Mary Quarterly,* 29 (Jan. 1972), 49–80; Woody Holton, "'From the Labour of Others': The War Bond Controversy and the Origins of the Constitution in New England," *ibid.*, 61 (April 2004), 271–317; Steven J. Ross, "The Transformation of Republican Ideology," *Journal of the Early Republic,* 10 (Fall 1990), 323–30; Daniel T. Rodgers, "Republicanism: The Career of a Concept," *Journal of American History,* 79 (June 1992), 11–38; Gary Gerstle, "The Protean Character of American Liberalism," *American Historical Review,* 99 (Oct. 1994), 1043–73; and Alan Taylor, *Liberty Men and Great Proprietors: The Revolutionary Settlement on the Maine Frontier, 1760–1820* (Chapel Hill, 1990). On concerns about the susceptibility of the propertyless to political corruption and, later, radicalism, see Robert J. Steinfeld, "Property and Suffrage in the Early American Republic," *Stanford Law Review,* 41 (Jan. 1989); Amy Dru Stanley, *From Bondage to Contract: Wage Labor, Marriage, and the Market in the Age of Slave Emancipation* (New York, 1998); Eric Foner, *Free Soil, Free Labor, Free Men: The Ideology of the Republican Party before the Civil War* (New York, 1970); Lawrence Goodwyn, *Democratic Promise: The Populist Movement in America* (New York, 1976); Leon Fink, *Workingmen's Democracy: The Knights of Labor and American Democracy* (Chicago, 1985); and Rohit Daniel Wadhwani, "Citizen Savers: The Family Economy, Financial Institutions, and Social Policy in the Northeastern United States from the Market Revolution to the Great Depression" (Ph.D. diss., University of Pennsylvania, 2002). For fears about the effect of industrial corporate capitalism on democracy, see T. J. Jackson Lears, *No Place of Grace: Antimodernism and the Transformation of American Culture, 1880–1920* (Chicago, 1983); Roland Marchand, *Creating the Corporate Soul: The Rise of Public Relations and Corporate Imagery in American Big Business* (Berkeley, 1998); Nell Irvin Painter, *Standing at Armageddon: The United States, 1877–1919* (New York, 1987); and Robert H. Wiebe, *The Search for Order, 1877–1920* (New York, 1967).

[7] U.S. Congress, Senate, Industrial Commission, *Preliminary Report,* vol. 1, 55 Cong., 2 sess., 1898, pp. 5, 9, 13, 15, 32–34; Kim Phillips-Fein, "'Potential Competition' and Investors' Rights: The Merger Movement in Late Nineteenth Century Economic Thought," unpublished paper in Julia C. Ott's possession; Lawrence Mitchell, *The Speculation Economy: How Finance Triumphed over Industry* (New York, 2007); Vincent P. Carosso, *Investment Banking in America* (Cambridge, Mass., 1977), 178–79; Ott, "When Wall Street Met Main Street," 40–171.

and established commissions to approve new securities issues. In the 1912 elections Democratic and Progressive party candidates vowed to fortify proprietary democracy against financial oligarchy. Candidates' denunciations of "the money trust" tapped ancient agrarian animus against eastern finance along with fresh anxieties about the threat posed to proprietary democracy by unprecedented aggregations of capital. At inauguration, Woodrow Wilson announced that his New Freedom economic agenda would encourage competition and buttress independent enterprise against corporate consolidation.[8]

Before Wilson took office, House Democrats launched an investigation, chaired by Arsène Pujo, a Louisiana Democrat. The final report of the Pujo Commission affirmed that a "money trust" of colluding banks led by J. P. Morgan and Company had consolidated and now ruled the economy. Purportedly, these bankers refused to finance innovators that might compete with their "pet" corporations. Stock exchange members allegedly acted as lackeys of the money trust, admitting overcapitalized stocks to trading and orchestrating pools—covert anticompetitive agreements—to manipulate stock prices. Believing that the money trust could be defanged if the state compelled its chief instrument to comport itself in the public interest, the Pujo Commission's recommendations homed in on the NYSE, urging its incorporation. Under the proposed federal incorporation charter, the postmaster general would censor members' mailings to ensure that they did not entice the impecunious into "unwholesome speculation." The charter would specify the information corporations must disclose to gain a NYSE listing, along with trading rules.[9]

Those supporting financial market reform turned to the press. In *Other People's Money and How the Bankers Use It* (1914), Louis D. Brandeis drew on the Pujo Commission's findings to build a case for Wilson's economic reform agenda. Samuel Untermyer, lead counsel for the commission, campaigned for NYSE incorporation. Both asserted that securities markets served a "public" interest. Money trust rule over mammoth corporations *indirectly* harmed the public as consumers because cutthroat tactics drove out competitors and raised prices. The public also suffered *indirectly* as investors, for when insurance companies and banks invested in overcapitalized corporations, they risked the funds of policy owners and depositors. Lastly, Untermyer and Brandeis posited *direct* harm to the "investing public." Lack of competition freed NYSE members to overprice securities and commissions and to manipulate stock prices. To bolster their case, both asserted that a sizable body of aggrieved outsider investors of modest means already existed.[10]

[8] For indication of a modest expansion in stock ownership (or at least odd lot trading), see "Special Committee on Odd Lots," 1907 (New York Stock Exchange Archives, New York, N. Y.). For stockholder counts for individual corporations, which also suggest growth, see Means, "Diffusion of Stock Ownership in the United States"; and Warshow, "Distribution of Corporate Ownership in the United States." For regulatory proposals, see Cedric Cowing, *Populists, Plungers, and Progressives: A Social History of Stock and Commodity Speculation, 1890–1936* (Princeton, 1965), 39–41, 67–69; Carosso, *Investment Banking in America,* 129–35, 156–87.

[9] Exposés include Louis D. Brandeis, *The Financial Condition of the New York, New Haven, & Hartford Railroad Company and of the Boston & Maine Railroad* (Boston, 1907); Louis D. Brandeis, *Other People's Money and How the Bankers Use It* (New York, 1971); and Thomas W. Lawson, *Frenzied Finance* (New York, 1905). U.S. Congress, House of Representatives, *Report of the Committee Appointed to Investigate the Control of Money and Credit,* 62 Cong., 3 sess., Feb. 8, 1913, p. 116; Carosso, *Investment Banking in America,* 113, 151.

[10] Brandeis, *Other People's Money and How the Bankers Use It,* 13–27; Samuel Untermyer, "A Legislative Program to Restore Business Freedom and Confidence: An Address Delivered before the Illinois Manufacturers' Association at Hotel La Salle, Chicago, January 5, 1914" (n.p., 1914); Samuel Untermyer, "Argument before U.S. Senate Committee on Banking and Currency in Support of Senate Bill No. 3895 to Regulate the Use of the Mails, Telegraph, and Telephone by Stock Exchanges: March 16, 1914" (n.p., 1914), 19; Samuel Untermyer, "Speculation on the Stock Exchange and Public Regulation of the Exchanges," *American Economic Review,* 5 (March 1915), 28, 50.

Prodded by the Pujo report, Brandeis, and Untermyer, legislators introduced a spate of reform bills. Some proposed to reorganize exchanges as corporations under federal or state charters. Others aimed to abolish short selling (bears' trading strategy) or brokers' practice of lending to their customers. All the proposed reforms threatened the distinction and value of NYSE membership and listing, for any broker and any security traded on any exchange would be subject to the same oversight and enjoy the same approval by the state.[11]

In February 1913 the NYSE governors took action. They launched public relations efforts intended to reshape perceptions of their institution, in the hopes of securing its legitimacy and preserving its autonomy. A new member-staffed Committee on Library (COL) sought to turn the Progressive charges levied against the exchange to its advantage. They allowed that an investing public existed, but they refused to yield to state oversight. Rather, they redeployed the figure of the small investor as a justification for self-governance: everyman must remain free to trade in the "free and open market" without regulatory hand holding. Given members' expertise, the existing structure of governance by committees of member governors best safeguarded investors.[12]

Thus, the exchange appropriated the idioms of populists and Progressives to assail the expansion of the federal state demanded by those very foes of securities markets. The GOP delegate and NYSE governor R. T. H. Halsey, chairman of the Committee on Library, blamed the 1913–1914 recession on the Pujo inquiry, the Federal Reserve and Clayton Antitrust acts, the Federal Trade Commission, and the refusal of the Interstate Commerce Commission (ICC) to raise railroad rates. Halsey believed that businessmen would "pluck up their ears and affairs change for the better" only if conservative Republicans lured back those who had followed Teddy Roosevelt out of the party in 1912. For Halsey, the course of action was clear: the exchange must promote a fresh, finance-centered variant of laissez-faire and cloak it in populist and Progressive garb. By doing so, the stock exchange situated itself well outside the "corporate liberal" consensus that, according to historians, characterized business politics in this period. NYSE spokesmen rejected the corporate liberal proposition that business leaders should cooperate with the state to modulate economic volatility. According to the exchange, any form of state intervention in the economy necessarily imperiled private initiative and private property, allegedly epitomized by the NYSE.[13]

The Committee on Library opened an on-site library and circulated publications penned by the NYSE members William C. Van Antwerp and H. S. Martin to exchange firms and their customers, politicians, journalists, and other exchanges and financial institutions. The publications portrayed the stock exchange as a "free and open market"

[11] Carosso, *Investment Banking in America,* 151; Mitchell, *Speculation Economy,* 208–48.

[12] For a definition of public relations, see Bruce K. Berger, "The Halcion Affair: Public Relations and the Construction of an Ideological World View," *Journal of Public Relations Research,* 11 (no. 3, 1999), 185–203. For the founding of the Committee on Library, see minutes, March 3, 1913, Committee on Publicity (1925–1935) minute book, vol. 1 (New York Stock Exchange Archives).

[13] R. T. H. Halsey to Lawrence Abbott, June 25, 1914, R. T. H. Halsey letterbook, vol. 1 (New York Stock Exchange Archives); Martin J. Sklar, *The Corporate Reconstruction of American Capitalism, 1890–1916* (New York, 1988); Robert H. Wiebe, *Businessmen and Reform: A Study of the Progressive Movement* (New York, 1962); James Weinstein, *The Corporate Ideal in the Liberal State, 1900–1918* (Boston, 1968); James Livingston, *Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890–1913* (Ithaca, 1986); R. Jeffrey Lustig, *Corporate Liberalism: The Origins of Modern American Political Theory, 1890–1920* (Berkeley, 1982); Louis Galambos, "The Emerging Organizational Synthesis in Modern American History," *Business History Review,* 44 (Autumn 1970), 279–90.

for financial securities that performed two essential economic functions. First, members' continuous trading produced securities prices and distributed economic risk to those wishing to bear it. Second, the NYSE facilitated corporations' accumulations of capital. By delineating these two functions, the exchange aimed to refute ancient allegations that members watered stocks, manipulated prices, and orchestrated financial panics. Further, it intended to suggest the futility and danger of all regulation.[14]

Exchange authors posited that in the course of trading, "the combined judgment of thousands of experts" was integrated into one "scientific," or objective, price for any listed security. This process constituted a "natural regulator of securities prices." The value of any listed corporation could be determined by multiplying share price by the number of outstanding shares—*never* through the kind of valuation inquiries conducted by the ICC and similar regulatory bodies. And as NYSE traders purchased and sold securities, they allegedly took up and redistributed economic risk. Their continuous trading yielded a "free and open"—or, in today's parlance, a liquid—market, where any investor might theoretically turn cash into securities (or vice versa) at any time.[15]

In truth, the exchange assigned responsibility for making a market in each listing to *one* member on the floor, the specialist. He offered both a price at which he was willing to buy (the bid) and a price at which he was willing to sell (the ask). He acted both as a broker (matching orders between other members) and a dealer (trading for his own account). Because all orders went through the specialist, he enjoyed privileged information. He could use his knowledge to advance manipulations or to accept the best bids and asks for his own trades. Concerned with refuting charges of manipulation and insider privilege, NYSE authors sidestepped the specialist in their accounts. Typically, they characterized trading floor activity as continuous competition that yielded consensus in the form of the executed price.[16]

As traders crafted "scientific" prices in many different stocks, the stock market itself was produced, NYSE publicists contended. Aggregate stock market levels served as a "barometer" of future economic conditions, for traders' decisions took into account (or "discounted") anticipated future prospects. Even if would-be manipulators enjoyed a "brief hour" by issuing false rumors, fake trades, and phony reports, the market always responded "to actual conditions and discount[ed] the future of those conditions." Moreover, just

[14] William C. Van Antwerp, *The Stock Exchange from Within* (Garden City, 1913); H. S. Martin, *The New York Stock Exchange* (New York, 1918); Halsey letterbook, vol. 1; Committee on Publicity (1925–1935) minute book, vols. 1, 2, and 4; Peter L. Bernstein, *Capital Ideas: The Improbable Origins of Modern Wall Street* (New York, 1993); Richard Whitley, "The Transformation of Business Finance into Financial Economics," *Accounting, Organizations, and Society,* 11 (Feb. 1986), 171–92. Exchange claims were hardly based upon extensive empirical investigation, however. Economists of the day viewed securities trading as largely unrelated to their main concerns: production, distribution, and consumption.

[15] Van Antwerp, *Stock Exchange from Within,* 5–7, 16–18, 14, 22, 42, 60–61, 230, esp. 4, 23; E. H. H. Simmons, *Free Markets and Popular Ownership* (New York, 1925), 72; "Digest of the Preliminary Work of the Special Committee on Bucket Shop Operations," June 25, 1913, pp. 10–15 (New York Stock Exchange Archives). On valuation by regulatory bodies, see Thomas K. McCraw, *Prophets of Regulation: Charles Francis Adams, Louis D. Brandeis, James M. Landis, Alfred E. Kahn* (Cambridge, Mass., 1984); and Gerald Berk, *Alternative Tracks: The Constitution of the American Industrial Order, 1865–1917* (Baltimore, 1994), 157–74. For the move from a property-based to a risk-based definition of value and ownership, see Bill Maurer, "Forget Locke? From Proprietor to Risk-Bearer in the New Logics of Finance," *Public Culture,* 11 (no. 2, 1999), 365–85; and Jonathan Ira Levy, "Contemplating Delivery: Futures Trading and the Problem of Commodity Exchange in the United States, 1875–1905," *American Historical Review,* 111 (April 2006), 307–35.

[16] Mitchel Y. Abolafia, *Making Markets: Opportunism and Restraint on Wall Street* (Cambridge, Mass., 1996), 109; Joel Seligman, *The Transformation of Wall Street: A History of the Securities and Exchange Commission and Modern Corporate Finance* (Boston, 1982); J. E. Meeker, *The Work of the Stock Exchange* (New York, 1922), 40–48, 174, 209–11.

as manipulation of barometer readings could not alter impending weather, no regulatory attempt to modulate securities markets would prevent economic change. Even if regulation could be devised to modulate the market, it would replace "the combined judgment of thousands of experts" with the oversight of an inexpert administrative few, the NYSE held.[17]

Critics of exchange trading practices objected most vigorously to short selling, in which traders (bears) borrowed securities from long-term investors and then sold them. Bears did so believing that the price of the borrowed securities would fall. If it did, bears could repurchase the securities they owed at the lower price, return them to the lender, and pocket the price difference. According to critics, bears profited from others' losses, expressed unpatriotic pessimism, and drove down stock prices. Exchange authors rejoined that the short sellers prevented bubbles and furnished buying support in panics. Further, they equated both short selling and speculation (short-term trading, often with borrowed funds) with the standard way merchants used credit to finance commerce. Unless voters intended "to abolish property altogether, do away with the instruments of credit, and suppress all forms of trading designed to supply future requirements," they had better "reconcile" themselves to the NYSE, for it ostensibly embodied all the natural, immutable tendencies of *homo economicus*.[18]

Exchange members laid claim to a second economic contribution as brokers, delivering customers' funds to worthy corporations. Stock exchange authors posited that "industrial progress" dictated that firms incorporate and list their securities on the NYSE, even as they steadfastly rejected the Pujo recommendation that the exchange itself incorporate. In fact, much early twentieth-century industry did not assume corporate form, while many great corporations raised capital and funded growth through private buyouts, independent promotions, or retained earnings. Nonetheless, the exchange emphasized how corporations raised capital in order to assert a productive—rather than parasitic—identity for itself. Its publicity downplayed the secondary trading (in which money goes from one investor to another) that the NYSE could more properly claim to its credit.[19]

Exchange authors maintained that when insurance companies, banks, or individuals used NYSE brokers, "the public" directed how "new capital shall be applied to new undertakings."[20] Exchange members executed the investing public's economic development plans. Society as a whole benefited when men tested by experience valued and circulated financial capital. These stewards piloted corporate capitalism *for* the people, even if this economy was not constituted *of* all the people acting as direct investors. Thus, the NYSE reframed itself as a kind of an investors' republic.

[17] NYSE authors appropriated the barometric conceptualization from the journalist Charles A. Conant. See Van Antwerp, *Stock Exchange from Within,* 91, 124, 205. Charles A. Conant, *Wall Street and the Country* (New York, 1904), 89–91, 116.

[18] Van Antwerp, *Stock Exchange from Within,* 38, 42, 48–60, 75–77, 88–93.

[19] *Ibid.*, 13. See Baskin and Miranti, *History of Corporate Finance;* Alfred D. Chandler, *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass., 1977), 158–75, 195–203; William G. Roy, *Socializing Capital: The Rise of the Large Industrial Corporation in America* (Princeton, 1997), 108; Carosso, *Investment Banking in America,* 95–97, 102; and Thomas R. Navin and Marian V. Sears, "The Rise of a Market for Industrial Securities, 1887–1902," *Business History Review,* 29 (June 1955), 105–38. On noncorporate varieties of modern capitalism, see Berk, *Alternative Tracks;* Philip Scranton, *Proprietary Capitalism: The Textile Manufacture at Philadelphia, 1800–1885* (New York, 1983); Charles F. Sabel and Jonathan Zeitlin, eds., *World of Possibilities: Flexibility and Mass Production in Western Industrialization* (New York, 1997); and Louis Galambos, "Recasting the Organizational Synthesis: Structure and Process in the Twentieth and Twenty-first Centuries," *Business History Review,* 79 (Spring 2005), 1–38. Meeker, *Work of the Stock Exchange,* 87–90; Van Antwerp, *Stock Exchange from Within,* 44–45.

[20] Van Antwerp, *Stock Exchange from Within,* 13, 26–27.

In the writings of exchange authors, references to the small investor and the investing public—rhetorical figures first conjured to support reform legislation—now served to reject such reform. NYSE publicists conceded the existence of an investing public composed of institutions and some individuals, but it avowed that self-governance best served that public and expressed its will. After all, everyman (or at least the institutions that held his funds) had *chosen* to trade on the unregulated NYSE.

Even so, exchange spokesmen trod carefully. They aimed to establish that the NYSE served but never abused the public, was not a monopoly, and thus required no state oversight. On the one hand, the exchange stressed members' caution in dealing with inexperienced clients. On the other, it proclaimed that everyman enjoyed the same access as "the richest investor in the land." In their argument, it scarcely mattered whether the masses actually invested. The point was to recast individual economic freedom as the *possibility* of trading—and of assuming all risk of loss—through privately administered markets. If the state excused the individual from consequences, "society" would become "more solicitous of the man who fails than the man who succeeded. . . . is this not dangerous ground?" R. T. H. Halsey posed that question to the editor of the *Saturday Evening Post.* The unwise speculations indulged in by the ignorant "proletariat below the stairs" provided no justification for politicians to meddle, the NYSE insisted.[21]

Having enshrined the exchange as the cornerstone of modern capitalism, publicists tapped traditional aversions to strong central government. The NYSE charged "demagogues and self-seekers"—particularly farm bloc congressmen—with misrepresentation. Blame for distressed economic conditions lay in the inherently wasteful tendencies of the state. Retail investors' losses in the stock market paled in comparison to the costs of "all these junkets, all these investigations, and all these political excursions" and frivolities such as civil servants' and veterans' pensions, agricultural programs, transportation infrastructure, and post offices. Private capital, the stock exchange averred, financed essential expenditures more efficiently.[22] The alleged contrast between the expert, mechanical, and free nature of privately administered markets and the ignorance, corruption, and oppression of the state lay at the heart of the NYSE's new institutional identity as the "free and open market."

As its second task, the Committee on Library endeavored to induce others to accept and propagate its portrayal of the exchange. It monitored newspapers, advised on articles, and forwarded favorable clippings. Albert W. Atwood at *Harper's Weekly* (which had published *Other People's Money*) and the editors of the *Saturday Evening Post* became close allies. The COL challenged any depiction of the NYSE as a gambling hell or stockyard. Chairman R. T. H. Halsey even threatened a libel suit against the 1914 film adaptation of Frank Norris's 1903 novel, *The Pit.* Scenes in which trading pits yielded psychological dissolution rather than scientific prices were in consequence eliminated.[23]

[21] *Ibid.*, 52, 55, 57, 67, 230, esp. 67; Halsey to Charles H. Ludington, Oct. 4, 1913, Halsey letterbook, vol. 1; Van Antwerp, *Stock Exchange from Within,* 164.

[22] Van Antwerp, *Stock Exchange from Within,* 22, 179–80.

[23] See, for example, Halsey to Albert W. Atwood, Sept. 30, Oct. 2, 25, 1913, Halsey letterbook, vol. 1; Halsey to Atwood, Library Committee (1913–1925) letterbook, vol. 1 (New York Stock Exchange Archives); and Halsey to National Board of Censorship, May 15, 1914, *ibid.* Frank Norris, *The Pit: A Story of Chicago* (New York, 1903); *The Pit,* dir. Maurice Tourneur (William A. Brady Picture Plays Corporation, 1914). On Gilded Age and Progressive Era representations of stock market trading and panics, see David A. Zimmerman, *Panic! Markets, Crises, and Crowds in American Fiction* (Chapel Hill, 2006); and Steve Fraser, *Every Man a Speculator: A History of Wall Street in American Life* (New York, 2005).

The public's inability to distinguish between NYSE brokerages and bucket shops troubled exchange leaders most. According to the legal definition, a bucket shop accepted wagers on the movement of stock prices as recorded on the ticker tape, with no physical transfer of stock. Exchange spokesmen, however, deemed any nonmember firm that offered generous credit a bucket shop. The ruse of a small margin, or down payment, enticed the incompetent, the NYSE charged. When stock prices fell, "buckeeters" called for more margin. If customers did not put up more money, their accounts were liquidated. Such customers were gambling on price movements, the exchange alleged, and the margin actually constituted a wager.[24]

In 1913 Gov. William Sulzer introduced legislation that strengthened New York laws against bucket shops.[25] As NYSE governors well knew—and as bucketeers reminded the press—some NYSE commission houses also allowed clients to open accounts on minimal margin. Moreover, short sales between exchange members settled without a physical transfer of stock. Unfriendly judges might classify those NYSE practices as wagering on the movement of stock prices, the governors feared.

To avoid running afoul of Sulzer's law, the COL took measures to differentiate members' brokerages from bucket shops. It contended that as craftsmen of prices and bearers of risk, members earned an exclusive right to the fruits of their labor: the securities quotations recorded on the exchange's tickers (bids, asks, and executed prices). Next, the exchange negotiated a new contract with Western Union that permitted exchange officials to veto any request for tickers delivering NYSE quotations. In response, bucket shops decried the NYSE "monopoly" of market data, in the hopes that courts might order the exchange to share its quotations. So the stock exchange turned to the muckraking exposé—that favored technique of its Progressive foes—to publicize the losses of bucket shop customers. Police raids closed the identified establishments.[26]

By deflecting attention, the exchange secured a truce. Congressional bills requiring incorporation of the exchange and imposing prohibitive taxes on short selling met defeat by 1915. Neither the Federal Reserve Act, the Clayton Antitrust Act, nor the Federal Trade Commission impinged on NYSE self-governance. In New York prospects for reform dwindled with Governor Sulzer's impeachment.[27]

Although exchange leaders perceived an improvement in public attitudes and the political environment resulting from their efforts, they did not relent, for corporations in regulated sectors, particularly railroads, dominated NYSE listings. Exchange leaders believed that in setting railroad rates, the Interstate Commerce Commission deferred to shippers and undervalued invested capital, thereby yielding insufficient returns for investors. Even more important, the notion that a federal bureaucracy could determine the

[24] For earlier anti–bucket shop campaigns by commodity exchanges, see Cowing, *Populists, Plungers, and Progressives;* and David Hochfelder, "'Where the Common People Could Speculate': The Ticker, Bucket Shops, and the Origins of Popular Participation in Financial Markets, 1880–1920," *Journal of American History,* 93 (Sept. 2006), 335–58; and Ann Fabian, *Card Sharps, Dream Books, and Bucket Shops: Gambling in Nineteenth Century America* (Ithaca, 1990).

[25] Cowing, *Populists, Plungers, and Progressives,* 63–64.

[26] William C. Van Antwerp, "Digest of the Preliminary Work of the Special Committee on Bucket Shop Operations," June 25, 1913, pp. 7, 10–15, 22, 31, 36–37, 42–43, 67–71, 77–94, 116–52 (New York Stock Exchange Archives); William C. Van Antwerp to Walter Taylor, July 16, 1913, Library Committee (1913–1925) letterbook, vol. 1; "Bucket Shops Open Here and Outside," *New York Times,* May 16, 1913, p. 20; Albert Atwood, "The Bucket Shop Curse," *Harper's Weekly,* Dec. 20, 1913, pp. 31–33.

[27] Cowing, *Populists, Plungers, and Progressives,* 65.

value of invested capital fundamentally challenged claims that the stock prices generated in "free" trading established the value of listed companies.

To check the unfriendly regulatory environment, the exchange advanced an investor-centered theory of political economy that prioritized the interests of the investing public. In 1915–1916 William Van Antwerp of the NYSE joined the Pennsylvania Railroad publicist Ivy L. Lee and Otto Kahn of Kuhn, Loeb and Company (the Pennsylvania Railroad's investment bank) for a cross-country tour. Together, these self-styled spokesmen of capital endeavored to enlighten rail investors about the hostility of politicians and bureaucrats. They protested federal tax policy and demanded that the ICC put investors' interests first and raise rates immediately. Instead, Lee, Kahn, and Van Antwerp received news of the appointment of Louis Brandeis to the Supreme Court and the passage of the Adamson Act, which enlarged the roads' labor bills without any offsetting rate increase.[28]

In the wake of the Pujo investigation, the governors and publicists of the New York Stock Exchange developed a new institutional identity to present to voters, politicians, critics, and potential allies. This task proved easier than convincing exchange members to jettison cherished aspects of their occupational identities. Given the exchange's status as a private association, many members disagreed with the governors' efforts to defend it or change its culture. Others demanded a different reformulation of the exchange's institutional identity.

Among the members, different interests voiced differing critiques of the governors' strategy. Investment banks and wholesale brokerages that owned NYSE seats feared that the governors' newfound sensitivity would prompt closer scrutiny of new issues of securities. Independent NYSE traders and specialists considered pools and corners to be tricks of their trade. Accordingly, they resented the governors' resolve to forestall manipulation (or to appear to do so?) by establishing the Committee on Business Conduct (CBC) in 1913. NYSE commission and odd-lot houses likewise damned the CBC, for it received retail customers' complaints and investigated NYSE firms who issued advertising "not of a strictly business character." This censorship vexed commission houses that wished to pursue retail investors more aggressively. Odd-lot houses offered the mechanism through which commission houses executed trades in less than the hundred-share standard (retail investors generally could not afford a full hundred-share lot). Accordingly, they sided with the commission houses. To those groups, it made no sense for the stock exchange to proclaim itself "free and open" while its CBC impeded retail brokerage.[29]

An "Old Guard" coalition of individual traders, most specialists, investment banks, and wholesale brokerages held the balance of power at the prewar exchange. Because retail investors played little role in the business models of that dominant coalition, the CBC from its inception curtailed commission house advertising. It forbade the use of "catch phrases," illustrations, narrative, ornate fonts or borders, and "rumours of a sensational

[28] On Louis Brandeis's appointment to the Supreme Court, see Arthur S. Link, *Woodrow Wilson and the Progressive Era, 1910–1917* (New York, 1954), 225. "Says Roads Are Strangling," *New York Times,* Dec.16, 1914, p. 17; Ivy L. Lee, *The American Railway Problem* (London, 1910); Ivy L. Lee, *The Crux of the Railroad Difficulty* (Boston, 1916); Ivy L. Lee, *Human Nature and the Railroads* (n.p., 1915); Ivy L. Lee, *Is Railroad Regulation Becoming Strangulation?* (New Brunswick, 1914); Otto Kahn, *Strangling the Railroads* (n.p., 1914); Otto Kahn, "The Government and the Railroads," *World's Work,* 31 (Feb. 1916), 451–56.

[29] Halsey to James B. Mabon, July 25, 1913, Halsey letterbook, vol. 1; Van Antwerp to Halsey, Aug. 8, 1913, William C. Van Antwerp letterbook, vol. 1 (New York Stock Exchange Archives); minutes, March 24, 1913, Sept. 28, Oct. 15, 1914, March 1, 1916, March 26, 1917, Committee on Business Conduct minute book, vol. 1 (New York Stock Exchange Archives).

character" since such devices drew "a class of business" deemed "not desirable." If small investors' losses inspired demagogues to jump on the NYSE -reform wagon, then members should avoid the retail segment, the governors believed.[30]

Commission houses, odd-lot houses, and their advertising agencies balked. The "maligned and misrepresented" exchange required "not less advertising, but more" to broaden "the market beyond the group surrounded by ticker tapes," those members insisted. To promote securities ownership, exchange members should employ every modern technique of consumer enticement, urged one advertising agent. "We talk about our labor unions, we talk about the growth of Socialism. [Yet] Capital . . . insists on 1000 dollar bonds, it insists on narrow professional minds, it insists on . . . making the field of finance some sacred precinct into which people must have a passport to enter." One commission house employee concurred, adducing the "important political consequences" of securities ownership. "The man who owns a few shares of stock . . . is a great big island of common sense. . . . He thinks intelligently on business subjects, and he votes intelligently, and he influences other people." To democratize the rarefied realm of finance—that was the proper institutional mission for the NYSE, according to its commission and odd-lot house members.[31]

The success of the wartime state in distributing its small-denomination bonds to roughly 30 million Americans emboldened these members. The stock exchange seized the opportunity to achieve recognition in the mass bond drives to fund the war. But the subscription totals secured by even the largest NYSE commission house ($500,000 by J. S. Bache and Company) paled in comparison with the millions raised by banks, corporations, labor unions, women's groups, and ethnic associations. But sales mattered less than stature. By lending its trading floor for major Liberty loan rallies, the NYSE positioned itself as the crux of financial mobilization.[32]

Nonetheless, the war did not lead the NYSE governors to reconsider their reservations about retail brokerage. Instead, they deepened their commitment to their prewar public relations strategy as federal incursions into markets drew their attention. During the war, Congress considered forcing securities and commodity exchanges to incorporate, regulating them, and closing them in the interest of economic stabilization. These bills met defeat, but commodity prices were fixed and commodity exchanges closed under Food Administrator Herbert Hoover—an alarming precedent. Worse, the Federal Reserve's Capital Issues Committee (CIC) monitored new securities issues to ensure that capital was directed toward war loans and those enterprises deemed essential for the war. Expectations ran high for a postwar CIC that might protect novice citizen investors from risky or fraudulent investments. In response, NYSE governors rallied a Business-Men's Anti-Stock Swindling League to alert citizen investors to deceptive promotions by nonmembers. Ultimately, this initiative helped defeat bills that proposed to retain a CIC postwar.[33]

[30] Minutes, April 12, June 21, 1916, April 30, 1917, Feb. 18, 1918, Committee on Business Conduct minute book, vol. 1.

[31] *Proceedings of the First Annual Convention of the Financial Advertisers' Association* (Chicago, 1916), 59, 63, 71, 75.

[32] "Victory Notes," *New York Times,* May 9, 1919, p. 14; "Thousands Cheer as McAdoo Pleads for Liberty Loan," *ibid.*, June 7, 1917, p. 2; "Says We Must Save Heritage of Liberty," *ibid.*, April 16, 1918, p. 24; "Serbian Mission at Stock Exchange," *ibid.*, Feb. 9, 1918, p. 9; "Taft Talks to Wall Street," *Washington Post,* Oct. 23, 1917, p. 1.

[33] Cowing, *Populists, Plungers, and Progressives,* 80–86; Mitchell, *Speculation Economy,* 257–68. On the global financial meltdown that forced the stock exchange to suspend operations briefly in 1914, see William L. Silber, *When Washington Shut Down Wall Street* (Princeton, 2007); and H. G. S. Noble, *The Stock Exchange in the Crisis of*

And so, after the armistice, a rosy horizon greeted the stock exchange. Self-governance endured. The stock market stood atop a bull run, despite some uncertainty regarding postwar economic readjustment. But the high point proved short-lived.

In the spring of 1920, member Allan A. Ryan blindsided exchange governors with his corner in the shares of the Stutz Motor Car Company. Faced with disciplinary action, the charismatic Ryan revived demands for exchange regulation. Commission houses watched with outrage as exchange governors squandered all the goodwill built up in the war loan drives. To head off mutiny, the governors made two concessions to internal critics. First, steps were taken to crush the Consolidated Exchange, the NYSE's greatest competitor. Second, a new Committee on Publicity (COP) began to promote universal stock ownership. Thus, the crisis provoked by the Stutz affair—not an obvious opportunity for profit—catalyzed a change in institutional course that supported the expansion of retail brokerage by NYSE firms. The lambs' day finally arrived.

In January 1920 the price of the common stock of the Stutz Motor Car Company began a sharp ascent. Soon, it attracted short sellers. In March the NYSE Committee on Business Conduct summoned member Allan A. Ryan, president of Stutz, to discuss rumors of a corner, a form of stock market manipulation where one party gains control over the supply of stock. Ryan revealed that he controlled 80 percent of the shares and had lent Stutz stock to all those now short. Ryan had cornered Stutz! To cover the shares they owed *to* Ryan (which they had sold in anticipation of a fall in price), squeezed short sellers could settle only by purchasing Stutz shares *from* Ryan. Ryan dictated his terms: $750, then $1,000 per share. In response, exchange governors—publicly committed to maintaining "a free and open market"—suspended trading and declared all outstanding short contracts void.[34]

A battle for the hearts and minds of small investors unfolded in the press. Ryan confessed to manipulating Stutz's share price but claimed that he had acted only to prevent others from driving the price *down.* Moreover, Ryan insinuated that certain NYSE *governors* had participated in this attempted bear raid. Next, he reassigned the stereotype of the small investor as a foolish, greedy, skittish lamb to his adversaries. "They have no sense of genuine values. They're automatic alarmists, like a flock of sheep." Ryan made reference to older producer-oriented theories of political economy as he rhetorically aligned shareholders, workers, and managers against elite, parasitic financial raiders. Stutz's buoyant share price properly reflected its tangible assets, skilled workers, and "right management," which Ryan defined thus:

> Keep your dividends down and put the surplus back into the business. . . . As long as fixed dividends and interest charges stand against your earnings your President will have to be working partly for the capitalists . . . when he ought to be working solely for production. . . . Treat everyone square as another, whether your workmen, your partners, your managers or your stockholders . . . I won't stand for any destructive raiding . . . I have twenty thousand stockholders and they're going to be protected.

1914 (New York, 1914).

[34] Untitled clipping, *New York Post,* April 1, 1920, Stutz Corner scrapbook (New York Stock Exchange Archives); "Statement of the New York Stock Exchange," April 15, 1920, *ibid.*

In truth, an indeterminate number of stockholders held twenty thousand *shares* of Stutz.[35]

Ryan decried the tepid patriotism of his foes: "buy production, build it up, remember you are living in America and go ahead regardless of the fools who sell real values short on passing flurries." Amid unprecedented levels of union membership and strike activity, as well as fierce debates over the role of the state in the postwar economy (including the prospect of permanent nationalization of railroads and mines), Ryan audaciously mocked Wall Street's bearish attitude toward labor activism. "Start . . . a strike rumor, for instance, and they'll all start short selling, in full expectation that the bottom is dropping out of the country."[36]

In April 1920 those short of Stutz stock settled privately with Ryan for $550 per share, fearing that the courts might overturn the exchange governors' voidance of their contracts. The exchange expelled Ryan, but it remained trapped by its own adamancy about the efficacy of self-policing and the impossibility of manipulation. It paid dearly in political leverage and internal discipline. As congressmen and state legislators introduced financial reform bills, they specifically cited the Stutz corner. The corner also undermined NYSE opposition to the veterans' bonus bill, to be funded in part through a stock and bond transfer tax intended to curtail speculation. Working with the National Association of Manufacturers, NYSE leaders struggled to prove the fiscal folly of the bonus and to rally commission house customers to write in opposition. But after the Stutz affair, exchange assertions that the bonus would crush its "free and open market" rang hollow. The bonus overcame a presidential veto in May 1924.[37]

Worst, the exchange's largest commission house, J. S. Bache and Company, seconded Ryan's call for "the incorporation of the New York Stock Exchange to be governed by law for the good of the investing public."[38] Commission house dissatisfaction had been simmering for some time. Now, thanks to the Stutz debacle, governors faced Bache's mutinous endorsement of incorporation along with rampant noncompliance with advertising restrictions. Moreover, the institutional balance of power had shifted. Since the war, the commission houses had amassed both exchange seats and public esteem. They had, after all, helped everyman buy his Liberty bonds.

"What we must give is service to the public," these firms insisted. The NYSE could best dissipate agitation for securities market regulation by enlarging the shareholding class, commission houses asserted. They demanded public relations to attract new citizen investors who were being lured by competitors—especially members of the Consolidated Exchange—with window displays, billboards, electric signage, novelty giveaways, streetcar postings, direct mail, even motion pictures. In addition to this freedom to advertise, Consolidated brokers enjoyed access to NYSE quotations due to an old contractual loophole. Exchange governors and members considered its archrival nothing more than a den of bucket shops, whose brokers priced their own trades according to NYSE quotations but charged their customers only half the commission.[39]

[35] "Rumor Again Traps Big Man in Stutz," *New York Times,* April 3, 1920, clipping, *ibid.*; untitled column in *New York Mail,* April 13, 1920, clipping, *ibid.*; "'The Street' and Industry," *Boston Globe,* April 9, 1920, clipping, *ibid.*

[36] "Allan Ryan on Wall Street," *New York World,* April 18, 1920, clipping, *ibid.*

[37] Untitled clipping, *New York Mail,* April 15, 1920, *ibid.*; "Asks Investigation of Stock Exchange," *New York Times,* April 21, 1920, p. 17; Bonus Bill scrapbook (New York Stock Exchange Archives).

[38] Minutes, Oct. 28, 1920, Jan. 10, 1921, Committee on Publicity (1925–1935) minute book, vol. 2.

[39] "Report of the Special Committee on Ways and Means: Subcommittee on Odd Lots," 1921, folders 7 and

Although NYSE odd-lot trading (in lots of fewer than one hundred shares) also increased after the war, it presented a quandary. All odd-lot trades executed through four odd-lot houses. Like bucket shops, those houses based prices for customers' orders on the prices of prior trades, not on the current bid or ask offered in the regular "free and open" market. Exchange governors feared they would be unable to defend that procedure if the New York attorney general chose to investigate, using the broad powers granted by the 1921 Martin Act. Although NYSE lobbyists had been unable to prevent passage of the Martin Act after the Ryan scandal, they had ensured that it did not create commissions to license brokers or to approve new securities. Instead, it enhanced the state attorney general's ability to investigate securities fraud. Efforts to distinguish NYSE brokerage from bucketing and swindling became even more critical.[40]

The time was ripe for reviving campaigns against bucketeers and frauds. NYSE governors compensated commission houses for advertising censorship when they donated $100,000 to launch investors' sections of the Better Business Bureau (BBB). The BBB and the NYSE maintained close ties. The BBB of New York's advisory committee and officers included several NYSE members; COP chairman James C. Auchincloss served as executive director from 1927 to 1933. Stock exchange firms donated funds to the BBB. The BBB distributed exchange films and literature. The NYSE used bureaus to investigate potential new listings and members' customers (to confirm that the latter did not operate bucket shops). Bureaus alerted novice investors—and the attorney general—to get-rich-quick swindles. Bureau investigations helped Attorney General Albert Ottinger "search out and punish" Consolidated brokers under the Martin Act. The Consolidated closed in 1926. Bureaus declined to investigate NYSE members or listings, however, forwarding complaints to the Committee on Business Conduct for private discipline. As a consequence, the BBB never commented on many of the greatest swindles of the 1920s.[41]

The BBB also provided a valuable talking point for the NYSE, illustrating the alleged superiority of voluntary self-governance and the inane redundancy of regulation. If swin-

9, box 3, and folders 9–14, box 1 (New York Stock Exchange Archives). On the significance of competition from the Consolidated Exchange, see William O. Brown Jr., J. Harold Mulherin, and Marc D. Weidenmier, "Competing with the NYSE," working paper, May 2006 (in Ott's possession).

[40] "Report of the Special Committee on Ways and Means," folder 9, box 2, and folder 7, box 3; minutes, March 8, 14, 1921, Committee on Publicity (1925–1935) minute book, vol. 2; report, Special Committee on Ways and Means, Aug. 11 to Aug. 24, 1924, folder 12, box 1 (New York Stock Exchange Archives); Martin Act, New York General Business Law article 23-A, sections 352–353 (1921). For NYSE president William Remick's discussion about enforcement with Deputy Attorney General Frederick R. Rich, see minutes, Dec. 2, 1921, Committee on Publicity (1925–1935) minute book, vol. 2. For Eliot Spitzer's application of the Martin law against stock analysts, mutual fund fee and trading practices, NYSE president Richard Grasso's pay package, and Martha Stewart, see Nicholas Thompson, "The Sword of Spitzer," www.legalaffairs.org/issues/May-June 2004/feature_thompson_mayjun04.html.

[41] Minutes, May 15, 1922, Governing Committee minute book, vol. 8 (New York Stock Exchange Archives); Committee on Publicity (1925–1935) minute book, vols. 2 and 3; loose report, July 1, 1922, Stock Frauds BBB scrapbook (New York Stock Exchange Archives); loose report, Jan. 1 and 15, 1922, Jan. 17, 1923, *ibid.*; "Gets New Position: James C. Auchincloss," *New York Times,* May 13, 1927, p. 46. "Better Business Bureau Reports on Frauds . . . 60 Court Orders Obtained," *ibid.*, March 9, 1926, p. 32; "Injunction Curbs the Consolidated's Trading Practices," *ibid.*, Feb. 5, 1926, p. 1; "Sues to End Tickers of Consolidated," *ibid.*, Oct. 8, 1926, p. 33; "Consolidated Quits," *ibid.*, Feb. 12, 1926, p. 1; "Exchange Can Stop Stock Quotations," *ibid.*, May 27, 1927, p. 36. For Attorney General Chambers's confirmation that he "placed great dependence upon the Better Business Bureau," see loose report, Oct. 16, 1923, Stock Frauds BBB scrapbook. Minutes, Jan. 19, March 9, 24, 1923, Jan. 29, Feb. 5, 1926, Committee on Publicity (1925–1935) minute book, vol. 3. On the swindles (including the Van Sweringen, Krueger & Toll, and Insull public utility holding companies, National City Bank's South American bonds, and the inflated and fee-soaked shares of investment trusts), see Maury Klein, *Rainbow's End: The Crash of 1929* (New York, 2001); John Kenneth Galbraith, *The Great Crash: 1929* (Boston, 1955); and Ferdinand Pecora, *Wall Street under Oath: The Story of Our Modern Money Changers* (New York, 1939).

dlers' "innumerable victims" found "relief and protection" with the state, NYSE president E. H. H. Simmons warned, the regulation of "all enterprise" would follow. From whence sprang such pernicious proposals? Simmons's answer suited postwar nativism. Surely the "influx of foreign-born immigrants" had introduced this "dangerous" and "wholly different conception of government." The BBB proved that private action could "check the evils to which a free society is subject." Voluntary initiative buttressed the nation against "paternalism," against "state socialism," against squandering the "freedom of business." No matter that NYSE firms largely escaped bureau oversight.[42]

Funding the Better Business Bureau represented only one way the governors changed course to support NYSE commission houses in the wake of the Stutz ordeal. That debacle confirmed for exchange leaders that Americans lacked awareness "about Wall Street as it really exists." The "misguided" financial reformer, the swindler, and the Bolshevik all preyed on rampant economic illiteracy. All three inflamed "passionate hatred" of American "social, political, and economic institutions." And so, after 1921, a new Committee on Publicity engaged in *"preventative educational activity"* to counter "lies and sophistries" about the exchange while promoting investment in corporate stock. The COP pursued six measures: press relations, publications, hosting, academic relations, speaking tours, and motion pictures. Meanwhile, stock exchange members also aimed to elicit political sympathy as they extended brokerage service—and billions in credit—to novice investors.[43]

In the aftermath of the Stutz affair, exchange public relations articulated an ideology of shareholder democracy. The New York Stock Exchange presented itself not only as the "free and open market," but also as "the people's market" (perhaps mimicking Louis Brandeis, "the people's lawyer").[44] It heralded universal ownership of corporate stock—traded on unregulated securities markets—as the key to an equitable distribution of prosperity, the democratization of corporate power, and the modernization of proprietary democracy. Far from quashing independent entrepreneurs, the "people's market" conveyed economic power to citizen shareholders. As exchange envoys endorsed universal stock ownership, they refused two alternative prescriptions for economic stability, prosperity, and equity: Fordist corporate management and Hooverian economic policy.

As the Committee on Publicity determined to ferret out lies about the financial system, monitoring all coverage of the NYSE and its members, the Hearst newspaper syndicate, rural papers, and, notably, Henry Ford's *Dearborn Independent* drew special attention. Like Allan Ryan, Henry Ford denied any link between legitimate corporate enterprise and the manipulative machinations of mere stockbrokers. Ford had not offered stock to the public. His management model combined closely held ownership, generous wages, small profit margins, high sales volume, and expansion funded with retained earnings. Ford identified mass consumption—dependent on the robust purchasing power of workers—as the best route to corporate profits and national economic vibrancy. For the NYSE,

[42] E. H. H. Simmons, *Suppressing Financial Frauds* (New York, 1925), 6–9.

[43] On the relaxation of advertising restrictions, see "Stock Exchange Meeting," *New York Times,* March 28, 1922; minutes, June 11, 1920, Committee on Publicity (1925–1935) minute book, vol. 2; and Governing Committee resolution, March 9, 1921, folder 1, box 1, Records of the Special Committee on Ways and Means (New York Stock Exchange Archives). Jason R. Westerfield, *Wall Street of Fact and Fiction* (New York, [1924–1929]), 19–20; Jason R. Westerfield, *Dangerous Delusions* (New York, [1924–1929]), 20; loose report, Jan. 17, 1923, Stock Frauds BBB scrapbook.

[44] Cromwell, *Problems and Policies of the New York Stock Exchange,* 5.

Ford's formulas for corporate governance and political economy placed the wage, price, and retained-earnings cart before the return-to-shareholders horse.[45]

To counter Ford and to improve the tenor of media coverage, COP staff delegated "assignments" to favored journalists, reached out to new financial magazines, and obliged friendly journalists with interviews, tours, and free luncheons. The NYSE greatly increased the volume of its publications in the 1920s. Its direct distribution list ultimately totaled nearly a million.[46]

The stock exchange also became far more hospitable in the 1920s. Gallery visits and trading floor tours were offered to groups perceived as hostile: out-of-town bankers, farmers' groups, state securities commissioners, and Democratic National Convention delegates. The exchange opened its doors to several thousand individuals each month and to organizations convening in New York City. "After standing in the gallery and looking down into the pit," one Kansas Odd Fellow confessed that he "knew just about as much of what was going on" as "before the visit, which was absolutely nil." But he grasped the point: "bucket shops located everywhere . . . were illegitimate and brought odium upon the Stock Exchange."[47]

Most of all, the COP sought out students and educators, those misguided purveyors of "fluffy-minded internationalism and camouflaged communism." The COP distributed literature and films on "the principles of sound investment" and "economic fundamentals," highlighting "the equal opportunities enjoyed by and guaranteed to every citizen under our democratic form of government." It dispatched delegates to high schools, educators' conventions, and religious assemblies to recruit young men for NYSE jobs. Recruiters portrayed exchange employment as a "Moral Force" in "the Building of Proper Manhood," rather than descent into a gambling hell.[48]

Apart from educators and students, the COP speakers' bureau targeted particular groups and regions. NYSE presidents Seymour Cromwell and E. H. H. Simmons addressed trade, finance, industrial, and professional associations in large cities, while Director of Publicity Jason R. Westerfield visited professional and business organizations, high schools, and colleges in small cities and towns in upstate New York and the Great Plains, Midwest, South, and West. These regions traditionally favored blue-sky laws and exchange regulation. In the 1920s they saw intense competition between NYSE and nonmember retail brokerages. At every engagement, exchange representatives sought to preempt regulation, to promote members' brokerages, and to ensure a steady flow of loans to members.[49]

[45] For the Hearst newspapers' endorsement of the soldiers' bonus and securities market regulation (and their charge that Wall Street firms had engineered World War I to protect their investments in Allied bonds) and for rural politicians' support for exchange regulation, see Unfavorable Coverage scrapbook (New York Stock Exchange Archives). Steven Watts, *The People's Tycoon: Henry Ford and the American Century* (New York, 2005); Stephen Meyer, *The Five Dollar Day: Labor Management and Social Control in the Ford Motor Company, 1908–1921* (New York, 1981).

[46] See Committee on Publicity (1925–1935) minute book, vols. 2, 3, and 4; minutes, Oct. 28, 1931, *ibid.*, vol. 4.

[47] *Ibid.*, vols. 2, 3, and 4; untitled clipping, *Topeka Western Odd Fellow,* Jan. 1924, Seymour Cromwell scrapbook (New York Stock Exchange Archives).

[48] Jason R. Westerfield, *Wall Street of Fact and Fiction* (New York, [1924–1929]), 6; Jason R. Westerfield, *The Stock Exchange in Relation to the Public* (New York, 1924), 12; Jason R. Westerfield, *Speculation* (New York, [1924–1929]), 10; Halsey to Presidents of Universities and Colleges, Oct. 18, 1920, Forms, Form Letters, etc. scrapbook (New York Stock Exchange Archives); *Some Comments on the Addresses of Jason Westerfield* (New York, [1925–1929]). For the itineraries of stock exchange recruiters, see Committee on Publicity (1925–1935) minute book, vol. 3.

[49] Committee on Publicity (1925–1935) minute book, vols. 2, 3, and 4.

The citizen shareholder now assumed center stage in NYSE public relations. The exchange operated a direct referendum, its orators contended, a kind of national town hall meeting that determined the value of each listed corporation and delivered a "daily health report" on the "state of modern American capitalism." Spokesmen avowed that only the "people's market"—the privately administered NYSE—could instantiate this shareholders' democracy. They revised the proprietary democracy ideal to encompass ownership of corporate stocks. Time and again, publicists decried regulation as an elitist plot: "the public has infinitely more to fear from the arbitrary actions of a few men in artificially 'regulating'" the stock market than from "the average judgment and courage of the whole people of the country." According to the NYSE ideology of shareholder democracy, the state could only constrain the market, that true sphere of freedom.[50]

The NYSE now avowed that the prices pouring over the ticker tape registered votes in a *direct* economic democracy. No manipulative pool of insiders could "oppose successfully" the "collective judgment" of the "vast investing public," President E. H. H. Simmons vowed. However, any "artificial attempt" by the state "to control and regulate" securities prices would "pervert and interfere with" citizen shareholders' verdicts. NYSE brokers did not entice everyman into dissolute gambling when they lent him funds to open a brokerage account. Rather, these firms nurtured financial self-determination, the exchange insisted.[51]

Stock exchange spokesmen imagined an analogous "representative form of government" inside each listed corporation. Although the separation of corporate ownership from control drew increasing attention in the 1920s thanks to the Harvard University economist William Z. Ripley, it did not trouble the NYSE. Its representatives rejected the notion that state oversight could improve corporate disclosure or governance. Markets corrected "unwise or unfair management of capital" as dissatisfied corporate citizens sold out and invested elsewhere.[52]

Similarly, exchange emissaries brought the small investor to the fore as they asserted that corporations could never meet their capital needs without NYSE facilities. Through the agency of the exchange, corporations tapped the "savings of the people" and secured "the success of industry and applied science and all the comforts and ameliorations" of modern life. Director of Publicity Jason Westerfield dismissed the widening gap between rich and poor, pointing out that *average* standard of living compared favorably to the dark, hunger, filth, disease, and warfare of the precorporate age, which he equated with the Middle Ages. A few, perhaps, decried "industrialism," but "the great body of people" embraced corporate capitalism every time they purchased consumer goods or invested in shares of consumer goods companies. Moreover, by delivering capital to the rail and utility industries, the NYSE had narrowed the gap in regional living standards, Westerfield claimed. In truth, however, states had contributed considerable capital to those sectors.

[50] E. H. H. Simmons, *Modern Capitalism* (New York, 1926), 15; E. H. H. Simmons, *The Stock Exchange and the People* (New York, 1924), 15.

[51] E. H. H. Simmons, *Stock Market Loans* (New York, 1929), 9–11, 16; E. H. H. Simmons, *Financing Industrial Development* (New York, 1929), 162–65; E. H. H. Simmons, *New Aspects of American Corporate Finance* (New York, 1929), 14; E. H. H. Simmons, *The Stock Exchange and American Agriculture* (New York, 1928), 10, 12.

[52] Simmons, *Modern Capitalism,* 11–12, 14–15; William Z. Ripley, *Main Street and Wall Street* (Boston, 1926); E. H. H. Simmons, *Listing Securities on the New York Stock Exchange* (New York, 1927), 15. For E. H. H. Simmons's wait-and-see position on the proliferation of nonvoting stock, see "Simmons Advanced Views Like Ripley's," *New York Times,* Aug. 26, 1926, p. 2; "Bids Corporations Tell Income Often," *ibid.*, June 5, 1926, p. 25; and Simmons, *Modern Capitalism,* 12.

And as exchange agents circulated in the 1920s, railroads and utilities sold shares directly to customers and employees, raising funds and enlarging the American shareholding class *without* the aid of NYSE brokerages.[53]

The NYSE thus folded consumerist rhetoric into its investor-centered ideology, finding proof of economic efficacy in the pudding of consumer plenty. But it placed the small investor in the driver's seat of the national economy. "A textile mill with its hundreds of steel fingers. . . . How many see beyond the machines . . . to the sources of their creation? First is the individual investor who, through work and self-denial, has saved money. . . . If the project appeals to an investment banker . . . he and his associate[s] . . . will advance the money." Westerfield demanded "due recognition" for the "investment agencies" that converted "savings" into the "machines and power" that produced "former luxuries" for everyman. But instead of accolades, the "Forgotten Factor" of finance (an homage to the nineteenth-century laissez-faire economist William Graham Sumner's "Forgotten Man") received insult from an ever-grasping state. The NYSE rejected any suggestion that consumption might be sustained or enhanced by Hooverian planning, proto-Keynesian public works spending, or a strong labor movement (or Fordist concessions) to bolster wages.[54]

The exchange also disparaged traditional notions of proprietary democracy. What man would rest satisfied with a petty proprietorship when someday his bright idea might be admitted to the big board? Regulatory interference would "strangle" this avenue of upward mobility. Moreover, modern entrepreneurs recognized the "superior" qualities of incorporation. Inevitably, they sought an NYSE listing so that "the public" could "be taken into partnership" in a stock offering. In contrast with the corporate commonwealths listed on the NYSE, partnerships and privately held corporations (such as Ford Motor Company) were, in the exchange's estimation, atavistic, autocratic forms. Yet every NYSE firm was organized as a partnership, and the unincorporated, associational stock exchange flourished.[55]

Nonetheless, exchange spokespersons contended that large corporations and the NYSE embodied individual economic self-determination, an ethos purportedly endangered by the incipient welfare state. The NYSE devised a gendered critique of the workmen's compensation, mothers' pensions, and old-age insurance laws considered by state legislatures in the 1920s. Jason Westerfield decried all of them as a "drift toward paternalism," a "delusion that government is the source of all blessings" or "a fairy godmother whose magic wand" could "banish" the necessity of industry and thrift. Only ignorant immigrants felt animosity toward the financial system, "established government," and "the successful," Westerfield sniffed. With lies about "barriers . . . to success," the foreign "demagogue and agitator" destroyed a man's "power to rise by instilling self-pity." Acquisition of stock through private markets could meet every social need, without any redistribution of wealth or socialization of economic risk.[56]

[53] Jason R. Westerfield, *The Stock Exchange in Relation to the Public* (New York, 1924), 5, 7; Westerfield, *Dangerous Delusions,* 10, 15; Jason R. Westerfield, *Four Talks on Wall Street* (New York, [1924–1929]), 22; Simmons, *Stock Exchange and American Agriculture,* 6–8; Westerfield, *Four Talks on Wall Street,* 9; Ott, "When Wall Street Met Main Street," 435–87.

[54] Westerfield, *Four Talks on Wall Street,* 16, 20, 27; Meg Jacobs, *Pocketbook Politics: Economic Citizenship in Twentieth Century America* (Princeton, 2005), 74–83.

[55] E. H. H. Simmons, *Financing American Industry* (New York, 1928), 8–10; Simmons, *New Aspects of American Corporate Finance,* 5.

[56] Westerfield, *Wall Street of Fact and Fiction,* 4; Jason R. Westerfield, *Synthetic Ghosts* (New York, [1924–

Exchange envoys spied a similar form of "paternalism" in the economic policies of Herbert Hoover. Misguided nostalgia for traditional proprietorship left American farmers particularly susceptible. They had fattened on wartime contracts and postwar federal relief, but NYSE president E. H. H. Simmons recommended that farmers wean themselves from the state, corporatize their cooperatives, and seek NYSE listing. Here, the exchange revealed its deep suspicion of Hoover's associationalism—the notion that if firms, business associations, and government agencies voluntarily shared data and coordinated strategy, then economic stability and growth could be assured. Hoover supported cooperative marketing to rationalize food markets. The NYSE feared he might seek to rationalize other markets. Its delegates asserted that privately administered securities markets *alone* best directed the flow and concentration of capital.[57]

If noncorporate forms of enterprise had fallen into the dustbin of history, how could proprietary democracy be sustained? The exchange advised everyman to ask his stockbroker. The NYSE claimed a new mission in the 1920s: the advancement of shareholder democracy, a modern form of proprietary democracy distinguished by universal ownership of shares. In this "democratic type of capitalism," the maximization of shareholders' returns was the most important consideration in corporate governance and economic policy. NYSE orators emphasized that expanding stock ownership necessitated no new regulations, contrasting the freedom and openness of the "people's market" with any alternative "outside market" (that is, purchase of stock from nonmember firms or the issuing corporation) and, most especially, with state regulation. "To plunge" the NYSE into "politics" with regulation would "destroy it" and "at the same time destroy industrial, financial and economic efficiency" along with the prospect of shareholder democracy. Only the Soviet Union dared establish "a government under which speculation would not be permitted." Exchange officials offered their self-administered institution as the instantiation of private property and "free government."[58]

And as the "real public"—the "real capitalist class"—emerged, any "likelihood of class struggles" withered away. The "perennial quarrels of capital and labor" or of corporation and small proprietor would dissolve without union intermediation, state intervention, or any appreciable alteration in relations of power. Historians contend that in the 1920s, the Progressive concept of the public—a unified polity sharing a common good toward which the state, advised and administered by impartial experts, should devote itself—lost traction in American political culture. Wartime propaganda and vigilantism, along with postwar labor strife, nativism, and consumerism, convinced some, such as the journalist

1929]), 8; Jennifer Klein, *For All These Rights: Business, Labor, and the Shaping of America's Public-Private Welfare State* (Princeton, 2006); Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States* (Cambridge, Mass., 1992); Barbara J. Nelson, "The Origins of the Two-Channel Welfare State: Workmen's Compensation and Mothers' Aid," in *Women, the State, and Welfare,* ed. Linda Gordon (Madison, 1990), 123–45; Westerfield, *Dangerous Delusions,* 3–4. On the 1920 Federal Farm Loan Act and the 1929 Agricultural Marketing Act (which loaned $500 million to marketing cooperatives), see William J. Shultz, *Financial Development of the United States* (New York, 1937), 535, 593.

[57] On Hooverian associationalism, see Ellis W. Hawley, *The Great War and the Search for a Modern Order: A History of the American People and Their Institutions, 1917–1933* (New York, 1997), 78–96; Ellis W. Hawley, "Herbert Hoover, the Commerce Secretariat, and the Vision of an 'Associative State,' 1921–1928," *Journal of American History,* 61 (June 1974), 116–40; and Guy Alchon, *The Invisible Hand of Planning: Capitalism, Social Science, and the State in the 1920s* (Princeton, 1985). "Incorporated Farm Studied," *Los Angeles Times,* March 14, 1929, p. 8.

[58] Simmons, *Modern Capitalism,* 11, 18; Seymour L. Cromwell, *Private Initiative* (New York, 1922), 3, 5, 15–16; Simmons, *New Aspects of American Corporate Finance,* 17; E. H. H. Simmons, *Stabilizing American Business* (New York, 1929), 13; Simmons, *Stock Exchange and American Agriculture,* 7; Cromwell, *Problems and Policies of the New York Stock Exchange,* 4–5.

Walter Lippmann, that Americans were easily manipulated, ill informed, fractured. The NYSE promised that universal stock ownership would forge "the public" anew. Shareholder democracy would never involve—rather, it would substitute for—class conflict and the emerging system of interest group politics. Once, Progressives had imagined that universal stock ownership would *require* robust regulation. In the 1920s, as the NYSE urged Americans to identify as citizen shareholders, it specified laissez-faire as the investor's necessary and natural orientation.[59]

Meanwhile, as its delegates traversed the nation, the Committee on Publicity distributed filmed dramatizations of shareholder democracy to NYSE members, their correspondents, and a range of nonprofit exhibitors. Encouraged to screen them in their branches, exchange commission houses thrilled to these clever customer lures. In 1928 the NYSE's most popular film debuted. *The Nation's Market Place* materialized the shop floor and crossroads of industrial capitalism. Smoking factories, a spewing forge, whirling gears, speeding trains, and a massive steamship—all testified to what the securities markets had wrought. (See figure 3.)[60]

Inside the stock exchange, neither bulls, bears, nor lambs could be found. Instead, a scrum of traders quivered on the trading floor. They acted as mere agents of average folks. In Tacoma, Washington, "James Blair" orders shares of "Mountain High" on the phone, conjuring the visible hand of his broker. (See figure 4.) Another investor in New Orleans, Louisiana, places an order to sell. Widely dispersed yet acting in concert, investors summon a series of mechanisms and a host of clerks. From phone to broker to clerk to operator, over wire, to operator to clerk to tube to runner to trader, then back again. Transaction complete, a price is born, spewed out on the ticker tape. (See figure 5.)

Capitalizing on long-standing popular yearning for revelations about Wall Street's inner secrets, *The Nation's Market Place* revealed a marvelous, democratic truth. The exchange's national network of members' offices, brokers, and clerks existed only to do the bidding of everyman, everywhere. The financial securities markets appeared as a field of economic activity distinct from the corporations whose shares traded in those markets. Here, everyman competed on equal footing with all other investors. The NYSE empowered the entrepreneurial individual to exercise initiative and autonomy. The markets administered by the NYSE at once erected the corporate order and stood apart from that order. So too did the citizen shareholder.

The efforts of the NYSE Committee on Publicity represented just one component of a larger project to legitimate the corporate order. Like many corporations in the period, the stock exchange used mass communication in an effort to mold public opinion and to increase sales. Like them, it too defined democracy and equality as equal access to identical products (in this case, stocks).[61]

[59] Simmons, *Modern Capitalism,* 8; Seymour L. Cromwell, *The Stock Exchange and the Nation's Credit* (New York, 1923), 8–9; Daniel T. Rodgers, *Contested Truths: Keywords in American Politics since Independence* (New York, 1987), 176–211; Jonathan Hansen, *The Lost Promise of Patriotism: Debating American Identity, 1890–1920* (Chicago, 1993); Shelton Stromquist, *Reinventing "the People": The Progressive Movement, the Class Problem, and the Origins of Modern Liberalism* (Chicago, 2006), 191–204; Walter Lippmann, *Public Opinion* (New York, 1922); Walter Lippmann, *The Phantom Public* (New York, 1925); Brian Balogh, "'Mirror of Desires': Interest Groups, Elections, and the Targeted Style in Twentieth-Century America," in *Democratic Experiment: New Directions in American Political History,* ed. Meg Jacobs, William J. Novak, and Julian E. Zelizer (Princeton, 2003), 240.

[60] For attendance figures (thousands each week in theaters *apart from* NYSE brokerages or lending libraries; a total of 394,336 in the first half of 1934), see minutes, Oct. 26, 1925, Committee on Publicity (1925–1935) minute book, vol. 3; minutes, June 4, 1926, *ibid.*; and minutes, Aug. 1, 1934, *ibid.*, Forms, Form letters, etc. scrapbook.

[61] See Marchand, *Creating the Corporate Soul;* Roland Marchand, *Advertising the American Dream: Making*

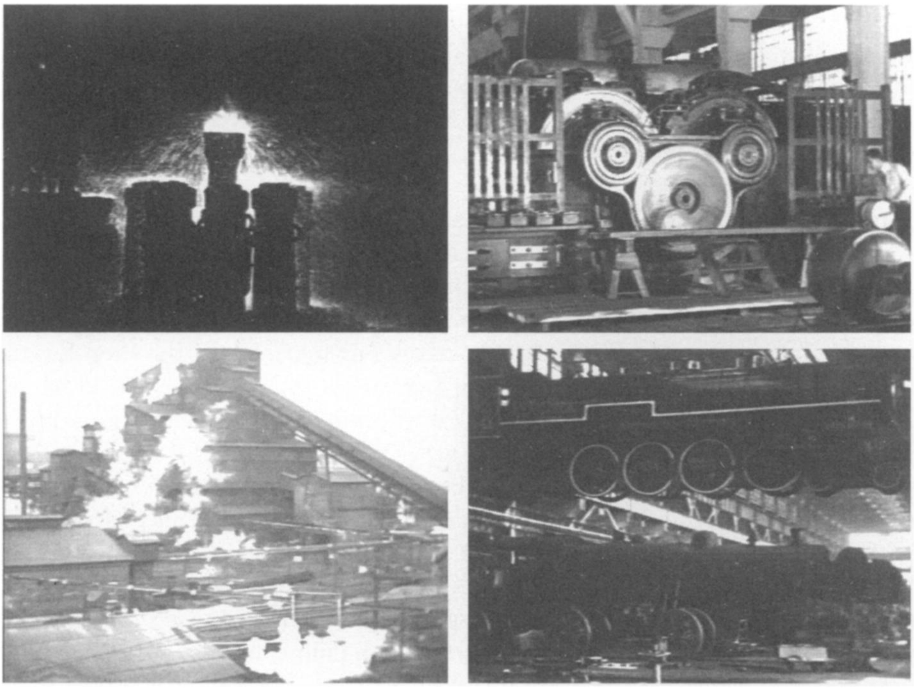

Figure 3. In the 1920s hundreds of thousands of Americans viewed motion pictures produced by the New York Stock Exchange (NYSE). These films, including *The Nation's Market Place* (1928), the source of these stills, encouraged viewers to acquire stock through NYSE brokers, in part by visualizing a connection between the tangible productive economy and the securities markets. *Courtesy New York Stock Exchange Archives, New York, New York. Used with permission of NYSE©.*

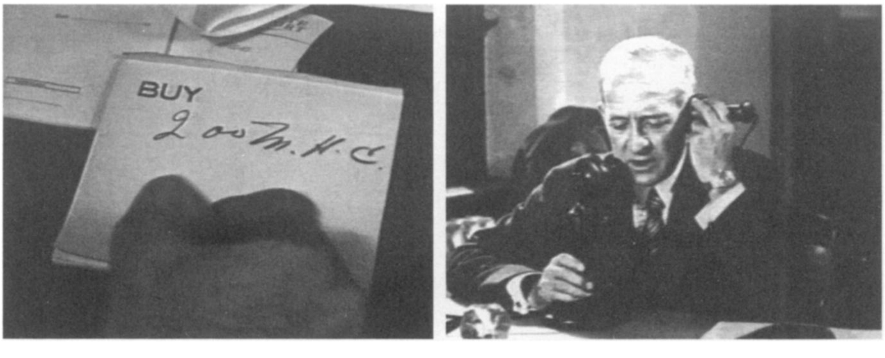

Figure 4. New York Stock Exchange (NYSE) films encouraged Americans to identify themselves as citizen shareholders—equal participants in a market open to all—with NYSE traders acting as their agents. In this scene from *The Nation's Market Place* (1928), the fictional James Blair, a prototypical citizen shareholder, orders shares over the phone. *Courtesy New York Stock Exchange Archives, New York, New York. Used with permission of NYSE©.*

Figure 5. To suggest cross-country connections between investors, the securities market, and corporations traded on the New York Stock Exchange, these scenes from *The Nation's Market Place* (1928) depict exchange employees and traders working to complete a transaction at an investor's bidding. *Courtesy New York Stock Exchange Archives, New York, New York. Used with permission of NYSE©.*

Yet the NYSE subtly undermined concurrent corporate public relations initiatives by celebrating financial markets in contrast to corporate hierarchies. Even as it claimed credit for rising standards of living under corporate capitalism, the stock exchange ingeniously leveraged criticism of corporations to build a convincing case for its own legitimacy and

Way for Modernity, 1920–1940 (Berkeley, 1985), 218–22; Louis Galambos, *The Public Image of Big Business in America, 1880–1940* (Baltimore, 1975); Richard Tedlow, *Keeping the Corporate Image: Public Relations and Business, 1900–1950* (Greenwich, 1979); Robert MacDougall, "Long Lines: AT&T's Long-Distance Network as an Organizational and Political Strategy," *Business History Review,* 80 (Summer 2006), 297–329; Kevin Stoker and Brad L. Rawlins, "The 'Light' of Publicity in the Progressive Era: From Searchlight to Flashlight," *Journalism History,* 30 (Winter 2005), 177–88; William Leach, *Land of Desire: Merchants, Power, and the Rise of a New American Culture* (New York, 1993).

for the desirability of stock ownership. The ideology of shareholder democracy embedded in exchange public relations implied that corporate capitalism would undermine democratic political traditions if citizens lost all connection to property ownership. The distribution of corporate stock by NYSE brokers was presented as the restorative for proprietary democracy in the industrial age.

In 1928 Director of Publicity Jason Westerfield took stock of the exchange's efforts. Because the NYSE had materialized and humanized "the business of finance," the "public" would never again believe "that the members are assembled in some sinister conspiracy, against the public interest." Citizen shareholders now understood that any regulatory barrier on the "invisible highways" of finance "instantly" produced a "corresponding halt" in *all* economic activity. So educated, the investing public would ever "guard" the "machinery of finance" against "crude interference and demagogic attacks," Westerfield boasted. At the time he appeared correct.[62]

Federal and New York blue-sky bills had gone down in defeat by 1925. After hundreds of corporations introduced employee and customer stock ownership plans to address their own public relations and capital needs, NYSE brokerages stood well positioned to take advantage of the resulting growth of the investor class. Hundreds of new NYSE commission house branches opened; several firms operated nation-spanning networks. And beginning in 1926, the stock market soared.[63]

Much like recent bubbles in the stock and housing markets, the great bull market and the expansion of retail brokerage depended on credit. NYSE brokers borrowed heavily, expending these brokers' loans in their own speculations or lending on to customers. The gargantuan volume of outstanding brokers' loans provoked criticism and prompted the Federal Reserve to raise the discount rate in 1928 and 1929 in an attempt to raise brokers' costs of borrowing.[64]

In response, NYSE president E. H. H. Simmons aimed to sustain the rise in stock prices by encouraging more lending. To justify stock market levels and brokers' loan volume, he characterized the exchange as the "balance wheel of commerce," appropriating a term that Herbert Hoover had used to describe countercyclical public works projects. The influx of small investors' funds fortified NYSE-listed companies against any future "business depressions and money market troubles." Simmons held that the NYSE flywheel had proved more efficient and more democratic than any scheme that academics, state or federal regulators, or corporate executives might concoct. "The business cycle" had "ceased to operate," but "commercial and industrial stability" would collapse if any "artificial restraints" were placed on price levels or brokers' loans, Simmons stressed. Why proceed on "purely theoretical or dogmatic grounds to kill a goose that has been laying golden eggs?" he asked.[65]

[62] Jason R. Westerfield, "How the NYSE Utilizes Motion Pictures," in *Proceedings of the Financial Advertisers' Association* (Atlanta, 1929), 79.

[63] On the defeat of blue-sky laws, see Cowing, *Populists, Plungers, and Progressives,* 71–72. In 1929 six NYSE commission houses operated national networks (the largest, Fenner and Beane, had forty-six offices). See *New York Stock Exchange Directory* (1890–1940) (New York Stock Exchange Archives).

[64] In 1929 the NYSE reported that its membership held over $6 billion in brokers' loans. See Maury Klein, *Rainbow's End,* 197–98, 200–204. On proposals to restrict brokers' loans, which appeared in the Democratic and progressive Republican platforms in 1928, see Cowing, *Populists, Plungers, and Progressives,* 133–34, 143–49, 188. On the Federal Reserve's decision to raise the discount rate, see Klein, *Rainbow's End,* 143.

[65] Simmons, *Stabilizing American Business,* 5, 13; Simmons, *New Aspects of American Corporate Finance,* 3, 11; Simmons, *Stock Market Loans,* 17.

In the last days of the great bull market, Simmons portrayed the raging stock market as a register of universal confidence in a "new era" of economic democracy. Even as market commentators, economists, politicians, and the Federal Reserve expressed concern, he advised investors and NYSE brokers' creditors to ignore eggheaded, prognosticating pencil pushers. "Economic soothsayers" sought "autocratic control" over citizen shareholders.

> I refuse to believe [Americans] are less able to exercise the prerogatives of economic and financial freedom than they are to use wisely political freedom. . . . We do not need panaceas or artificial legislation. Mere pride of supposedly expert opinion must yield. . . . The universal thrift and intelligence which have created the progress and prosperity of American business will continue to manage and administer it.

Throughout the 1920s, NYSE representatives perceived avowedly probusiness Republican administrations as threatening the exchange's image and autonomy. Despite its status as a self-governing association—that linchpin institution of Hooverian "managerial government"—the exchange refused to ally with the state.[66]

The notion that "free" markets—especially financial securities markets—afford a realm for the exercise of individual freedom and the democratization of capitalism did not materialize in reaction to the New Deal, the Cold War, or the 1990s dot-com craze.[67] Between 1913 and 1929, the New York Stock Exchange recast the stock market as both instrument and instantiation of democracy in response to regulatory proposals, the wartime state's oversight of markets, Fordist models of corporate governance, and Herbert Hoover's associative state.

When the exchange leaders began to promote mass investment after 1921, political concerns motivated them. NYSE governors sought to appease disaffected members whose branches and mailing lists offered conduits for shareholder democracy ideology. Those members' desire to forge political alliances strengthened their attraction to retail brokerage. We should not overlook exchange efforts to reconfigure liberty, democracy, and individualism as based on and exemplified by financial securities markets, nor its promotion of an exclusively market-based approach to the uncertainties of modern capitalism.

Certainly the stock exchange, its ideology, and the project to enlarge the American shareholder class all met a severe crisis in the crash of 1929. NYSE spokesmen had contended that everyman *should* invest in stocks. Analogies linking market and nation, corporation and polity, trade and vote, shareholder and citizen had implied, quite unintentionally, that the state might owe the investing public some consideration. Ironically, then, the shareholder democracy ideal offered an entering wedge for regulation. Indeed, the most enduring legacy of the New Deal may be the Securities and Exchange Commission (SEC), which aims to safeguard retail investors, not to sustain aggregate demand or to protect producers as other New Deal programs do.[68]

[66] Simmons, *New Aspects of American Corporate Finance,* 9–10; Simmons, *Stabilizing American Business,* 7–9, 11–12, 19.

[67] For scholarship that dates the emergence of modern free-market conservatism later, see Elizabeth A. Fones-Wolf, *Selling Free Enterprise: The Business Assault on Labor and Liberalism, 1945–1960* (Urbana, 1994); Karen S. Miller, *The Voice of Business: Hill and Knowlton and Postwar Public Relations* (Chapel Hill, 1999); Kim Phillips-Fein, *Invisible Hands: The Making of the Conservative Movement from the New Deal to Reagan* (New York, 2008); and Thomas Frank, *One Market under God: Extreme Capitalism, Market Populism, and the End of Economic Democracy* (New York, 2001).

[68] Alan Brinkley, *The End of Reform: New Deal Liberalism in Recession and in War* (New York, 1996).

And yet the NYSE shaped the parameters of securities regulation, retaining significant autonomy by orchestrating the first large-scale mobilization against the New Deal in 1933. Initial bills entertained prohibitions on short selling, brokers' loans, trading on margin, the separation of specialists' broker and dealer functions, the segregation of investment banking from brokerage, even the abolition of specialists and floor traders. Some even proposed that the state determine the volume and circulation of financial capital. In response, the NYSE Committee on Publicity—the "most vicious and persistent lobby ever known" according to one reform bill sponsor—determined to "rally the conservatives of the country." It persuaded press allies, the National Association of Manufacturers, the U.S. Chamber of Commerce, the Investment Banking Association, NYSE commission house customers and employees, and executives of NYSE-listed corporations and regional exchanges to exhort congressmen not to establish "a form of nationalization of business and industry which has hitherto been alien to the American theory of Federal Government."[69]

As a result, the SEC declined to regulate the NYSE directly or to break up its concentrated economic power. The stock exchange became a "self-regulatory organization" under the Securities Exchange Act of 1934. It continued to select and police members and to fix commissions as a private, not-for-profit association. The federal government would monitor the playing field for its investor citizenry only indirectly, aiming to ensure that outsider investors enjoyed equal, timely access to truthful corporate data and equitable treatment from brokers. Thus, the New Deal deferred to NYSE assertions of expertise and indispensability. It accepted as fact the exchange's theory that self-governing, liquid financial markets assure the optimal distribution of economic resources and risk. In 1900 those claims would have struck most as ludicrous.[70]

The institution and the ideas examined here sustained opposition to modern liberalism. In the 1950s and the 1960s, the NYSE revived public relations under the rubric of "people's capitalism." In 1980 the exchange emerged as one of the earliest, most enthusiastic, and most influential supporters of Ronald Reagan's candidacy. NYSE leaders and members organized fund-raisers, lent the trading floor for speeches, and provided "issue research." By assembling Reagan's Business Advisory Panel, they built an important bridge to the initially skeptical business community.[71]

Since Reagan's election, faith in unfettered finance and the primacy of shareholders' returns—dogmas first promulgated by the NYSE—has inspired reckless securitization and regulatory laxity. Policy makers and regulators assumed that self-governing financial in-

[69] Seligman, *Transformation of Wall Street,* 144–48, 177–78; Ralph F. De Bedts, *The New Deal's SEC: The Formative Years* (New York, 1964), 57–63, 73, 70, 78; Brinkley, *End of Reform,* 34–47. For Rep. Sam Rayburn's denunciation of the "vicious lobby," see Seligman, *Transformation of Wall Street,* 89–93, 100. Minutes, June 6, 1933, Committee on Publicity (1925–1935) minute book, vol. 4. For NYSE president Richard Whitney's statement, see Seligman, *Transformation of Wall Street,* 90.

[70] The Securities and Exchange Commission (SEC) induced the NYSE to accept a paid president and nonmember board representation indirectly, by encouraging a commission house reform faction. The SEC ordered the abolition of fixed commissions only in 1975. The NYSE incorporated and offered shares publicly in 2005 and spun off its self-regulatory function in 2007. See Seligman, *Transformation of Wall Street,* xii, 118, 160–78, 205–10; De Bedts, *New Deal's SEC,* 144–67; and McCraw, *Prophets of Regulation,* 192–99. For a more sanguine assessment of the SEC, see Phil Nicholas Jr., "The Agency That Kept Going: The Late New Deal SEC and Shareholder Democracy," *Journal of Policy History,* 16 (July 2004), 212–38.

[71] Rob Aitken, *Performing Capital: Toward a Cultural Economy of Popular and Global Finance* (New York, 2007); Janice Traflet, "'Own Your Own Share of American Business': Public Relations at the NYSE during the Cold War," *Business and Economic History Online,* 1 (2003), http://www.thebhc.org/publication/BEHonline/2003/Traflet.pdf.; Phillips-Fein, *Invisible Hands.*

stitutions and expert financial actors properly distribute economic resources and risk via markets. Systemic risk, the aggregate amount of leverage, and the possibility of market gridlock were ignored. The result has been financial catastrophe.[72]

Even as they debate successive bailout schemes, most citizens and lawmakers continue to adhere to the axiom that financial markets constitute the bedrock of American capitalism. Too few consider the underlying economic conditions that drove so many into so much debt or ask why so much faith was placed in finance as *the* engine of economic growth and stability. The financial collapse of 2008 presents Americans with a historic opportunity to break free of hidebound ideology. The assertion that self-governing financial markets best promote economic growth, equity, and security originated in the political strategy of a specific institution at a specific historical moment. Why should it constrain solutions to current economic dilemmas?

[72] Robin Blackburn, "The Subprime Crisis," *New Left Review,* 50 (March–April 2008), 63–106; Roger Lowenstein, "Triple A Failure," *New York Times Magazine,* April 27, 2008, pp. 36–41; "SEC Concedes Oversight Flaws Fueled Collapse," *New York Times,* Sept. 27, 2008, p. 1.