Silent Partners: Indirect Investment and Financialization in the United States: 1950–1975

Devin Kennedy

In the summer of 1959, a series in the *Wall Street Journal* profiled a group of Americans invested in the stock market. It was a time, the paper explained, when "the booming market was playing a growing role in the lives of diverse Americans." For the most part, the people featured were wealthy individuals engaged in speculative trading. There was the "well-heeled doctor" who traded energy stocks; a "well-to-do wife" day trading on short term fluctuations; and a pair of brothers who had bet and lost big, and found themselves "on the sucker list." These investors, featured in the *Journal's* "In the Market" series, confirmed the success the New York Stock Exchange's (NYSE) marketing strategies, which Janice Traflet has described. In the 1950s, the NYSE had encouraged Americans to "own their share," to "keep up with the Jones's," "to own America," and to participate in "people's capitalism" or "a nation of shareholders." These campaigns differed in the cultural values they associated with shareownership. Some emphasized the use of stock as a tool in financial independence or to ascend the ladder of wealth. Others drew on the longstanding political ideology of shareholder democracy described by Julia Ott, in which investing markets were refashioned as venues for public participation in the wealth of the nation. Those campaigns, like the series in the *Wall Street Journal*, invariably focused on *individual* and *direct* ownership of stocks.[1]

[1] James C. Tanner, "'Hard Luck Kid' Loses $15,000 Through Buying High and Selling Low," *Wall Street Journal,* Aug. 13, 1959, p. 1. James N. Wallace, "Lebanese Businessman Keeps Reserve in U.S, Most of it in Stocks," *ibid.,* Sept. 24, 1959, p. 1. Jonathan Spivak, "Well-to-Do Wife Dips Into Savings, Trades Stocks at Hectic Pace," *ibid.,* Aug. 6, 1959, p. 1. William E. Giles, "An Amateur Speculator Relies on Tips to Build His 'Investment Fund,'" *ibid.*,

One of the profiles broke the mold. "I'm not in the market," boasted a 30-something engineer named David. As the paper described, he "had never gone to the market to buy a single share of stock," judging the enterprise to be too speculative and not worth pursuing without "spare time enough to be good at it." He was nevertheless, firmly in the market, the paper's Jack Hanicke explained. "Like thousands of other Americans, his sole plans for retirement are under his company's pension plan," where "much of the money is invested in stocks." As a result, "the stock market, albeit indirectly, has a strong influence on the way he lives and spends and how much money he will have." For one thing, David saved almost nothing for the future—banking on the pension fund's performance to ensure his income in retirement. Additionally, the arrangement meant that "in theory at least [David and his family] have to some extent lost control over their own fortunes." Actuaries at his company determined his annual contribution, the money was deducted automatically from his paycheck, and decisions about what was done with it—which companies' stock were purchased and why—were essentially invisible to him.[2]

This situation—of being entangled in financial activities or 'in the market' perhaps without even knowing it—became increasingly common in the second half of the 20th century. In

---

July 16, 1959, p. 1. William R. Wood, "Restaurateur Switches To 'a Life of Fun' as A Full-Time Investor," *ibid.*, July 21, 1959, p. 1. Janice M. Traflet, *A Nation of Small Shareholders: Marketing Wall Street After World War II* (Baltimore, 2013). Speeches—Funston, G. Keith, boxes 7–9, RG 2-2, New York Stock Exchange Presidents, Chairmen and Officers (New York Stock Exchange Archives, Mahwah, New Jersey). Keith Funston, "Towards A People's Capitalism," March 18, 1952, folder 2, box 7, ibid. For the earlier history of democratic visions of stock trading, see Julia C. Ott, "'The Free and Open People's Market': Political Ideology and Retail Brokerage at the New York Stock Exchange, 1913–1933," *Journal of American History,* 96 (June 2009), 44–71.

[2] Jack Hanicke, "Pension Fund's Stock Sways Engineer though He Owns None Directly," *Wall Street Journal,* Aug. 3, 1959, p. 1.

the three decades following World War II, tens of millions of American households became *indirect* investors in publicly traded corporations. The cause of this development was the new practice by a range of institutions, including pension funds, insurance companies, mutual savings banks, as well as churches and universities to invest in corporate shares. While these institutions predated the 1940s, they had not been buyers of stock, instead meeting their commitments by investing in safer assets like government debt. This changed dramatically beginning in the late 1940s, and by 1975, institutions owned more of the stock listed on the New York Stock Exchange than individuals, families, and speculators combined. In a period when the memory of the 1929 market crash loomed large, and stock ownership remained a relatively rarefied enterprise (only 10% of American households owned a share outright in 1965) 60% of households were indirect participants in markets through their ties to institutions. Contemporaneous observers referred to the rise of institutional investing in stocks as an "institutionalization of wealth" or an "institutionalization of markets." These were ways of describing on one hand, the pooling of household savings into a small number of large, powerful investing organizations, and on the other, the impact of this aggregation on the structure of markets and the financial industry. Others looked to the consequences in broader, more dramatic terms, seeing in it a potential wholesale change in the distribution of economic power between corporations, Wall Street, and workers.[3]

---

[3] Special to the American Banker, "NYSE Stock Seen 50% Held by Institutions," *American Banker,* April 3, 1975. Daniel Jay Baum and Ned B. Stiles, *The Silent Partners; Institutional Investors and Corporate Control*. (Syracuse, 1965), esp. 3.

Over the past two decades, sociologists, economists, and historians have documented the financialization of the US economy, a process characterized by historic growth in the financial sector, the prioritization of market returns to corporate as well as national economic policy, and as Greta Krippner puts it, a "pattern of accumulation in which profit making occurs through financial channels rather than through trade and commodity production." Accounts have put particular focus on the 1970s as a fulcrum—a decade that Judith Stein called "pivotal" for the transition from an industrial to a financial economy—and focused on the maneuverings of elites, including politicians and intellectuals, in a period of substantive global economic change.[4]

"Mutual Funds as Investors of Large Pools of Money," *University of Pennsylvania Law Review,* 115 (March 1967): 669–725. Paul P. Harbrecht, *Pension Funds and Economic Power* (New York, 1959); Gerald Rosen and Adolf A. Berle Jr., "The New Realities of Corporate Power," *Dun's Review* (Dec. 1968).

[4] Greta R. Krippner, "The Financialization of the American Economy," *Socio-Economic Review,* 3 (May 2005), 173–208, 174. For an overview of financialization, see Gerald F. Davis, *Managed by the Markets: How Finance Re-Shaped America,* (New York, 2009); and Greta R. Krippner, "The Financialization of the American Economy," *Socio-Economic Review,* 173–208. On the management of economic crises as a catalyst for postwar economic change, see Kim Phillips-Fein, *Fear City: New York's Fiscal Crisis and the Rise of Austerity Politics* (New York, 2017); Greta R. Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance,* (Cambridge, Mass., 2011); and Judith Stein, *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies*, (New Haven, 2010). On the intellectual origins of market fundamentalism, see Angus Burgin, *The Great Persuasion: Reinventing Free Markets since the Depression* (Cambridge, Mass., 2012); and Philip Mirowski and Dieter Plehwe, *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective* (Cambridge, Mass., 2015). On the triumph of "shareholder value" and the broader financialization of the firm, see Karel Williams, "From Shareholder Value to Present-Day Capitalism," *Economy and Society,* 29 (Jan. 2000), 1–12; Gerald F. Davis, "The Twilight of the Berle and Means Corporation," *Seattle University Law Review,* 34 (2011); Nicholas Lemann,

This article contributes to this literature, examining the complex, often hidden coupling of households to financial markets that began in the 1950s through the influence of the institutional investor. In what follows, I describe how Americans became enrolled as silent partners to financialization, as distant contributors of capital to firms they did not know and entangled in financial activities beyond their control. I do so by tracing the rise of institutional trading in stocks from about 1950-1975. Critical aspects of this story are well-known, including its bearing on the history of retirement in the US and the investments of pension funds. Accounts by Michael McCarthy and Theresa Ghilarducci have documented the political and social dimensions of pension fund investing, paying particular attention to the way the financialization of pensions often resulted in the deployment of workers' capital against the interests of labor (for instance, through investments in profitable firms with antilabor policies). Following McCarthy, I too find small-scale household savings implicated in financialization "several decades before finance-based profit-making strategies would spread to other sectors of the economy" in the developments more closely associated with the 1970s and 1980s. Supplementing those accounts, this history addresses institutional investors as a broad category, and examines how they came to invest in stock in the first place and how their entrance remade the investment industry. While it is tempting to explain this development through the same economic rationales they offered (i.e. that rising numbers of beneficiaries for home insurance or private pension plans combined with diminishing returns on traditional investments demanded it), that is only the beginning of the story. In what follows, I show how stocks became reasonable investments for risk-averse institutions during a period when, as Traflet notes, the "shadow of 1929 remained dark." In

---

Transaction Man: The Rise of the Deal and the Decline of the American Dream, (New York, 2019); and Neil Fligstein, *The Transformation of Corporate Control* (Cambridge, Mass., 1990).

particular, I show how a discourse of 'stability' emerged around market returns and the activities of institutions themselves, legitimizing stock investing as prudent, and casting institutions as sober, professional, technocratic managers of money. That initial depiction was short-lived, however, as more short-term oriented trading practices by institutions in the 1960s fueled a view among critics that fund managers—wielding enormous amounts of capital and moving in and of markets rapidly—were potentializing destabilizing prices, market structure, and even the structure of American capitalism itself.[5]

Already in the late 1950s, I suggest, some observers of the rise of institutions were noting with concern the potential hazards of a financialization. Although their discussions took place in austere publications on corporate law, the law of trusts, and the securities industry, they understood the stakes of institutionalization to be no less than the shape of capitalism in the 20th century. A group of liberal critics situated the rise of financial institutions within a long history of capitalism, foreboding a concentration of power in Wall Street asset management firms and a more financial-oriented economy overall. Analysts warned that the consolidation of control over household capital into a small number of money management businesses would plunge the financial industry into serious conflicts of interest and even moral hazards. Moreover, as institutions doggedly pursued the interests of their beneficiaries and espoused a desire to avoid influencing corporate policy, market returns would become ends in and of themselves. Meanwhile, the shift from individual ownership to institutional management would insulate corporations from oversight since beneficiaries could not sell their ownership stake if they

[5] Michael A. McCarthy, *Dismantling Solidarity: Capitalist Politics and American Pensions since the New Deal* (Ithaca, 2017; Teresa Ghilarducci, *Labor's Capital: The Economics and Politics of Private Pensions* (Cambridge, Mass., 1992). Traflet, *A Nation of Small Shareholders,* 4–5.

disliked what firms did and might not even know what they owned in the first place. The legitimizing political ideology of shareholder democracy through which control over corporations would be distributed to the public through mass ownership would be eroded. And in its place, as the management professor Peter Drucker predicted optimistically, would be a new "alignment" for American politics regarding markets around issues that would simply maintain financial returns.[6]

The consequences of financialization would become abundantly clear as the pursuit of market returns reoriented the financial industry and the firm around short-term gains. In 1966, Henry Manne published a book defending insider trading in securities as a socially beneficial activity; arguing, in a vanguard work in the emerging law and economics school that moral judgement was an insufficient rationale for prohibiting otherwise productive economic behavior. Likewise, in 1970, Milton Friedman published his famous "doctrine" in the *New York Times Magazine* that the only "social responsibility of the corporation is to increase its profits." While this essay is well known, less discussed is the closely related sentiment articulated the same year by the law professor Roy Schotland that the "*raison d'etre* of the pension fund is to earn good returns." It was not, he elaborated, their "obligation legal, economic or moral" to invest in projects based on their social utility. Such a view was one consequence of the mass dependency on financial intermediaries and market returns, one hinted at in a slim volume published by two law professors in 1965. Anticipating the dilemmas of mass, intermediated participation in stock markets, Daniel Baum and Ned Stiles wrote, the "price paid for the mass distribution of wealth is

[6] Julia C. Ott, "'The Free and Open People's Market,'" 44–71. Peter F. Drucker, *The Unseen Revolution: How Pension Fund Socialism Came to America* (New York, 1976), 200–201.

unfortunately manifest in bigness we cannot control, complexities we cannot always cope with, and at times conflicting moralities we cannot harmonize." [7]

I. "Bigness we cannot control"

Although the institutional investor has long been a feature of the US economy, their holdings experienced dramatic growth after World War II through an expansion of homeownership and life insurance, and a boom in private pension plans. Labor action and the National Labor Relations Board's 1948 ruling in *Inland Steel* opened the doors for collective bargaining for pension and insurance benefits, and as a result, the number of Americans covered by these plans soared. In 1940 for instance, there were around 2000 private pension plans, covering 3.7 million people. By 1951, 14,000 plans covered 9.6 million and in 1960, 50,000 plans covered 19 million people. The coffers of these institutional funds quickly grew. In remarks to the American Bankers Association (ABA), the NYSE's president, Keith Funston described the amount managed by bank trust departments, which included many pension funds, as so large it "read like a chapter from the Federal budget."[8]

---

[7] Roy A. Schotland, "Private Pension Funds: A Guide for Modern Investments," *Georgetown Law Journal,* 59 (Nov. 1970), 355–67. Baum and Stiles, *The Silent Partners,* 3.

[8] Charles H. Schmidt and Eleanor J. Stockwell, "The Changing Importance of Institutional Investors in the American Capital Market," *Law and Contemporary Problems,* 17 (Winter 1952), 3–25, esp. 8. *Inland Steel Company v. United Steelworkers of America (CIO),* 77 NLRB 4 (1948). See also J. Adam Cobb, "From the 'Treaty of Detroit' to the 401(k): The Development and Evolution of Privatized Retirement in the United States." (Ph.D. diss, University of Michigan, 2012. Keith Funston, "Remarks before the 34th Mid-Winter Trust Conference of the

What was done with all this money? Institutions like life and property insurance companies, college and university endowments, mutual savings banks, savings and loan associations, bank-run trust funds, and private pensions had always engaged in some kind of investment activity. Money provided as contributions by employees or employers, or as donations or premiums was invested to meet future obligations like paying out an insurance claim or providing monthly retirement payments for a worker in the future. Most institutions invested in debt securities including government and municipal bonds, and high-quality corporate debt. Some invested in real estate mortgages. Stocks had not been common investments, with a few exceptions. In the 1920s, some college and universities endowments had invested in stock, and some companies, like Sears Roebuck, had private pensions that invested heavily in the firm's own shares. But the practice of investing in a portfolio of other companies' shares essentially did not exist. This was due in part to regulatory restrictions on permissible investments by institutions which had emerged in the early 20th century to prevent the creation of "money trusts." Other supervisory and regulatory restrictions restricted the kind of investments to ensure liquidity and protect depositors and beneficiaries.[9]

American Bankers Association at the Waldorf-Astoria," Feb. 9, 1953, folder 11, box 7, RG 2-2, New York Stock Exchange Presidents, Chairmen and Officers; Keith Funston, "Who Owns America," Feb. 5, 1952, *ibid.*

[9] Schmidt and Stockwell, "The Changing Importance of Institutional Investors in the American Capital Market," 12. On the history of institutional investing in municipal debt, see Destin Jenkins, *The Bonds of Inequality: Debt and the Making of the American City*. *The Bonds of Inequality* (Chicago, 2021). Anna E. Carpenter, "College and University Endowment Funds. How Much Common?" *The Analysts Journal,* 12 (May 1956), 63–65. Mark J. Roe, *Strong Managers, Weak Owners: The Political Roots of American Corporate Finance* (Princeton, 1994), esp. 66. Schmidt and Stockwell, "The Changing Importance of Institutional Investors in the American Capital Market," esp. 11.

Investment practices were also shaped by professional norms, and in the decade after World War II, investment decisions professionalized. McCarthy notes that firms came to prefer external corporate trustees who could provide specialist advice to the management of the fund. But this shift took time. In many small firms, investment decisions had been made by people who were not necessarily investors by trade or training. Instead they were made by a company's comptroller, an appointed board of executives, or by small volunteer committees in a church or university. A 1961 account of changes in practice for the Pension Research Council noted that it was often the case that responsibility was simply given to an executive who had a "penchant" for investing. The ad hoc approach worked because the possible investments were quite limited, constrained by guidelines enshrined in legislation and common law that proactively defined the types of investments a trustee or fiduciary could make about money that was not theirs to speculate with. In some states, there was a specific list of investments that were allowable; in others, a more liberal rule restricted investments to what were generally accepted norms in the profession—a legal standard dating to the 19th century called the "prudent man rule."[10]

Stocks—understood as too speculative—had generally not fit the bill. But at the end of the 1940s, this began to change, as attitudes towards stock markets shifted, and professional norms about the prudency of stock investing solidified in changes to state laws. Contemporaneous observers of the change in norms and law about stock investing identified different explanations for the change. Some emphasized the necessity of pursuing stock market returns in an environment where inflation and growing government debt had led to a decrease in

[10] McCarthy, *Dismantling Solidarity,* 82. James E. McNulty, *Decision and Influence Processes in Private Pension Plans* (Philadelphia, 1961), esp. 40–46. Mayo Adams Shattuck, "The Development of the Prudent Man Rule for Fiduciary Investment in the United States in the Twentieth Century," *Ohio State Law Journal,* 12 (1951), 491–521.

overall investment returns for institutions. Others looked to the "maturation" of the investing industry, including through statistical studies which showed the long-term rates of return on stock, or influential early adopters, like the Federal Reserve System's pension fund, which in 1949 began to purchase stocks or the old and very large Sears Roebuck pension, which began to invest in stock in other firms in 1953. One Morgan Stanley executive recalled that "institutional perception of owning equities" seemed to change around 1950 and looked to the influence of a an investor named Harvey Edward Mole who had advocated for the U.S. Steel Pension Fund and the Princeton University endowment to buy common stocks, something he understood to be rare, if not "unheard of" at the time. The normalization of institutional investment in stocks was enabled by changes in the law. Between 1941-1951, 20 states changed regulations to allow institutional investors including insurance companies and trust funds to follow looser, prudent investor guidelines, and six, including New York, altered their guidelines to allow stock investing explicitly. In New York, banks had actively lobbied for the loosening investment guidelines to permit the investment of trust assets into stocks. The US markets regulator, the Securities and Exchange Commission (SEC) had signaled its support for liberalization of guidelines to allow more stock investing on the basis of a perceived capital shortage, an argument echoed by the NYSE. In a 1953 speech to the American Bankers Association, the Exchange's President Keith Funston argued that the growth of postwar industry required an influx of capital from institutional investors.[11]

---

[11] Stock investing by institutions was not entirely absent, but existed at a small scale compared to the rapid growth in the 1950s. In one estimate, bank-managed trusteed pension plans in 1948 had about 10% of their assets in stock. Eugene Miller, "Trends in Private Pension Funds," *Journal of Finance,* 16 (May 1961), 313–27, 321. Paul L. Howell, "A Re-Examination of Pension Fund Investment Policies," *Journal of Finance,* 13 (May 1958): 261–74.

Supporting the professional consensus and legal acceptability of stock investing by institutions was an emerging discourse surrounding stock market investing and 'stability.' The term was used in reference to several quantifiable phenomena, including the regularization of the supply of investment capital to industry or household savings patterns; or to capture a reduction in the volatility of stock prices; or to convey the "smoothness" of market or economic growth. Crucially, institutions were said to be causes of stability—since they regularized the flow of savings or capital; and because they were thought to buy stocks regularly and hold them for a

---

James W. Wooster, "Current Trends and Developments in the Investment Practices of Endowments and Pension Funds," *Law and Contemporary Problems,* 17 (Winter 1952): 162–71. Schmidt and Stockwell, "Changing Importance of Institutional Investors," 20; Fledderman, "Prudent Man Investment of Trust Funds." For an overview of economic data and strategic rationales for pension investing in stock in the 1950s, see Paul P. Harbrecht, *Pension Funds and Economic Power,* 104–15. Howell, "A Re-Examination of Pension Fund Investment Policies," 261–74, 263–67. Miller, "Trends in Private Pension Funds," 321–22. United States Congress Senate Committee on Banking, *Stock Market Study: Factors Affecting the Buying and Selling of Equity Securities* (Washington, 1955), 497–8. Lewis W. Bernard interview by Melanie Shorin, the Narrative Trust, March 13, 2015, transcript, pp. 12–13, Remembering Wall Street, 1950–1980 (New-York Historical Society, New York). While some college and universities endowments had owned stocks earlier in the century, between 1946 and 1950, stock assets held by university and college endowments doubled. See Funston, "Who Owns America," 3. Shattuck, "Development of the Prudent Man Rule," 31. Roger F. Murray, *Economic Aspects of Pensions: a Summary Report* (New York, 1968). Roe, *Strong Managers, Weak Owners*, 80. Keith Funston, "Remarks before the 34th Mid-Winter Trust Conference of the American Bankers Association at the Waldorf-Astoria;" Funston, "Wanted—More Shareowners," Dickinson Lecture, Harvard Business School, April 20 1954, folder 20, box 7, RG 2-2, New York Stock Exchange Presidents, Chairmen and Officers. Descriptions of a capital shortage were widespread in the post-war financial industry. Tom Nicholas describes similar claims in the development of venture capital after World War II. Tom Nicolas, *VC: An American History* (Cambridge, Mass., 2019), chap. 4.

long time. One economist at the Chase Manhattan Bank emphasized the “striking feature of the dynamic growth of private pension systems”— that “they may play a considerable role in helping to make the economy more stable.” They supported a “steady flow of funds into capital investment… and [and the] growth of pension benefits will help stabilize consumer income and expenditure.” An executive at Banker’s Trust echoed the sentiment, noting that the channeling of consumer savings through these funds would “have a stabilizing effect upon the volume of funds available to investing institutions.”[12]

Less quantifiable, but equally important was the way stability conveyed organizational improvements to the market and even personal qualities of the new professionals that interacted with it. In a 1955 speech, the NYSE’s Keith Funston suggested that institutions were synonymous with professionalism. Those working at institutions had “added to the market’s stature” he claimed, “by their knowledge skill and research.” “Institutions are, in short, ‘professionals.” It became common, for instance, to articulate generational differences between an older market full of speculators, insiders, and scammers, and a new one characterized by professionalism and logical decision-making. In a speech extolling mass shareholding, Funston noted the “striking contrast between the work of securities analysts today and the market scene of a generation ago,” with the “growth and progress of [the] profession…based not on shifting

[12] Roger F. Murray, “Pension Funds and the Capital Market, Remarks at a round table discussion at a meeting of the National Industrial Conference Board,” Sept. 17, 1952, folder 6, box 110, Century Foundation Records (Manuscripts and Archives Division, The New York Public Library). William Butler, “Draft Report on Pensions” [copy attached to note to S.N Whitney dated] May 5, 1955, p. 38, folder 5 “Money Power Study 1952–1959,” box 114, *ibid.* Murray, “Pension Funds and the Capital Market, Remarks at a round table discussion at a meeting of the National Industrial Conference Board,” *ibid.*

sands but on bed rock [and] the raw materials of the security analyst…complete and accurate information, combined with cool and logical evaluations." Noting the theme of a recent journal issue on the effects of science on investment, Funston compared the old and new ways of analyzing securities. Where once the "insider was king and rumor was queen," now the goal was "facts, and more facts, first and authoritative facts." Whether or not it was truly "based on bedrock," investment was changing as a profession, catalyzed by the entrance of institutional money. Offices dedicated to "investment analysis" and statistics boomed in bank trust departments in the 1950s, and oversight of funds shifted "in many banks from a policy largely dominated or influences by committees of outside directors with no particular qualifications for such work to a program dictated by skilled advisors."[13]

The emerging association between institutional investing, professionalization, and market stability, supported a rejuvenated faith in the stability of stock market returns at a crucial moment. On November 26, 1954, the Dow Jones Industrial Average hit a historic milestone; reaching, after 25 years, the peak price set just prior to the 1929 crash. At a time when the speculative frenzy of the 1920s was recent memory, the event's meaning was complicated, on one hand representing the completion of a long market recovery, or, pessimistically, the prelude to an inevitable crash. *LIFE* magazine captured the mood: "For three weeks, Wall Street traders and speculators had been holding their hats in [a] mixed feeling of wonder and terror." But the

---

[13] Keith Funston, "Institutional Investors: how is their growth affecting the stock market," 6. On the role of reputation and culture in investment banking in early twentieth-century finance, see Susie J. Pak, "Reputation and Social Ties: J. P. Morgan & Co. and Private Investment Banking" *Business History Review,* 87 (Winter 2013), 703–28. Funston, "Who Owns America," 3, 5. Paul Morse, "Committee Organization in Medium Sized Trust Departments" *Trusts and Estates,* 98 (August 1959), 785–86, esp. 785.

market had changed, the article stressed. The regular investment of institutional money had created a "built-in stabilizer," which assured that prices would continue to climb over time. To some extent, claims of price stability and stable growth were self-fulfilling prophesies. Institutional investors flocked to a small subset of common stocks, investing in very large companies with historically consistent dividends. The designation of an individual stock as a good investment could essentially make it true. As a landmark study of mutual funds explained, large funds "may to some extent, have the ability to fulfill their own market predictions and in particular to validate their own appraisal of individual issues." Academic commentators noted in the middle of the decade how institutional purchases placed upward pressure on the market 1953-1955 making the bull market as one economist noted, characteristically "smooth."[14]

Depictions of stability also supported a Cold War vision of the stock market as a critical institution for coordinating the flow of capital to national economic priorities. In the shadow of

---

[14] Editorial, "How High is Up for Stocks," *LIFE,* Dec. 20, 1954, p. 20. Paul P Harbrecht, *Pension Funds and Economic Power,* 232–33. William Butler, "Draft Report on Pensions," 38–40. Even by the 1970s, a quarter of all pension funds purchases of stock were concentrated in just twenty-five of the most popular stocks at the NYSE. "Communicating with Institutional Investors," [1975-6], folder "Institutional Investing," box 32, RG 17.1, Senior Vice President of Market Surveillance Jeremiah J. O'Donahue Papers (New York Stock Exchange Archives). A similar concentration occurred in bank trust investments as well. Miller, "Trends in Private Pension Funds," 324. The Wharton School of Finance and Commerce, "A Study of Mutual Funds: Prepared for the Securities and Exchange Commission," quoted in Baum and Stiles, "Silent Partners," 62. The stability of growth and prudency of stock investing was in varying ways "performative" in the way sociologists of finance have used the term—a product of a social consensus about value that comes to be reflected in price. See Donald A. MacKenzie, Fabian Muniesa, and Lucia Siu, *Do Economists Make Markets? On the Performativity of Economics* (Princeton, 2007). Victor L. Andrews, "Investment Practices of Corporate Pension Funds [Dissertation Abstract]," *Journal of Finance,* 14 (Sept. 1959), 423–24, esp. 24.

Sputnik, Funston argued that stock markets were central to national economic planning. Although military demands "may win the big headlines," he argued in a speech on the social value of stock investing, the "long-term struggle with communism will take place in the much less dramatic area of economic growth. The funds we devote to military strength, the help we offer the free world, and the steps we take to meet our educational needs, all rest on the rock of our industrial prosperity and our capacity to expand." The NYSE had made similar arguments in World War II, when its president William McChesney Martin described the market as a "national mechanism for promoting the flow of capital into defense work" and an "instrument for promoting the flow of capital into productive enterprises of many kinds." [15]

This depiction of the stock market as central to, and a stabilizing force in the American industrial economy dovetailed with the new political ideology of "people's capitalism," which Andrew Yarrow has described in detail. This was a propaganda campaign first used by the NYSE's Funston in the early 1950s and then developed by advertisers and the US Information Agency in 1955. "People's Capitalism" depicted America as having achieved a "new capitalist system," in which universal abundance was achievable, and where the class conflicts that had characterized capitalism in the past were transcended. Countering negative Soviet depictions of "Wall Street Capitalism," stock markets were recast as venues where the worker could become a capitalist or, alternatively, provided evidence that America was a "classless" society, since

---

[15] Funston, "Capital Deserves a Living Wage." William McChesney Martin, "The Stock Exchange Yesterday, Today, And Tomorrow" Address before the Commonwealth Club, San Francisco, CA December 6, 1940, and "The Work and Purpose of the Stock Exchange" Radio Address over the Pacific Coast Network of Columbia Broadcasting, KSFO December 6, 1940, Box 2 RG 2-2 New York Stock Exchange Presidents, Chairmen and Officers.

anyone could participate in ownership. The political aims of people's capitalism fit in well with other postwar marketing campaign by the NYSE aimed at expanding shareownership to new, less wealthy individuals, and institutional investors. As Traflet has documented, the various NYSE advertising campaigns tied individual shareownership to a range of Cold War cultural and civic values, including mass abundance in this period.[16]

Comparisons with socialism were common in descriptions of people's capitalism, including in its extension to the case of institutional investment. In his *The Unseen Revolution* (1976), the prolific business writer and professor Peter Drucker drew together all the tropes of people's capitalism, claiming that "socialism came to America neither through the ballot box nor through the class struggle let alone a revolutionary uprising…" Instead, he argued, it had been through the efforts of executives at General Motors and General Electric who had wisely established pension funds and emphasized the importance of structuring a pension plan as an "investment trust" that would invest in capital markets. Equity investment had social merit, Drucker believed, because it fostered a patriotic sense of national investment in industry mediated through the pension fund. In a speech on the theme of "who owns America," NYSE's Funston made a similar point, arguing that the "broadening of the base of stock ownership would seem to be a vehicle by which to make America's economic capitalism as broad as its political democracy." Likewise, "Of all the great nations," the economist J. Frederic Dewhurst maintained, "the United States, the one that clings most tenaciously to private capitalism has come closest to the socialist goal of providing abundance for all in a classless society." In a 1956

[16] Andrew L. Yarrow, "Selling a New Vision of America to the World: Changing Messages in Early U.S. Cold War Print Propaganda," *Journal of Cold War Studies,* 11 (Fall 2009): 3–45, esp. 31–32. Janice M. Traflet, *A Nation of Small Shareholders: Marketing Wall Street After World War II* (Baltimore, 2013).

issue of the *American Economic Review*, the Marxist economist Victor Perlo brought the discourse back down to earth; describing the stagnant population of shareholders and pointing out the absurd evocation of socialism by American corporations. "Karl Marx'[s] prophesy has been realized" at least according to Standard Oil.[17]

The discourse of stock market stability—of booming growth based on solid footing rather than speculation; of a professionally managed and technocratic investing industry; of a promise of universal prosperity and social tranquility through the democratization of stock ownership—underwrote the financialization of small-scale household capital. Between 1951 and 1954, institutions deploying the resources of future pensioners, and home and life insurance beneficiaries purchased $6.28 billion in common and preferred stock, almost twice as much as individual investors. Institutional investing in stock only intensified in the decade. Between 1951 and 1959, pension funds nearly tripled the distribution of holdings held in stocks and by 1959, half of all money flowing into pension funds (from employer and employee contributions) was being invested in stock. College and University endowments also turned heavily to stocks, and by 1963, many large endowments had more than *half* of their value in common stocks. Pension funds for public employees likewise, invested heavily in stock, accelerating towards the end of the decade. Wisconsin had begun investing in stocks in the early 1950s and their "variable annuity plan," introduced in 1957, expanded stock investing extensively. 1960 legislation in New York opened public pensions to investing in the same assets as savings banks including stock. By

[17] Peter F. Drucker, *The Unseen Revolution: How Pension Fund Socialism Came to America* (New York, 1976), 7. Keith Funston, "The Boom in Shareownership," Remarks to the Colorado Chamber of Commerce, Denver, April 24. 1959, Speeches of Keith Funston, box 8, RG 2.2 (New York Stock Exchange Archives). Victor Perlo, "'People's Capitalism' and Stock-Ownership," *American Economic Review,* 48 (June 1958), 333–47.

1963, no fewer than 23 state pension funds had some pension investments in common and preferred stock.[18]

II. "Complexities We Cannot Always Cope With"

Between households and their money were the institutional investors—pension funds, insurance companies, bank trust departments—and the people that ran them. By the middle of the 1950s, they were facing increasing scrutiny as legislators, regulators and academics raised alarms about both the wisdom of their practices, and their potential powers over firms. Legislative investigations and hearings in 1954, 1955, and 1956 and a special congressional subcommittee in

---

[18] S. N. Whitney, "Proposed Study of 'Money Power,'" memo, June 9, 1955, p. 2, folder 5, box 114, (Century Foundation Records). Miller, "Trends in Private Pension Funds," 313–27, esp. 321–24. Harvard University, far and beyond the largest in the United States at a value of 843 million, had 54% of it in common stock. Swarthmore College and Wesleyan University were the most invested in stocks, with 76% and 75% of its endowment assets in common stock. "College Endowment Equity Holdings on Rise," *Trusts and Estates* 102 (December 1963), pg. 1190. NYSE Department of Research and Statistics, "State and Local Government Pension Funds: Their Role as Institutional Investor," 13 Folder "Institutional Investors: Pension Funds," box 12 Press Relations /Public Info (New York Stock Exchange Archives). Harold Rubin, "New York State's Retirement Program; a Critical Analysis," (Ph.D. diss., Syracuse University, 1963). New York, Rhode Island, and Wisconsin and some of the largest stock holdings—Wisconsin had 17% of its pension assets in stock ($89 million); 29% of Rhode Island's pension assets were in stock, 10% of Minnesota's, and 3.3% (representing a hefty $104 million) of New York's large retirement system. Additionally, in November 1964 five New York City pension funds began to invest in the stock market. They received approval from the city comptroller to invest 10% of their $3.8 billion in assets in corporate stock. "NYSE Department of Research and Statistics, "State and Local Government Pension Funds: Their Role as Institutional Investor," 16-17. "Sizing Up an Unknown Force," *Business Week,* Nov. 14, 1964, pp. 164–65.

1957 documented investment and actuarial mistakes, in-dealings, and mismanagement, as well as outright corruption. "With so much money involved and the absence of supervision," a 1956 Senate investigation described, "an unscrupulous minority has preyed upon such funds…there have been shocking abuses such as embezzlement, collusion, kickbacks, exorbitant insurance charges and various other forms of malfeasance." While they emphasized that bad actors were not the norm, the Senate report pushed for regulation. "Should these vital programs," it continued, "be permitted to operate under an 18th century philosophy of laissez-faire?" Among the problems they identified was disclosure. Pension and other institutional investors simply did not broadcast what they owned. United States Steel, whose pension covered the insurance and pension plans of 260,000 workers refused to provide congressional investigators information about how its portfolio operated. The same was the case with General Motors. Each argued that disclosure would weaken their ability to invest (by revealing their winning strategies) and hinder their prospects of bargaining with labor. But secrecy also made possible the use of pension funds in ways that were widely viewed as improper—like using the fund to buy debt in the company itself. To the extent large corporate-run plans came under the thumb of the Federal Government, it was overshadowed by the scrutiny applied to union-run programs. Union-run pension funds had been subject to intense investigation during the 1950s, most notably the Central and Southern States Teamster Pension Fund, established in 1955, and run by Jimmy Hoffa. The CSPF "broke significantly from investment norms in most other funds," as McCarthy explains, investing heavily in real-estate projects associated with union labor. Intense investigation of union-managed funds in this period led, as Theresa Ghilarducci explains, to those plans being more "conservatively funded than the not-so-scrutinized single-employer funds [despite their] cleaner record on malfeasance and fraud." The specter of mismanagement led to the passage of

the 1958 Pension Fund and Welfare Disclosure Act of 1958 a subsequent expansion of disclosure requirements in a 1962 follow-up bill.[19]

Secrecy surrounding fund management contributed to the opinion that investments may not be on such solid footing. Although "there have been no spectacular failures," one analyst noted in 1958, this was perhaps "misleading." The "growth of these plans has taken place in an expanding economy and the general rise in income level may have compensated for any serious mistakes." Among the problems in management was insufficient diversification: putting too much money into a single sort of asset, opening the fund to risk if one segment of the economy or securities market declined. In the 1950s and early 1960s, researchers in economics, management science, and operations research began to define a new field of research around the study of optimal investment strategy including "efficient diversification" and the pricing of risk in securities markets. This work reflected productive overlaps between emerging computational sciences and economics but also the demands of institutional investing under legal scrutiny. Developments offered a promise that the new, more complex financial judgments facing the fund manager could be rendered into an objective form. It had been more straightforward, fund managers claimed, to make investment decisions when legal requirements restricted holdings to safe securities like government bonds. "But now that equity holdings have become fashionable,"

---

[19] United States Congress Senate Committee on Labor and Public Welfare, "Hearings, Reports and Prints of the Senate Committee on Labor and Public Welfare," (Washington, 1955), 279–746, 221–279, 746–826. Senate Committee on Labor and Public Welfare, "Welfare and Pension Plans Investigation: Final Report," 1956, US Senate, 84th Congress, 2nd Session, April 6, 1956, 158-9. William J. Isaacson, "Employee Welfare and Pension Plans: Regulation and Protection of Employee Rights," *Columbia Law Review,* 59 (Jan. 1959), 96–124, esp. 102. McCarthy, *Dismantling Solidarity,* 104. Ghilarducci, *Labor's Capital,* 46–47. G. Robert Blakely, "Welfare and Pension Plans Disclosure Act Amendments of 1962," *Notre Dame Lawyer,* 38 (April 1963), 263–86.

an article in a journal for fiduciaries noted, “a completely new problem is presented”: how to choose how much to invest in stocks and which ones were good investments. Another article commented that “the investment problems of the professional trustee are infinitely more complex now than in the days when fixed income obligations represented the mainstay of the portfolio.” Markowitz’s theory, for which he won the 1990 Nobel Prize in Economics, offered an answer: an algorithmic form of decision-making that provided a systematic approach to the analysis of risk and return in a set of potential investments. While these tools could help do the job of risk management, they also had a key surplus: a promise of rigor, auditability, and transparency that fit the demands of the fiduciary investor. Over the next decade, technical outputs of financial economics were broadly concerned with ways to evaluate fund management in the context of a public welfare system that looked to markets for long-term wealth generation. As early as 1961, IBM advertised the application of its machines to Harry Markowitz’s efficient portfolio algorithm, and the Bankers Trust company was developing its own program to do the same. A 1961 report by A Philadelphia-based trust officer emphasized how electronic machinery could improve the surveillance functions of trust departments including “the safeguarding of assets, the prevention of fraud [and] proper adherence to procedures and policies.” Another, small Mississippi Trust noted that 1963 “is certainly the age of the computer.” And while they were primarily using electronic data processing to keep track of client accounts, they anticipated that soon computers would be used to review investment decisions, drawing on comparisons with stock market data. A survey completed by the American Bankers Association in 1964 showed a quarter of all trust departments already automated through electronic data processing, or planning to do so shortly. Home-spun computer based modeling of portfolio diversification, risk, and return was relatively well-understood in the industry by 1966. In part, this was because

Markowitz's method, while undoubtedly innovative in its application of the mathematics of quadratic programming, fit within a longer tradition of statistical self-analysis in the postwar investment management industry. For instance, it was popular in the trust industry to measure the stock portions of portfolios against stock indices—to see if they beat the average over time. One company had constructed an artificial "model portfolio" in 1940, and periodically compared existing portfolios to it. While the "objectivity" of these models were "limited," as a trust officer for a Detroit Bank noted, it offered a "an excellent shop tool" for judging performance internally.[20]

---

[20] Isaacson, "Employee Welfare and Pension Plans: Regulation and Protection of Employee Rights," 96–124, esp 102. Donald A MacKenzie, *An Engine, Not a Camera: How Financial Models Shape Markets,* (Cambridge, Mass., 2006), chaps. 2–3. William G. Milburn, "Trust Automated Procedures," *Trusts and Estates* Dec. 1964: 1201-04. Hilary Seal, "Efficient Diversification of Pension Fund Investments," *Trusts and Estates* 98 (1959): [i]–1076; 1056–57. On index funds, see MacKenzie, chapter 3; and Perry Mehrling, *Fischer Black and the Revolutionary Idea of Finance* (Cambridge, Mass., 2005), 54–61. Example papers on the quantification of mutual fund performance include William F. Sharpe, "Mutual Fund Performance," *Journal of Business,* 39 (Jan. 1966), 119–38; Michael C. Jensen, "The Performance of Mutual Funds in the Period 1945–1964," *Journal of Finance,* 23 (May 1968), 389–416; Jack L. Treynor, "How to Rate Management of Investment Funds," *Harvard Business Review,* 43, (no. 1, 1965), 63–75; and Lawrence Fisher, "Outcomes for 'Random' Investments in Common Stocks Listed on the New York Stock Exchange," *Journal of Business,* 38 (April 1965), 149–61. On the analysis of investment fund performance, see Irwin Friend and Douglas Vickers, "Portfolio Selection and Investment Performance," *Journal of Finance,* 20 (Sept. 1965), 391–41; and James H. Lorie and Lawrence Fisher, "Knowledge Makes a Difference," *Financial Analysts Journal* 21, (no. 6, 1965), 118–20. On the use of computer-based portfolio selection, see Denis Dwyer, "Using a Computer for Portfolio Selection," *Banking,* 57 (Sept. 1964), 44–45; Harold Kalb, "Electronic Data Processing Machines: Impact on Trust Operations, Internal Control and Examination," *Trusts and Estates* 100 (April 1961), 335–37. P. D. Ware, "Trust Automation," *Trusts and Estates* 102 (September 1963), 812–19. Norman

For a group of analysts, the dilemmas of institutionally managed capital eclipsed the technocratic and regulatory solutions being offered. No amount of disclosure or efficient portfolio diversification could reduce what the New York University economist Paul Howell called the "new money power" of a financial industry that was growing quickly through the deployment of household capital. Beginning in 1955, a group of economists and lawyers associated with the think tank The Century Fund in New York began to investigate the social consequences of institutionalization in relation to matters of corporate governance, but also to financialization more broadly. This group, which had at its intellectual center the New Dealer Adolf A. Berle viewed the rise of the institutional investors as a new chapter in economic history on par with the rise of the modern corporation and threatening the fragile social order of capitalism in the United States. Their subject matter was technical—they were securities lawyers, regulators and economists—but their ambitions were sociological and historical: the relationship between property rights and various kinds of social power; or the dynamics of power between different sorts of institutions including firms, states, banks, and unions. In his 1932 *The Modern Corporation and Private Property,* Berle and his co-author Gardiner Means had argued that the rise of the large, multi-owner firm had been a development of vast social significance. The diffusion of ownership among the many shareholders of large corporations had effectively changed the characteristic power once associated with the ownership of property. It had led to a

---

Jr. McClave, "Automation: Are Trust Officers Necessary," *Trusts and Estates.,* 105 (Dec. 1966), 1149–52, esp. 1150. One piece of IBM software for portfolio selection is described in a manual found in archival IBM papers, "Portfolio Selection: A New Mathematical Approach to Investment Planning," IBM General Information Manual, E–20-8107 (1961), Papers of James Cortada, box 23, RG CBI 185 (Charles Babbage Institute Archives, University of Minnesota, Minneapolis).

"dissolution" of the previously indivisible "old atom of ownership." Stock entitled a share of profit, but little meaningful influence over the affairs of the firm which was now controlled by professional managers. Similar tools of analysis were deployed by others at the Fund. During the New Deal, as an economist at the Century Fund depicted it, the state had intervened into the world described by Berle and Means, seizing powers of pricing and coordination from industry and enhancing the strength of shareholders with powers to supervise and audit firms through the Securities Act. In these historical developments, this group suggested, the locus and organization of power was being altered, a term that meant the ability to coordinate, control, influence, or decide on the application of productive forces towards some end. [21]

Between 1955 and 1974, researchers associated with Berle and the Century Fund undertook a series of studies of institutional investing as a new, historic development of concern. The main subjects of their analysis were the consequences of institutional management on the erosion of shareholder power over the firm, the related accrual of power by financial firms, and the internalization of a market process (choices about the allocation of capital to industry) into an internal, and potentially secretive (if often bureaucratic) form within institutional investors. "In a way," Howell continued in a 1955 proposal, "the developments of large funds and their control by trust departments installed new heads of independent economic empires [not] subject to the

[21] For a detailed account of these developments from the vantage of the history of corporate governance, see Brian R. Cheffins, "The Rise and Fall (?) Of the Berle-Means Corporation," *Seattle University Law Review,* 42 (2019), 455–98. Adolf Berle Jr. and Gardiner Means, *The Modern Corporation and Private Property* (New York, 1968), 8–9. On Berle, see Nicholas Lemann, *Transaction Man*. On the Berle and Means thesis of the corporation and its context in the climate of skepticism towards money trusts, see Mark J. Roe, *Strong Managers, Weak Owners.* Paul Howell, "Prospectus for a Study of the Shifting of the 'Money Power' or the 'Decisional Center' of American Business Corporations during the Postwar Period," folder 5, box 114, Century Foundation Records.

checks of the market." To understand those empires, what was needed was an analysis of how and why they invested as they did, how they interfaced with firms, and whether "outside influences" or corrupt forces might shape them to make decisions that "may not be strictly on the merits." With the consolidation of capital under institutional control, the market, as they saw it, had been sidelined as a vehicle for decisions-making about firm priorities and the allocation of resources in the economy. The notion, espoused in marketing materials and political statements by financial industry leaders, that the corporation was governed by a democracy of voting shareholders was increasingly implausible, especially in light of the numerous corporate proxy battles of the mid-1950s. 1954 saw twenty-one proxy fights over corporations traded on public stock exchanges, including several highly public battles for control over major corporations like the New York Central Railroad and the Montgomery Ward Corporation, accounts of which made feature stories in John Brooks's articles in *The New Yorker*. In these fights, decisions about the direction and management of corporations were clearly not the dominion of shareholders acting through votes, or even expressing opinions through the stock market. Instead, the corporate dramas of the era featured a small cast of wealthy stock holders, corporate raiders, takeover artists, and fund managers wielding the capital of many to exert their own influence on firms.[22]

In the second half of the 1950s, the Jesuit priest and legal scholar Paul Harbrecht led The Century Fund project on institutions. The work culminated in the 1959 book *Pension Funds and Economic Power*, which analyzed the effects of pension funds on capital markets and corporate

[22] S. N. Whitney, "Proposed Study of 'Money Power;'" Howell, "Prospectus for a Study," 2, 105. Edward Ross Aranow and Herbert A. Einhorn. "Corporate Proxy Contests: Solicitation and Validity of Brokers' Proxies," *University of Chicago Law Review,* 23 (Winter 1956). On the role of institutional investors in the Montgomery Ward takeover, see Baum and Stiles, *The Silent Partners; Institutional Investors and Corporate Control*, 69–72.

governance. For the workers represented by these funds, Harbrecht said plainly, the promise of people's capitalism had been overstated. "If the effect of the pension funds is to make the employee a capitalist, as many have said, he has only one of the prerogatives that make it desirable to be a capitalist," economic security. The employee "gains little in the way of economic power or the freedom that economic power carries with it. Capitalist he may be, but certainly not in the sense that Marx and Adam Smith used the term." In fact, he noted, "there is no one who can properly be said to be an 'owner' of these large accumulations of wealth," because the aspect of ownership associated with *influence* or *control* had been swept up by small number of financial institutions. In the long-term historical lens typical of Berle's influence, Harbrecht noted that "it may not be too much to say that the center of influence in our economy, having left the Wall Street of the 1920s and migrated in the 1930s and 1940s to the provincial centers of corporate power, has now returned to New York financial circles." This was not because of the malicious aims of financial firms "in a drive for power." Instead, it was a response to a "social demand" that could be answered by the "fortunate presence of the financial institutions." Ultimately, this arrangement was a product of "the molding influences of our major institutions: the corporation, the government, and the labor unions." They had created a system whereby, "control over property has gravitated to the managers of the financial institutions because they perform a function which is valuable to society—to distribute among the generality of the people the wealth which corporations are creating," and providing to "the man with little or no capital to risk" the "rewards originally assigned to risk capital."[23]

---

[23] Harbrecht, *Pension Funds and Economic Power,* 121 and *Pension Funds and Economic Power,* 284. Robert P. Hamilton to August Heckscher, April 30, 1958, folder 6, box 114, Century Foundation Records. Harbrecht, *Pension Funds and Economic Power,* 284, 249–50, 280–1.

Harbrecht treated the concentration of control over capital in the financial institutions of the 1950s, as more or less a necessity. But his views were not uncritical, just focused on a different target: the force unleashed by the new arrangement, one he analogized to the splitting of the atom. The "nucleus of rights" conveyed by property would be split, with financial institutions ending up with the part of ownership corresponding to economic power while beneficiaries gained access to some amount of wealth. This reaction would self-perpetuate, producing both a "fusion of control" within financial institutions, and a release of "new forms of power over men," since "it is in the very nature of pension trusts to concentrate control of capital, the new alignments of power they have brought about are likely to be permanent features of our society." Among those forms of power were the dependencies between workers and their employers (who they now counted on for retirement benefits) the consolidation of managerial control over firms because of a general presumption that financial institutions would avoid exerting influence over them (thus reducing the number of actively engaged owners) and the potential deployment of influence by Wall Street on industry in the future.[24]

The book received no shortage of press attention; with domestic and foreign press and television stations asking for his time and reviews and coverage resulting in *The New York Times*, the *New York Post*, and the *Wall Street Journal*. The Century Fund also received numerous critical comments from fund managers who claimed the description of the industry was "sensational." A response from the Fund noted that "we knew…we were touching vital nerves and it is not surprising that we have had some reaction of this kind." Harbrecht was hosted for a luncheon at the Morgan Guaranty Trust Company, one of the largest asset management funds of the period, where he engaged in prolonged debate over the book. While

[24] Harbrecht, *Pension Funds and Economic Power*, 273, 284, 79, 190, 249.

the book was well dog-eared, a Century Fund staff member reported, "It was obvious that what Father Harbrecht regarded as the main point of his book—an inquiry into the nature of this new financial institution and its effects on our social and economic structure… simply didn't interest them."[25]

III. "Moralities we Cannot Harmonize"

The effects of institutional investing on capital markets were increasingly apparent by the middle of the 1960s. At a 1966 Conference at the University of Pennsylvania to discuss a report by the SEC on mutual funds, legal commentators and regulators discussed a broader ongoing "institutionalization of markets." This term referred both to the way the "floating supply of stock is sponged up" by institutional investors, but also how institutions were altering the patterns, professions, and practices of Wall Street as decisions over capital concentrated in a very small number of financial institutions and fund managers. The implications of these developments were increasingly concerning, especially as the perception of institutional investors as stabilizing entities in the market gave way to a new view. Institutional investors had gained the reputation of being "short-term-oriented" or merely "chasing trends." *The Wall Street Journal* described institutional investors as "keeping markets boiling" as a "passion for capital gains (or a speculative fever…) has gripped the professional money managers." In a reversal of the early

---

[25] John Booth to Paul Harbrecht, Dec. 2, 1959, folder 6, box 114, Century Foundation Records. August Heckscher to Robert P. Hamilton, April 28 1958, ibid. Robert P. Hamilton to August Heckscher, April 30, 1958, ibid.; David Lilienthal to August Heckscher, April 13, 1960, ibid.; August Heckscher to David Lilienthal, April 20, 1960, ibid. Thomas R Caraskadon, "Harbrecht Luncheon at Morgan Guaranty Trust Company [Memo For the Record]" March 22, 1960, ibid.

depiction of institutions as patient and long-term focused, analysts increasingly compared their effects as sparking trading patterns akin to the "speculative fever we had in the 1920s." Funds "don't view stocks as stocks but as chips in gambling game." Industry studies supported this characterization. A 1967 NYSE internal study showed that the activity rate—a metric for of how often funds were changing their investments—had increased across institutions in the 1960s. Pension and life insurance companies had doubled their activity rate and property and liability insurance companies nearly tripled as they began to shift towards more short-term investment strategies. As a consequence, investment managers could in fact "destabilize" the market.[26]

Between 1965 and 1968, reports of high turnover rates fueled a new characterization of professional fund managers as insiders who pursued quick profit. The syndicated financial columnist Sylvia Porter described a new "type of speculator in the stock market today who has never been known before. He is highly informed. He is a clear professional. He manages a mutual fund which places an enormous amount of money at his disposal. He is a swinger, trading in and out of stocks for quick, fat profits." Time Magazine referred to fund managers as the "most powerful men in the market." They were presumed to be younger—in their 30s and 40s—and iconoclastic: replacing "many of the old rules with new attitudes." In particular, "instead of

---

[26] "Mutual Funds as Investors of Large Pools of Money [Conference Discussion]." *University of Pennsylvania Law Review,* 115 (no. 5 1967), 669–725, 698. Albert R. Karr, "Speculative Funds: Institutions Trade Stock More Often to Catch Short-Term Swings Mutual Funds' Turnover Rate Tops Big Board Average; One Proposes Short Sales Some Analysts See Danger Speculative Funds: Big Institutional Investors Turn to Quick Trades." *Wall Street Journal*, March 8, 1966, pg. 1. John Lyons and Richard Rustin, "Why Trading Soars: Institutional Investors, Hoping for Fast Gains, Keep Market Boiling." *Wall Street Journal,* August 11, 1967, pg. 1. New York Stock Exchange Research Department, "Influence of Institutional Investors on Stock Price Stability," Nov. 1967, box 32, RG 17.1, Senior Vice President of Market Surveillance Jeremiah J. O'Donahue Papers.

aiming to preserve capital or achieve steady dividends they are confidently committed to a cult of growth. In their search for short-term gain many are taking longer risks for larger profits." Insofar as they differed from the "robber barons of the '20s" it was only in their motives—which was not the growth of their own investment wealth—but ostensibly the wealth of beneficiaries.[27]

At the same time, the consolidation of control of stock among a small number of financial institutions and asset managers raised concerns about their influence over industry and access to insider information. In 1969, the ten largest banks managed 37% of all trust assets invested in stock—approximately 68.7 billion or 8% of the market value of all outstanding stock. Insurance companies were even more concentrated: the top three life insurance companies held more than 50% of all stock assets controlled by insurance companies—the top seven, 75%. A single fund manager at the Morgan Guaranty Trust profiled in *Time* was responsible for overseeing all stock trading decisions for more than 250 pension funds. Speaking to *Dun's Report* in 1968, Berle estimated that fifteen or twenty banks could mobilize voting control of a large percentage of American industry. "It frightens me," he noted, that by 1970 institutional investors will hold one-third of the stock of all corporations listed on the New York Stock Exchange. That adds up to working control."[28]

---

[27] Lee Silberman, "In-and-out Traders: More institutions Seek Quick Profit in Stocks, Disturbing Wall Street," *Wall Street Journal,* Sept. 14, 1967, p.1; Vartanig G. Vartan, "Turnover Up on Markets out of Town," *New York Times,* Oct. 29, 1967, F1. Sylvia Porter, *Bridgeport Telegram*, Oct. 16, 1967, pg. 12. "What Makes the Stock Market Go Up and Down," *Time,* Feb. 6, 1968, pp. 46–7.

[28] Donald E. Farrar and Lance Girton. "Institutional Investors and Concentration of Financial Power: Berle and Means Revisted." *Journal of Finance,* 36, no. 2 (May 1981), 369–81. Rosen and Berle, "The New Realities of Corporate Power."

In 1970 testimony to Congress former SEC researcher and Georgetown Dean Roy Schotland characterized fund managers pursuit of financial returns for beneficiaries as economically destabilizing. Short-term purchasing was becoming the norm and "stocks are not bought on fundamentals, but on rumors, tips, fads and fancies…stocks are bought in the expectation that some ephemeral event will produce a rise of a few points, a jiggle on the chart, so that a quick though small profit can be plucked out." Markets were turning into "the scene of the largest form of organized gambling in America" and "because the money gamers are relatively homogeneous in approach, background and sources of information, very frequently they move in packs." Short-termism was spreading and leaking into the traded firms themselves. "The key problems," he described, "include an unnecessary destabilization of the stock market and a profound pressure on managements of operating companies to change in a direction of very questionable social worth." In other words, fund managers' relationship with the firms they owned would have one goal: to push them to generate profit.[29]

Opinions had changed rapidly about how institutions would use their control over industry. Ideas about people's capitalism—in which institutions would collectivize capital and give workers a say in corporate policies—gave way to a fear that financial institutions would exert a narrow form of surveillance on portfolio firms, focused solely on short-term returns, while corporate management would remain otherwise insulated from oversight. To some extent this was a consequence of the dynamic Berle and Harbrecht had noted—that as a general matter, "institutional holders of common stock do not use, do not wish to use, the voting power of the stock they have accumulated." But as David Rockefeller noted in 1958, "corporations will find

[29] Roy Schotland, Testimony before the Joint Committee on Subcommittee on Fiscal Policy, "Investment Policies of Pension Funds: Hearings" 99 Cong., 2 sess., April 28, 1970, pp. 110-34.

themselves dealing increasingly with these sophisticated investors [who will] become more demanding of management." Those demands were not of policy per se, but of returns. As two law professors, Daniel Baum and Ned Stiles, showed in their 1965 study of institutional influence, *The Silent Partners,* institutions were active in some particular matters of corporate policy—including in the financial structure of the firm, executive compensation, and in mergers. Most concerning for Baum and Stiles was the way that institutions single mindedly focused on returns that would enable "solvency, toward the faithful, efficient administration of trusts." There seemed "to be room for little else in their analysis." Institutional investors seemed ill-equipped and uninterested in "assuming the responsibilities in their portfolio companies commensurate with their agency power," or fearful of acting in ways that would expose them to antitrust scrutiny. This resulted in a *de facto* strengthening of corporate status quo—as the largest shareholders were "silent partners" disengaged from corporate affairs, or an attention to portfolio firms solely concerned with financial outputs. While the "corporate democrats" promoted the idea that mass shareholding produced collaborative governance, this was "illusory." As shareholding consolidated in institutions, they would make more and more stock inert, placing "self-perpetuating power in the hands of entrenched leadership."[30]

Consolidation in fund management also brought about conflicts of interest and tempting access to inside information. In a case described by Baum and Stiles an employee of an investment firm attended a board of directors meeting for a company, and telephoned his firm during a break about a forthcoming cut to the company's dividend. John Brooks's chronicle of

---

[30] David Rockefeller, "Business Enterprise and the Economy in the Next Ten Years," Address before the Special Conference for Financial Executives of the American Management Association, New York, Oct. 14, 1959, in Baum and Stiles, *The Silent Partners,* 80. *Ibid.*, 67–90. *Ibid.,*115. *Ibid.*,130. *Ibid.,* 1.

1960s Wall Street drew parallels between the 1920s and the "Go-Go" 60s, noting the parallel use of insider power by large scale fund managers. "In each case, certain insiders contrived to use privileged information and superior market technique to manipulate stock prices and thus deceive the public; in the 1920s the manipulators had been called pool operators, in the 1960s they were called portfolio managers." Despite their use of "obviously unfair if not illegal" methods they had "no public disapproval so long as people were making money on them." Morgan Guaranty Trust, among the largest asset managers of the period, allegedly bought ten thousand shares of a mining company on the basis of privileged information. Similar insider information is said to have circulated during the collapse of Penn Central in 1970. Loan officers at Chase Manhattan bank were "said to have told their colleagues…running major pension funds, of the critical condition of the railroad."[31]

But if fund managers were pursuing returns on behalf of their beneficiaries—of future pensioners, or insurance contract holders, or small-scale household savers—was the use of insider information such a bad thing? The moral dimensions of the pursuit of profit-at-all cost came to the fore after the publication of Henry Manne's 1966 *Insider Trading and the Stock Market*, a defense of insider trading as economically beneficial. The book, which appeared in stores around the financial district drew on the emerging theory in financial economics called the random walk hypothesis to argue that that price discovery would be less erratic when all information—including insider knowledge was used. The advantage insiders receive, Manne argued, was the only available compensation for acting on information that while secret, was also

[31] *Ibid.,* 37–38. John Brooks, *The Go-Go Years: The Drama and Crashing Finale of Wall Street's Bullish 60s*. Weybright and Talley, 1973, 5. Peter F. Drucker, *The Unseen Revolution: How Pension Fund Socialism Came to America* (New York, 1976), 86–7.

true. As the argument went, trading on insider information would help move the price in the public market into agreement with valuation insiders would have put on the company. In a review, Baum criticized the argument for several reasons, acknowledging that the insider's reward was paid for by someone else who got a rotten deal. In a review titled "Unsafe at any Price"—a nod to Ralph Nader's book on car manufacturers' reluctance to adopt safety standards—Schotland criticized the book's central assumption that economically justifiable forms of reasoning should trump other moral and social considerations when considering the law: "When we engage in economic analysis," he wrote, "we do not banish permanently the legal and moral aspects of the problem analyzed."[32]

Meanwhile, the consolidation of capital was having practical consequences on the mechanisms of stock trading. Large scale asset managers found the NYSE system of trading hard-pressed to handle the large transactions that were the institution's mainstay. Institutions tended to trade in large quantities called blocks that the traditional auction market struggled to process. One described the NYSE market for big blocks "thin or unorderly," another said there were better prices and quantity on the OTC market. A 1966 governmental report on institutional investment explained that "auction markets" like the NYSE "find it increasingly difficult to maintain the high degree of depth, liquidity, and continuity which they have traditionally sought to achieve. "The "concept of the central auction market," as one SEC commissioner described it in a speech, "flourished" in a time before institutional investing "when the market for the

---

[32] Henry G. Manne, *Insider Trading and the Stock Market* (New York, 1966). Daniel Jay Baum, "Review of *Review of Insider Trading and the Stock Market*, by Henry G. Manne," *Duke Law Journal, 6* (Dec. 1967), 456–61. Roy A. Schotland, "Unsafe at Any Price: A Reply to Manne, Insider Trading and the Stock Market." *Virginia Law Review,* 53 (Nov., 1967), 1425–78, esp. 1438.

shares…consisted of a relatively steady flow of 100 share orders placed by individual traders or investors." But the pooling of capital into institutions had changed this, and now the wealth of many was consolidated into the decisions of few: "a hundred different decisions…become one decision." Large block trades proliferated in a market increasingly dominated by institutional investors, growing from less than 3% of total volume on the NYSE in 1964, to 16% in 1970. This growth became even more notable in 1969-70, as the market slowed dramatically, but the number of 10,000 share transactions more than doubled.[33]

Fund managers put pressure on the rules of trading as well, demanding an end to the fix-price commission structure at the NYSE and membership in the exchange so they could trade for themselves. The NYSE and its members operated as a regulated cartel, maintaining high prices for the service of trading and barring membership for firms that did not do most of their business as brokers. Trading costs were high for institutions—who traded in big volumes and lacked the power to negotiate. The NYSE had sped up its courtship of large-scale investors in the 1960s. In an issue of the NYSE's publication to institutional investors in 1966 (a publication produced as part of a broader marketing push to gain the business of the institutions) they touted their ability to handle the new trading activity, while they looked ahead to the market of 1975, when a majority of shares were expected to be in institutional control. In a series of conferences and

---

[33] United States Securities and Exchange Commission, *Special Study of Securities Markets*: *Report of Special Study of Securities Markets of the Securities and Exchange Commission Part 2* House Report No. 95 Pt. 2, 88th Congress 1st Session, July 17, 1963, 128. United States Securities and Exchange Commission, *Report on the Public Policy Implications of Investment Company Growth: Report of the Committee on Interstate and Foreign Commerce* House Report No. 2337, 89th Congress 2d Session, 1966, 301. Manuel Cohen, Draft Speech to the American Management Association, Nov. 16, 1966, Securities and Exchange Commission Records, Files of SEC Chairman Hamer S Budge, box 697 "Speeches," RG 266 (National Archives, College Park, MD).

visits with representatives from institutional investors in 1964 NYSE executives showed off the ticker room and quotation department, explaining innovations in technology (like a new high-speed ticker tape) which marked the exchange as forward looking and prepared for an accelerating market. But asset managers looked to new trading venues to avoid the NYSE. Computer-based markets like Instinet (short for Institutional Network) and NASDAQ came online in 1970 and 1971 as institutions sought to evade price and public visibility associated with exchange trading.[34]

Conflicts between institutional investors and the brokerage industry burned hot at the end of the 1960s and the beginning of the 1970s, catalyzed by an industry crunch known as the "paperwork crisis," during which the information infrastructure of finance—trade clearing, certificate delivery essentially collapsed. The crisis made public the growing human and operational challenges facing the securities industry as it struggled to meet the challenges of what some called "technical matters" but which were also the practical growing pains of

---

[34] *Institutions and the Stock Market,* Feb. 1966, folder "Institutional Investment 1967–1976" box 32, RG 17.1, Senior Vice President of Market Surveillance Jeremiah J. O'Donahue Papers. Lee Silberman, "Bypassing Brokers: Institutional Investors Begin Trading Stocks Directly Among Selves Ford, Rockefeller Foundations Save $400,000 Commission By Swapping Some Shares 'Fourth Market' Being Born? Bypassing Brokers: Large Investors Begin Direct Trades of Stock." *Wall Street Journal* January 11, 1965, sec. 1. Lee Silberman, "Bypassing Brokers: Institutional Investors Begin Trading Stocks Directly Among Selves Ford, Rockefeller Foundations Save $400,000 Commission By Swapping Some Shares 'Fourth Market' Being Born? Bypassing Brokers: Large Investors Begin Direct Trades of Stock." *Wall Street Journal,* January 11, 1965, sec. 1. On Nasdaq, see Mark Ingebretsen, *Nasdaq: A History of the Market That Changed the World* (Roseville, 2002). On electronic markets and the conflict between investors and the NYSE, see Juan Pablo Pardo-Guerra, *Automating Finance: Infrastructures, Engineers, and the Making of Electronic* (New York, 2019).

institutionalization—as capital consolidated in a small number of investing institutions. Newsweek described a "vanishing stock market," in which the "vehicle of American capitalism seemed bent on tearing itself apart." Some, like Salomon Brothers, took advantage of a new need for "block houses" that could put up the requisite capital to handle large trades, growing between 1968-1970 during an industry-wide crisis. *The Stock Market Magazine* described 1972 as "beginning to look like the year of confrontation between the members of the NYSE and the institutional money managers." Institutions called the NYSE a "monopoly-oriented private club. "A Department of Justice antitrust investigation followed and the NYSE, after long rejecting the idea of institutional membership acceded to the idea. Ultimately institutions were permitted to join the Exchange after a vote by the membership on January 29, 1973. Free market discourse met Wall Street in June of that year, as Republican congressman James Broyhill pushed for more competition among brokers. Lobbyists for the Securities Industry Association predicted "destructive competition" at the hand of institutions, who would push down the prices for commissions if they were allowed to negotiate for fees. On May 1st, 1975 ("May Day") cartel pricing ended on the NYSE, as the Exchange acceded to rising pressures.[35]

---

[35] Marshall E. Blume, Jeremy J. Siegel, and Dan Rottenberg, *Revolution on Wall Street: The Rise and Decline of the New York Stock Exchange* (New York, 1993),118.; James W. Cortada, *The Digital Hand, vol. II: How Computers Changed the Work of American Financial, Telecommunications, Media, and Entertainment Industries* (New York, 2006), 165–67. Wyatt Wells, "Certificates and Computers: The Remaking of Wall Street, 1967 to 1971," *Business History Review,* 74 (June 2000), 193–23. *Institutions in the Stock Market*, June 1967, folder "Institutional Investment 1967–1976," box 32, RG 17.1, Senior Vice President of Market Surveillance Jeremiah J. O'Donahue Papers. "The Vanishing Stock Market," *Newsweek* Feb. 23, 1970, 71–74. Dana L. Thomas, "Cross of Gold?: Block Houses These Days Earn Their Living the Hard Way" *Barron's National Business and Financial Weekly,* May 25, 1970. The Editors, "Editorial" *The Stock Market Magazine* (Yonkers, NY) February, 1972 Folder "Institutional

The remaking of the securities industry was just one element of their influence on the patterns of trading. Institutions were associated with relentless chase for performance, a "domination" of the market, and even evasion of the law. Money managers in corporate pension funds were described as engaged in a performance race to beat other institutions on a quarterly basis and rarely stabilizing markets in the quantifiable ways touted in the 1950s. All their activity, moreover, was structurally damaging—bringing short-term performance pressures "to a pitch" and eroding the integrity of stock markets in the eyes of the public and regulators. Bank trusts were associated with panicked buying, in several publicized "stock dumping events," and often hid their holdings to avoid Federal scrutiny. The combination of concentration in asset management firms and short-termism left the market susceptible to big swings, collapses, and a marginalization of small-time shareholders. Writing in *The New York Times* in 1974, Robert Metz described an "institutional panic" that had led to a sell-off in one company—demonstrating "just how badly institutional investors have damaged the stock market." An article in *Institutional Investor* described their effects on price instability and the domination of insiders at the cost of individual public investors. An accompanying graphic depicted the institutional investor as a squid with tentacles around factories and offices. Financial writers described the

---

Investors: Institutions, Institutional Ownership 1965-1980," box 12 Press Relations / Public Info (New York Stock Exchange Archives). " 'The NYSE has been a monopoly-oriented private membership club': Weeden Takes On Needham and the Exchange" *Financial World,* February 21, 1973 Folder "Institutional Investors: Institutions: Third Market," box 12 Press Relations / Public Info (New York Stock Exchange Archives). "Big Board's Doors Opened to Financial Institutions," *Wall Street Journal,* Jan. 30, 1973, p. 2. "Brokerage Industry Intensifies Opposition to Two Key Provisions of Securities Bill," *Ibid,.* Jun. 18, 1973, p. 2. Scott McMurray and Randall Smith, "10 Years After 'May Day,' Wall Street Finds That It Likes the Unfixed Commission System," *Ibid.,* April 22, 1985, p. 1. Richard R. West, ""'Brokers' Fortunes Since 'May Day,'" *Ibid,.* Nov. 24, 1978, p. 10.

"domination" of the market by institutions, a sentiment repeated by former SEC Chairman Manny Cohen at a Century Fund conference. (An executive at the Morgan Guaranty expressed dismay at the term.)[36]

What social value did all this trading activity have? Could not something more useful have been done with this money? Schotland, writing in 1970, argued that such analyses were beside the point, since pension funds were "by their very existence…socially useful projects" providing for retirement, increasing personal savings, and increasing "the likelihood that those savings will be invested by sophisticated management." He made the comments in response to calls in the 1960s for pension funds to invest some modest amount, in pressing social needs, most notably housing. To this he countered that it was "not the pension funds' obligation-legal, economic, or moral-to try to correct the impact of inflation" on housing costs. Instead, they had to be laser-focused on returns: "pension funds simply must make high-yield investments" "it is

[36] David B. Bostian Jr., "The De-Institutionalization of the Stock Market in American Society: A Question of National Economic Security." *Financial Analysts Journal,* 29 (Nov.–Dec. 1973), 30–93. Robert Metz, "Market Place: Institutions: A Closer Look," *New York Times*, May 18, 1974, p. 40. Chase Manhattan, Morgan Guaranty Trust, and Manufacturers Hanover had consolidated controlling shares of large firms. "More Data on Institutional Stockholdings urged in Senate Company-Ownership Study," *Wall Street Journal,* Jan. 7, 1974, pg. 2. "Stock Study Finds Banks Controlling Large Companies" *New York Daily News,* Jan. 7, 1974. Folder "Institutional Investors: Institutions, Institutional Ownership 1965-1980," box 12 Press Relations / Public Info (New York Stock Exchange Archives). Robert Metz, "An Institutional Panic Analyzed," *New York Times*, May 21, 1974, p. 56. "What happens when the Little Man is gone from the stock market for good?" *Institutional Investor,* March 1972, p. 16. S. M. Marshall, "Exchange Issue Nears Courts," *Christian Science Monitor,* Aug. 11, 1972; Terry Robards, "Institutional Trades lift Volume to 46% of Total," *New York Times,* April 17, 1972. "Twentieth Century Fund, "Reforming the Market," transcript III-12, folder 1, box 395, Century Foundation Records (New York Public Library Manuscript Department).

the obligation and the *raison d'être* of the pension funds to earn good returns so as to help meet obligations to pensioners."[37]

Conclusion

While direct investment by small-scale shareholders plummeted in the early 1970s, Americans found themselves more and more entangled in markets, silent partners to asset managers operating far beyond their control. What Schotland had failed to recognize is now evident to fossil fuel divestment activists and analysts of the pension system's effects on labor: that the narrow pursuit of financial returns might in fact harm beneficiaries. As McCarthy describes, the 1974 pension reform law, the Employee Retirement Income Security Act (ERISA) set uniform standards for retirement plans, including the extension of the prudent person rule for fiduciaries. This had the effects of entrenching the turn to stock investing of the prior two decades but also solidifying a narrow, interpretation of beneficiaries' interest such that nonfinancial factors could not legally be considered in investment decisions. One consequence, as David Webber explains, was the solidification of a logic in which the fund itself and its financial interests, were prioritized over other interests of the members, such that a fiduciary would not be able to consider the impact of an investment that would make their own beneficiaries lose their jobs. "Worse than irrelevant," he explains, "it is considered to be a breach" of fiduciary duties.[38]

[37] Roy A. Schotland, "Private Pension Funds," 358–59.

[38] Bostian Jr., "The De-Institutionalization of the Stock Market in American Society," 30–93. McCarthy, *Dismantling Solidarity,* 111. David H. Webber, "The Use and Abuse of Labor's Capital," *New York University Law Review,* 89 (Dec. 2014), 2106–89, 2109.

These ironies were among the consequences of a society that had, since the 1950s, brought market returns into the center of economic life, catalyzing dramatic transformation in the structure of capital markets; intense consolidation of financial institutions; diminished oversight of corporations; and a spiraling of riskier behavior on Wall Street as financial firms chased short-term returns in a "cult of performance" on behalf of their beneficiaries. In his 1975 novel, *JR,* William Gaddis captured the new spirit of American capitalism in a single character, a prodigious but ruthless 11-year-old named JR Vansant. The basic outline of the novel, which won the National Book Award, is somewhat well known, remaining decades later a cult favorite among Wall Street workers. JR leverages a single share of stock into a sprawling financial empire. (The share was purchased using pooled funds with his 6th grade glass in an activity reminiscent of actual NYSE-sponsored classroom activities.) Inspired by financial guidebooks and mail-order get rich quick schemes, JR Corp speculates in mineral rights, eats up small businesses, liquidates a pension (converting it to stock in his own company), and trades in anything—from penny stocks to military surplus to nursing homes—he can turn a profit on. The novel has a chaotic style—in over 700 pages it conveys almost no description. It is mostly dialog, with the rare clarifying punctuation or aside. George Stade described it as full of "talk"—"conversation, monologue, harangue; voices on telephones, radios, TV." Stade associated this with the sounds of city life, but also to a kind of person: those "ridden by some malign and centrifugal force of cosmic disruption."[39]

---

[39] Benjamin Graham, "The Future of Common Stocks," *Financial Analysts Journal* 30 (Sept.–Oct. 1974), 20–30. "Frank Partnoy Says These Books on Financial Schemes Are Sure Bets," *Wall Street Journal,* May 23, 2009, sec. Weekend Journal. On the history of such educational activities, see Traflet, *A Nation of Small Shareholders,* 138–40. George Stade, "JR." *New York Times*, Nov 9, 1975, sec. SM, 29.

Much of the comedy of Gaddis's 1975 *JR* stems from the fact that almost no one knows the corporate maven who buys and sells on a whim is a child. His participation in the market is mediated by mail, telex and professional go-betweens, intermediaries that shield his identity and reduce his sense of moral culpability. Among them is Edward Bast, a failing composer who is regularly baffled by the ingenuity of JR's ploys. Though he is quite sure of their immorality, he can never convince JR of their impracticality. Trying to explain his machinations involving his use of the pension fund of an old mill town, JR touches on the new logic of the market, and of the dawning world of financialization "the rules are only for if you're playing to win… that's the only rules there are."[40]

[40] William Gaddis, *J R (*New York, 1975), 301.