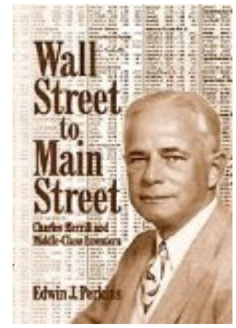
H-Net Reviews
in the Humanities & Social Sciences

Edwin J. Perkins. *Wall Street to Main Street: Charles Merrill and Middle Class Investors.* New York: Cambridge University Press, 1999. xiv + 283 pp. $29.95, cloth, ISBN 978-0-521-63029-0.



Reviewed by Kenneth A. Snowden

Published on EH.Net (September, 2000)

Ed Perkins claims (p. 237) that "Charles Merrill deserves high ranking on any list of the most influential entrepreneurs in American History ... in the same rarified company as Carnegie, Rockefeller, Edison, Ford, Walton, Gates and J.P. Morgan." In this lively and well-written book Perkins makes the case with equal doses of biography, business and economic history and homage to a subject familiarly referred to throughout the text as "Charlie." Do not despair if your syllabus, like mine, fails to recognize Merrill's "unparalleled contributions to the development and democratization of twentieth-century capital markets," because "[t]he main reason for his lack of public recognition has been the paucity of information about his monumental accomplishments" (p. 237).

Or perhaps not. In fact, the biographical high points that Perkins lays out, while clearly establishing Merrill as a shrewd, successful financier and remarkable personality, hardly seem to place him in the entrepreneurial pantheon. In 1914, at age 29, this native Floridian, average college student, and aspiring Wall Street bond dealer opened Charles E. Merrill & Company to specialize in investment and merchant banking activities for clients in the retail sector. A largely unsuccessful foray into financing automobile manufacturers, and a fortuitous and highly lucrative one into movie production, did not distract his company from becoming a major player in this small and previously neglected corner of the capital market. By the mid-1920s Merrill and his then-partner Lynch issued, underwrote and distributed securities for chains such as Kresge, McCrory, J.C. Penney's, Kinney's and Safeway. This last company commanded increasingly large shares of Merrill's attention, time and the firm's resources, and he abandoned the financial services industry altogether in 1930 when Merrill and Lynch's brokerage arm was transferred to E.A. Pierce & Co. in which the firm became silent and inactive partners. By 1932 Merrill had engineered a remarkable expansion of the Safeway chain through merger, but the management of the grocery giant was left to his hand-picked CEO, Marion Skaggs.

By 1940 the fifty-five year old Merrill had triumphed twice -- as an investment banker and a grocery chain magnate. Perkins has to acknowledge, however, that his claim to entrepreneurial immortality had not yet been earned. Merrill's genius, according to Perkins, emerged during the next decade and a half as he created the first truly nationwide system of brokerage houses to connect Wall and Main Streets. But even here Perkins' claim seems to founder on biographical detail; after a series of devastating heart attacks in 1944 and 1945, Merrill rarely visited the firm before his death in 1956, and served as directing partner from homes in Long Island and Florida through his most trusted colleague, Winthrop Smith. Perkins convincingly argues that Merrill's influence on the firm, even when infirm and partially incapacitated, remained significant during the last decade of his life. But the biographical facts frame ever more narrowly the window during which Merrill's entrepreneurial accomplishments occurred. Perkins' ultimately relies, in fact, on events between 1940 and 1944, well before the spectacular postwar growth of Merrill Lynch, Pierce, Fenner & Smith.

The crux of the argument is laid out in Chapters 11 and 12 where Merrill's third career is characterized as formulating and testing a new strategy on Wall Street. In 1940 Merrill was faced with either dissolving the firm's interest in Pierce's faltering brokerage firm or becoming active once again in the financial service industry. Merrill and trusted associates huddled for two months in early 1940 as the merger of Merrill Lynch and E.A. Pierce was being arranged, and in April 1940 the organizing principles of the new company were announced at a meeting of branch managers.

Merrill relied on his experience in both financial services and the retail trade in formulating his strategy and even used information culled from a survey of the brokerage's customers in California. Perkins observes that little of the plan was modified in subsequent years, and that the April meeting "set the tone and direction for Merrill Lynch over the next quarter century." We have here, therefore, entrepreneurial innovation in its purest form.

Merrill integrated three interrelated principles: a new culture for the brokerage house and its employees, a rejuvenation of the public's confidence in securities and the securities markets, and an expansion in the numbers and types of investors. Numerous specific innovations were involved: the firm's brokers received training, were referred to as account executives and were compensated with salaries and profit-sharing instead of commissions; the firm began to publicly disclose an annual performance statement, advertised the benefits of stock investment as a long-term investment strategy and liberally offered education and research on security investments to current and prospective customers; new customers were asked to fill out a questionnaire after which their accounts were directed to account specialists who were most experienced in the investment activities that they desired. Merrill had been espousing some of these ideas since the 1910s; had been exposed to others in his dealings with retail firms; and had gleaned still others from the research his team had recently undertaken. This amalgam proved wildly successful -- by 1953 Merrill Lynch was operating 108 retail offices nationwide (9 percent of the brokerage outlets of all NYSE members) and claimed a 12 percent share of all trades on the NYSE exchange and an 18 to 20 percent share of trades on regional exchanges. As Perkins notes, Merrill's firm was an undeniable leader in introducing the customer-oriented approach to marketing securities and promoting the postwar expansion and democratization of corporate ownership.

But was Merrill an innovator of first rank? Perkins has taken an important first step in making this case, and his book deserves to be widely read and discussed. But additional work and analysis on two fronts will be required before the name Merrill rolls as easily off the tongue as Morgan, Ford or Carnegie. To begin with, it is not clear from Perkins' treatment where the contributions of Merrill end and those of numerous trusted associates and colleagues begin. Win Smith, son-in-law Robert Magowan, consultant Ted Braun and journalist-advertising head Louis Engel play pivotal roles in this story both before and after Merrill's incapacitating illness. Merrill clearly assembled this team and was early on its leader and most powerful spokesman, but the entrepreneurial contributions of his firm may be better described by the "We the People" moniker that journalists bestowed on the multi-name organization firm in the early 1940s than on Merrill's contributions alone.

More fundamentally, it remains unclear just how Merrill's innovations solved underlying informational problems and market imperfections that had prevented an earlier development of the modern retail brokerage house. We are told that Merrill advocated full disclosure in his company's dealings, aggressively invested in advertising and educational programs that benefited the entire brokerage industry as well as his firm, and welcomed rather than feared imitators of his methods. This list of "accomplishments" looks impressive when juxtaposed against the worst instances of market "manipulation," "fraud" and "greed" that Perkins attributes to nameless predecessors in the industry, but they only suggest how Merrill's specific innovations cost-effectively overcame security market imperfections.

Parts of the Merrill story, in fact, can be interpreted as evidence that his "genius" lay in advertising, packaging and selling unnecessary services to small and medium investors. The firm's own research in the 1940s and 1950s identified "churners" -- investors who borrowed from the firm on margin and undertook a large volume of trades -- as the principal source of the firm's profits. The numerous accounts of small, relatively inactive investors actually generated losses for the company, but were cultivated in order to increase the pool out of which new churners would emerge (p. 153). Furthermore, while the company's favorite advertising slogan, "investigate, then invest" had the trappings of empowering investors, it also created a market for investment advice and research of dubious value. In fact, Perkins tells us (pp. 222-32) that Merrill's dogmatic resistance to mutual funds in the early 1950s stemmed from his belief that their availability would lead investors to adopt rigid buy and hold policies that would reduce trading volume and the firm's revenues.

Was this self-proclaimed "grocery man at heart" a giant of financial innovation? Maybe, but do not rewrite your syllabi just yet. Instead, read Perkins' interesting and provocative treatment yourself and, like me, wait for the outcome of the discussion of Merrill's career that this fine book is sure to engender.