

ing the work-day and the work-week; effective factory inspection; suppression of child drudgery; a minimum wage; no more exploitation of convict labor; compulsory insurance; inheritance taxes; and, last but not least either in importance or in the Twentieth Century editor's estimation, for he emphasizes it especially, "*the appropriation of the unearned increment by the taxation of land values.*" When the last shall have been done, much of the rest will do itself; but meantime the Twentieth Century is right in not ignoring even the ameliorative features of its program. If any of them are of "the hothouse variety," as some critics protest, let all such critics observe that the hothouse has a useful function before spring brings its tender buds and summer its normal fruit.



A TRUST "OF BANKERS AND FOR BANKERS."

When Nelson W. Aldrich, chairman of the Monetary Commission which has recently reported to Congress,* spoke at a Chicago banquet last fall in behalf of the central reserve plan as then proposed by the Commission, he characterized that plan—inadvertently perhaps, but none the less truly it may be—as providing for an organization "*of bankers and for bankers.*"

After that speech the plan was modified by the Monetary Commission so as to give it an appearance of divesting banking interests of control, and this alteration ought to be considered in advance of any further discussion.

Whether the gigantic organization is to be *for* bankers may be considered later; whether it is to be *of* bankers, in the sense of being under their control, we shall consider now.

I.

At the time of Senator Aldrich's defense of the proposed organization as one "*of bankers and for bankers,*" there were to be, with reference to the mode of choosing them, four classes of directors of the central body; and in the bill as it has since been reported to and now lies before Congress, there are four such classes. For convenience of reference those classes may be tabulated as follows:

| | |
|--|---|
| I. 6 ex-officio. | I. 7 ex-officio. |
| II. 15 elected by branches. | II. 15 elected by branches. |
| III. 12 elected by branches (proportionally). | III. 15 elected by branches (all to be non-bankers, etc.). |
| IV. 12 elected by classes II and III (no bankers except b'k direct'rs. | IV. 9 elected by branches (proportionally). |
| 45 Total. | 46 Total. |

*See The Public, vol. xiv, pp. 1162, 1169; and current volume, page 35.

A brief examination of the foregoing table will make clear the difference between the two plans with regard to their classifications of directors.



As to Class I the plans are alike in respect of the number of directors, except that one ex-officio director is added, making a total of 7 ex-officio directors instead of 6 and of 46 directors in all instead of 45. The ex-officio directors, under the bill as finally reported and now before Congress, would consist of 1 governor, appointed by the President of the United States from a list of 3 or more candidates proposed by the board of central directors, such governor to hold office for ten years unless sooner removed by two-thirds of the board "for cause"; of 2 deputy governors, to be chosen by the directors themselves; and of the Secretary of the Treasury, the Secretary of Commerce and Labor, the Secretary of Agriculture (not in the earlier plan) and the Comptroller of the Currency, all of whom are of course appointees of the President for the time being.

As to Class II the plan as reported is in substance like the one described by Senator Aldrich as "*of and for bankers.*" The board of directors of the 15 branches of the central body would each independently elect one central director of their own unrestrained choice; and as they themselves are to be elected by their respective constituent banks without restraint as to choice, all these 15 central directors might and probably would be bankers.

As to Class III the two plans are not alike. Under the former, 12 directors were to be elected by representatives of the directors of the 15 branches, acting as a whole but with voting power proportioned to their respective holdings of shares in the central body. The number in the bill reported to Congress is increased from 12 directors to 15, who are to be elected like the 15 of Class II but are not to be bankers; and the proportional method of election is shifted from Class III of the old plan to Class IV of the pending bill.

Furthermore, a peculiarity of Class III in the pending bill has been shifted, with alterations in its terms, from Class IV of the earlier plan. We indicate it in the table in parentheses in Class IV of the former plan and in parentheses in Class III of the pending bill. This peculiarity we shall consider farther on; for it is especially referred to, mistakenly we think, as making the central reserve organization one which banking interests cannot control.

As to Class IV, the two plans are of course not alike. The former provided for 12 additional central directors to be elected by the central directors of Classes II and III; the bill as reported provides for only 9 additional directors, who are to be elected not by other directors but by the branches and under proportional stock representation.

II.

We may now consider the probable effect of those alterations, in divesting banking interests of the control they would have had under the plan which Senator Aldrich described as "of and for bankers."



There was a clause in that earlier plan with reference to the directors of Class IV as distinguished in the first column of the table above, a loose clause which purported to place some restraint upon the election of bankers as directors of the central body. This clause provided that the 27 directors of Classes II and III should elect 12 additional directors, who should "fairly represent the industrial, commercial, agricultural and other interests of the country," and who should "not be officers of banks." But by the same clause "directors of banks" were "not to be considered as officers"!

This plan would have made it feasible to pack the central board with at least 41 bankers in the total of 45 directors. Even if the President and Congress and all the people of the United States were opposed to its policies in public matters, nevertheless a banking ring could easily have controlled; for the governor of the National Reserve Association, and three Federal officials, would have been the only directors to whom the united banks could not have dictated—the only ones who would not have been officers or directors of banks if the banking ring wanted an all-bankers board.

Unnecessarily greedy of power for bankers was that plan, and apparently this has been realized. At any rate, the alterations disclosed by a comparison of Classes III and IV of the foregoing table were made before the bill was reported to Congress; and in lieu of a probable 41 or more of bankers in a directorate of 45, there is substituted a probable 27 or more of bankers in a directorate of 46.



The provisions of the earlier plan for electing central directors which we have distinguished as Class III and Class IV have been altered in the pending bill so as ostensibly to prevent control by

bankers; but only ostensibly. The net result, as the Commission's report shows and as indicated above, is a directorate which bankers could at any time control, not only indirectly by influence upon non-bankers, but directly through a clear majority of bankers themselves.

While a Cabinet minister is added to the ex-officio class, the whole number of directors to be chosen by bankers is the same, 39; and while those to be chosen indirectly by bankers in proportion to their stock in the central body is reduced from 12 to 9, the number to be chosen by bankers directly is increased from 27 to 30.

Connected with the choosing of half the latter number, however, is the alteration of the clause that we describe above as "a peculiarity of Class IV" in the earlier plan which has been shifted to Class III in the later one.

This clause, as it appeared in the earlier plan and as we quoted from it above, provided that the 12 additional central directors to be elected by the 27 central directors of Classes II and III, "shall fairly represent the industrial, commercial, agricultural and other interests of the country," and shall "not be officers of banks" but may be "directors of banks." Under the bill as reported and now pending, that provision would apply not to 12 directors to be chosen at the discretion of 27 directors all of whom may be bankers, but to 15 of the 30 directors to be chosen directly by the branch associations. Those branch associations are to be absolutely controlled by bankers (at least five-sixths of their directorates respectively may be bankers), but in making their choice of the particular 15 central directors provided for by Class III of the pending bill, the branches would be specifically and comprehensively limited. Instead of being generally admonished to elect persons "who shall fairly represent the industrial, commercial, agricultural and other interests of the country," and forbidden to elect "officers of banks" except "directors of banks"—as under the former plan,—they are by the pending bill required to choose persons "who shall fairly represent the agricultural, commercial, industrial and other interests of the district, and who shall not be officers nor, while serving, directors of banks, trust companies, insurance companies, or other financial institutions."



Because of that provision, and apparently for no other reason unless it be the addition of the Secretary of Agriculture to the central directorate as a member ex-officio, it is gravely urged that bank-

ing interests could not control the National Reserve Association!

For instance, the Chicago Record-Herald, which seems to hold a brief for the Aldrich scheme in any form the bankers approve and against any they disapprove, has done a soothing bit of editorial cooing on the subject, from which we quote, referring to its issue of January 10, 1912:

The Commission's plan involves no "domination" or concentration of power in bankers' hands. One-half of the directors of the National Reserve Association will represent the agricultural, industrial and commercial interests, and they will not be connected in any way with banks or other financial institutions.

Fiddlesticks! Are not those representatives of "agricultural, industrial and commercial interests" to be chosen by bankers?

Green indeed must he be who supposes that there could be "no 'domination' or concentration of power in bankers' hands." Won't bankers choose their own favorites in other business connections? Most certainly, if they have any; and he must be decidedly unsophisticated who imagines that bankers' favorites cannot be found in "agricultural, industrial and commercial circles." Even the nominal owner of the Chicago Record-Herald should be above suspicion of that degree of innocence. Hasn't his affinity for bankers been so marked these many years as to give rise in Chicago to the grimly jocular story that he has chosen bankers in advance for his pallbearers, with the idea that as bankers have carried him all his life they ought to carry him at the end?

But if the bankers did happen to be so disinterested as to choose the whole 15 representatives of "agricultural, industrial and commercial interests" from business circles beyond their own influence, and even if the 15 persons so chosen were Spartan in their independence of the choosers, how would the matter work out? It would work out nicely, for a banking ring. Instead of one-half the directors being independent, only 19 out of 46 would be so!

There would be to begin with, 15 bankers and 15 Spartan independents chosen by bankers.

If, then, the three members of the President's cabinet and the Comptroller of the Currency were also Spartan independents, we should have 4 independents to add to the other 15, making 19 independents and only 15 bankers—34 in all. So far the bankers would be in a minority. But observe that the bankers would elect 9 directors by a proportional vote based upon their respective investments in the capital of the central body. These would be bankers, of course, if the bankers wished

it so; and who doubts that they would wish it so if profit or power were in the balance? "Presto!" then, and the bankers' minority of 4 is turned into a bankers' majority of 5, the bankers having 24 representatives and the independents only 19; 43 in all.

Even this substantial majority of bankers could grow without drawing from the 19 independents. For two deputy governors, ex-officio directors of the central body, are to be chosen by the other directors, who, with a vote of 24 bankers to 19 independents, could choose a banker for one deputy governor by 5 majority, and then another banker for the other deputy governor by 25 to 19, thereby adding 2 to the bankers' group and giving them a majority of 7 over the independents—26 to 19 in a total of 45.

But there is one more ex-officio director, the governor of the central association, and as he is to be appointed by the President of the United States, wouldn't he count against the bankers' group if the President were against them? Even if he did, their majority would be 6 instead of 7, and might not the bankers' ring flourish comfortably at that disadvantage? The pending bill is so drawn, however, as to guard against any such contingency, slight though its dangers be to the ring.

Although the bill provides that the President shall appoint this ex-officio director to be the governor of the association, he might be and probably would be *compelled to appoint a banker*, for he must select from 3 whom the bankers nominate; and if the appointee didn't comport himself agreeably to the bankers' ring, *the ring could remove him* by a two-thirds vote—"for cause," of course; yes, "for cause"—and this would necessitate the conversion of only 4 of those 19 independent directors who "fairly represent the agricultural, industrial and other interests of the respective districts" from which they are chosen by the bankers of those districts. The President's appointee would be a banker, if the bankers' ring wanted a banker, and the President couldn't help himself; or, if not a banker technically, at any rate a bankers' satellite.

So there you have 27 bankers as directors of the National Reserve Association, and only 19 independents, in a total directorate of 46—a clear majority of 7 for the bankers' ring at all times, with two-thirds "on call" and never difficult to get.

Yet the Record-Herald echoes the banker crowd and their satellites in assuring its confiding readers that the Aldrich plan, as now altered, "involves

no 'domination' or concentration of power in bankers' hands"!

III.

But the prospect as to control by bankers is really worse than we have outlined it above. Thus far we have resolved every doubt in favor of the measure. Thus far we assume that the bankers would be (except for power to remove the governor of the central association) absolutely dependent upon powers given them *directly*. But that view is altogether too favorable. Their *indirect* powers would be enormous, if "needed in their business."

Readers "from Mizzoura"—and all readers ought to be "from Mizzoura" while this extraordinary measure is under consideration—will want to know why they should trust the 4 Federal officials in the central directorate to be independent of the banking ring. Don't Comptrollers of the Currency and Secretaries of the Treasury usually pass out of office into banking service as gracefully as they go to dinner?

The man "from Mizzoura" will also want to know, as he ought to, why he should trust to the Spartan independence of any, or of all 15, of the non-financial directors whom bankers are to elect. Are bankers likely to elect outsiders whose financial interests are not sufficiently tangled up with their own to make them amenable to "safe and sane" advice wisely given?

And if "the man from Mizzoura" insists upon "being shown" he will find that the more he is shown the greater is the justification for his incredulity.



Among the additional reasons for incredulity the "man from Mizzoura" will find, if he interrogates the Aldrich bill as it now lies in Congress—awaiting action by "the job session" next year, as Mr. Bryan intimates,—some highly significant provisions. Observe that we take no account here of the uses, good or bad, to which the control of this gigantic organization may be put. This consideration we postpone to a further inquiry. At present we confine our inquiry exclusively to the question of whether or not that control, whatever the possibilities of its use, would be lodged with bankers.

(1) We have already shown control by bankers *directly* through an absolute majority in the central directorate if they want it, and further control *indirectly* if they resort to their influence as money lenders or credit brokers.

(2) An inspection of the pending bill will show that under no circumstances can any person

or interest, public or private, invest in or hold, directly or indirectly, any shares of the National Reserve Association, except national banks, State banks and trust companies (well known adjuncts of banks and participators in banking interests); and that the banks and trust companies may hold *neither more nor less* than an amount of such shares equal to 20 per cent of their paid in and unimpaired capital. A wise provision, we make no question, provided the organization itself is necessary or desirable; but a provision which strongly emphasizes the inference of *control by bankers*.

(3) Districts and branches in addition to the 15 fixed by the bill can be and may be created only by the directors of the central body; and so of readjustments of all districts, creation of new local associations, and readjustment of all local associations. Their power is absolute in this respect. In so far, then, as either public or private interest is concerned in this matter, the central board of directors, with its majority of bankers, could be dictatorial. This arrangement also may be very well regarded as necessary, provided the scheme itself is necessary or desirable. We raise no question here as to that. Our inquiry still rests upon the question of the power of bankers over the organization; and this clause also adds emphasis to the inference that *bankers could control*.

(4) The directors of branches are to be 12 in number, or more (in addition to ex-officio members); and one-half are to be elected by the constituent local associations, each of the local associations having for that purpose one vote for each branch director. The same local associations would vote in the ratio of the holdings by their respective constituent banks of shares in the central Association, for one-third of the directors of their respective branches. The remaining one-sixth of the branch directors would be chosen by the other five-sixths. This tagged-on sixth must "fairly represent the agricultural, commercial, industrial and other interests of the districts and shall not be officers, nor, while serving, directors of banks, trust companies, insurance companies or other financial institutions." Ex-officio memberships in the branch association would be created and their incumbents elected by the other directors, except that the branch manager must be one of these and chairman of the board. The manner of filling vacancies is to be determined by the central body. There doesn't appear to be anything here to weaken the inference of *control by bankers*.

(5) The directors of the local associations,

composed of banks holding shares in the central Association, are elected by those banks—three-fifths by one vote from each bank for each director and two-fifths in the ratio of holdings of shares by the banks respectively in the central Association. Still unimpaired seems to be the inference *of control by bankers.*



Were we to turn, then, to the official report of the Monetary Commission which recommends this measure and of which Senator Aldrich is chairman, we might hope to find some explanation or excuse for the benefit of "the man from Mizzoura," of the wisdom or the necessity for lodging the powers of this great corporation, whatever those powers may prove to be, so *completely in the control of bankers.*

But we should be disappointed. The incredulity of "the man from Mizzoura" would hardly be allayed. There is nothing in this report to "show him," if his incredulity has any civic sense back of it.

Among the arguments of the report in favor of the plan as now submitted to Congress, the only one of moment *in so far as the plan relates to control by bankers* (the point we are now exclusively considering), is a well guarded implication that the plan is "democratic"!

Why democratic and how?

Because the associations are grouped in analogy to the county, State and national groupings of our political system; because "the individual bank is the voting unit" in the local associations; because a majority of banks elect three-fifths of the directors of local associations, and a majority in stock interest elect the rest; because, "the source of authority" of the central body being "democratic and not autocratic," the central body "instead of overshadowing banks" is "their representative." So reads the report.

If this is democracy, it is democracy of that intra-financial kind which is more commonly known as plutocracy. But be it democratic or not, in that sense, bankers themselves must judge. It is a question for them, and concerns the general public not at all—unless the system is to have jurisdiction and power over public affairs. One might as well discuss the democracy that is said to prevail in Masonic lodges, if the system is to have no cinch upon public interests. The question of control, whether in Masonry by Masons or in banking organizations by bankers, is without public concern unless power over the public is involved. Instantly thereupon, however, the question of control

looms up. If Masonry were to be given power over public affairs, it would not be enough to be assured that Masonry is "democratic" among Masons; it must be democratic in respect of all concerned. And isn't the same thing true of banking? To say that an organization of bankers to be given power over public interests is "democratic" because banks are federalized among themselves, or because individual banks are the voting units, or because the central body represents banks instead of overshadowing them, is to trifle with public interests in a play upon words.

If the Aldrich scheme is in fact to give power over public affairs to a private profit-making corporation, that organization cannot safely be entrusted to the control of bankers as a class.



And that a power over public affairs is in fact involved, the report of the Monetary Commission quite clearly discloses. But this question we reserve for consideration later. The question in hand, the only question we are now considering, is whether the organization proposed by the Aldrich bill would be under the control of bankers; and that it would be absolutely so, seems incontrovertible.

IV.

As now drawn and pending before Congress, the bill of the Aldrich Monetary Commission would, beyond all reasonable grounds for dispute, place the National Reserve Association completely within the control of a bankers' ring. Or, lest "ring" seem unparliamentary, we hasten to substitute the phrasing of the Monetary Commission's report—*"a co-operative union of all the banks of the country."*

Whatever else it may be, for good or bad, the pending bill to incorporate the National Reserve Association and to give it for *fifty years* vested rights in law to all the privileges directly or indirectly conferred by its proposed charter, whatever those privileges may turn out to be, is to make of that Association an association *of* bankers. Senator Aldrich was thus far right in his Chicago speech, whether his tongue slipped or not, when he characterized it as an organization *"of* bankers and *for* bankers."



In the broad view, the labor of children is as disastrous and as dishonest an industrial policy as paying dividends out of capital or issuing bonds to meet a regularly recurring deficit in current transactions.—F. H. Streightoff in "The Standard of Living."