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Labor banks in the United States

Parker, James Mulry

Boston University

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THESIS

THE LABOR BANKS IN THE UNITED STATES

Submitted by
James Halvy Parker
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First Reader: Lilah M. Vaughan, Professor of Economics, Boston University
Second Reader: Franklin C. Roberts, Assistant Professor of Education, Boston University
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FOREWORD

The collection of material and statistics for this study was begun in October 1931. Since that time an extensive body of documentary and published material has been collected. Correspondence has been carried on during these several months with the Department of Labor of the United States at Washington, D. C., The Industrial Relations Department at Princeton, New Jersey, and also with the remaining labor banks in the United States.

Most valuable, however, has been the information and advice obtained through interviews with banking men and other persons in touch with the banking movement generally.

The writer wishes to express his appreciation to Miss Barry of the statistical department of the Boston Public Library, Miss Laura A. Thompson, Librarian, Department of Labor, Washington, D. C.; J. Douglas Brown, Industrial Relations Section, Princeton University, Princeton, New Jersey, and Miss Christina Howes of the National Shawmut Bank, Boston, Massachusetts, along with Mr. Gaugh, Deputy Comptroller, of the Treasury Department, Washington, D. C., for their assistance in the preparation of this thesis.
The first labor bank opened for business in May, 1920. Six years later, thirty-six institutions with total resources of more than $125,000,000 were in operation. In December, 1931, however, but seven remain as labor institutions with resources amounting to but $30,000,000.

The exaggerated enthusiasm of the early years has disappeared. The lessons of experience are still fresh. By an intensive analysis of past banks and present, the results of this economic experiment can be measured and evaluated.

The term labor bank has often been loosely used. In the following study only those institutions in which a majority of stock is owned by trade unions and their members are considered labor banks. This report includes many borderline institutions, as well as the various other financial enterprises of national, federated, and local trade union organizations. To secure greater clarity in exposition and criticism, however, this study is confined almost entirely to labor banks and to securities or holding companies affiliated with them. Credit unions, building and loan associations, or securities companies not related to labor banks in origin or operations have been omitted even though controlled by labor organizations.

As a part of the movement toward "labor capitalism," the development of labor banks is a counterpart of that of employee stock ownership.
CHAPTER ONE
THE BACKGROUND OF THE MOVEMENT

A. The Absence of European Precedents

Unlike most developments in American trade unionism, the labor banking movement in this country owes very little to European precedent. A late development, it took place when American labor had reached a situation very different from that of the organized workers of European countries. The fundamental causes of this divergence lie far back in the early years of the American trade union movement. With the accumulation of unlike influences in recent years, a situation existed at the close of the War which created and encouraged an indigenous movement offering far more points of contrast than of similarity with European institutions in the same field of enterprise.

Two types of cooperative financial institutions have existed abroad for many years. On the Continent, and especially in Germany, people's banks have existed since the middle of the last century. In England, the Banking Department of the Cooperative Wholesale Society has done an extensive business since it was created in 1872. To neither of these types of popular and cooperative institutions can the evolution of American labor banks be traced. Although frequently cited as precedents for labor banking by the early leaders of the American movement, there was little if any justification for such references to European ex-

1. Fay, C. R. Co-operation at Home and Abroad, Chap. 11.
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perience and success. Brief comparisons of the European types with labor banking will suffice to show the entire dissimilarity of the American model.

Two forms of people's banks developed in Germany during the last half of the nineteenth century, the Schulze-Delitzsch banks and the Raiffeisen banks. The former are located in cities and towns and serve independent farmers, small tradesmen, and craftsmen as a source of cooperative credit. The latter exists largely in agricultural villages serving peasant landowners in the same general way. The credit standing of these institutions is based upon the joint responsibility of many individuals of relatively small incomes, supplemented by reserves built up from earnings or paid-in capital. They are truly cooperative since income over cost of services is returned to borrowers in the long run either by lower rates of interest, or as dividends in the Schulze-Delitzsch banks. In the Raiffeisen model, however, the price of shares is almost nominal and no dividends are paid on them. The member-borrowers of these institutions are mostly individual small enterprises. Trade union organizations are not sponsors or shareholders in them. Commercial lending to nonmembers or small loans to casual, nonmember applicants play no part in these institutions. Their American counterparts are the building and loan association and, even more directly, the credit union. The latter, not the labor bank, is their true descendant in America.

The labor bank, compared to these German institutions, is almost entirely capitalistic. Even where trade union members rather than organizations have financed labor banks, investment in stock has been primarily for dividend returns and not for eligibility for borrowing privileges at unusually low rates. The labor banks seed the business of all comers and charges competitive rates. Only in the proposal that workers should become interested in banks serving workers can any heritage from the German models be traced, unless the incidental plan of cooperation for dividends to depositors is considered a connecting thread.

The Banking Department of the English Cooperative Wholesale Society is by no means a trade union nor a federation of unions and cannot be considered as comparable to either of the above banks. It serves organized and unorganized workers as individual consumers through affiliated retail cooperatives.

Before the War, the attitudes of American labor leaders proved a bulwark against consumer cooperation as well as against financial cooperative enterprises. Only after large treasuries had accumulated and the source of further funds had become large did the financial power of trade unions divert attention from collective bargaining as a means of advancing the interests of the movement. Probably no one cause was more instrumental in creating the labor banking movement than the accumulation of large funds by strong national unions.

While a few labor banks might have been founded solely in the interest of class cooperation, and several more because of the

1. Bergenren, Roy F. Cooperative Banking, Chap. 11 pp. 61-82.
null
ambitions of national officers. It was the open shop campaign of the
post-War days which served to arouse the rank and file of labor
to an interest in the possibilities of banking. Suspicion of the
tactics of bankers favoring the open shop was widespread and proved
a powerful factor in securing support for labor banks. For better
or for worse, the entrance of American labor into the field of
banking has not followed any European precedent in more than a most
superficial way.

B. The Evolution of the Idea: Within The
American Federation of Labor

Sporadic proposals for labor banking very early were rejected
by conservative leaders, as early as 1904 as a resolution toward the
establishment of cities in which banks should be located was re-
jected without debate on recommendation of the committee on
resolutions.

No other resolution proposing financial enterprises is re-
corded until 1913, when a proposal to investigate the advisability
of an insurance department in the Federation was adopted without
discussion. A year later there was discussion on the subject, and
labor banking received some attention when it was proposed that
the Executive Council prepare some plan of cooperation for the
establishment of a bank "for handling of all moneys of the various
national and international unions in the end that the workers
money may be used for no other cause except the furthering of the

1. American Federation of Labor, Report of Proceedings of the
Thirty-second Annual Convention, 1912, p. 197.
Thirty-third Annual Convention, 1913, pp. 251-2, 269.
conditions of the workers." For the first time before a Federation convention, a definite purpose for starting a labor bank was thus stated. The proposal was rejected by a vote of 75 to 31.

Four years later during the War, another delegate suggested labor banking as a means of safeguarding the use of labor's funds. Since Government bonds were used as a basis for the organization of national banks, it was proposed, the Federation should "urge every workman to buy Liberty Bonds, establish national banks under the present law and endeavor to secure the amendment of the present statute so as to make a national bank a more democratic institution." "Urging the purchase of Liberty Bonds was the only part of this resolution to survive."

It was not until after the first labor bank had come into existence that the subject was again considered by the Federation in convention. Interest had been shown in a Federation insurance department, but this was, by no means, as novel an enterprise as the initiation of a bank. No form for the discussion of its merits was provided by the conservative leaders, who realized the dangers of diverting the funds and energies of the movement into untried fields. It was outside the counsels of the Federation, therefore, that one must look for the most significant consideration of this new form of trade union enterprise.

C. Within The Brotherhood Of Locomotive Engineers

The Brotherhood of Locomotive Engineers was the pioneer as well as the active leader in promoting the labor banking movement. The wealth of the Brotherhood, coupled with the ambitions and independence of both its officers and its rank and file, encouraged it to proceed vigorously in a field left untouched by the more cautious leaders of the Federation. The War delayed the launching of their system, but the idea had been growing in the minds of the Brotherhood officers and members since 1912. Pleas were made at the conventions for such, but they were rejected.

During the next three years there was much interest shown especially by Stone and the grand chief of the Brotherhood. Due to his interest and the fact that the Brotherhood had a building for headquarters in Cleveland gave rise to a resolution to organize a bank. At the 1915 convention this resolution was referred to a committee which authorized the organization of a bank when conditions warranted. During the next four years, there was considerable done towards drawing up plans etc for a bank, but conditions were too unsettled during the War period and not until 1919 were Stone's interests were again directed toward the enterprise. The high cost of living had stimulated his interest in cooperative activities. Plans for an impressive headquarters bank became associated in his mind with those for advancing the cooperative movement.

1. Locomotive Engineers Journal, August, 1925, pp. 577.
2. Ibid.
D. Within The Amalgamated Clothing Workers

In 1920 Sidney Hill, President of the Amalgamated Clothing Workers, became interested in the movement. The report of the General Executive Board to the Amalgamated convention of May 1920, included a report of the union's delegates to the recent All-American Farmer-Labor Cooperative Congress. It was announced, also, that a movement was on foot in New York to organize a cooperative bank and that, along with Hillman, members of the organization had taken the initiative in this project. A credit union had been organized by the Clothing Cutters' Union in New York. As a further means of arousing interest in cooperative credit, Dr. W. F. McCaleb, who assisted in the formation of the New York credit union, addressed the convention and enthusiastically prophesied the growth of cooperative commercial banks.

After some debate and a stirring speech by Hillman the Amalgamated thus entered the labor banking movement. It was in Chicago that the actual plans for a bank first got under way, but in both New York and Chicago the unsettled conditions in the clothing industry following 1920 delayed the opening of banks for more than two years.

E. Within The Cooperative Movement

The idea of labor banking took but little root within the American cooperative movement in the years following the War. It was the atmosphere of limited and cautious interest in labor banking which two vigorous leaders Stone and Hillman, sought to change into one of approval and support. In 1920 at the convention Stone and Hillman presented their proposals for labor banks. The idea

3. Ibid, pp. 312-315.
made a marked impression and a committee on banking was appointed, consisting of Millman, Stone and Dr. F. C. Howe, who had carefully prepared a plan for a labor bank for presentation to the convention. It was the purpose of the committee to gather information on banking and aid in disseminating advice for those forming such institutions. It established its headquarters in Washington, with Howe actively in charge. With this background of influence, preliminary steps, and personnel, the labor bank got under way in 1930. Although the Engineers and the Clothing Workers were the unions most active in promoting the movement, the Machinists in Washington became the first to open a bank. Local circumstances were largely responsible for the Machinists' priority, and it was not until the Cleveland bank was opened in the fall of 1930 that the movement began to gain momentum.

Three names outside the labor movement appear frequently in the early history of the labor banking movement. Dr. F. W. McCaleb and Dr. F. C. Howe, both became interested in labor banking through their enthusiasm for cooperative credit. The former was an experienced banking man and especially interested in people's credit institutions. He became the first manager of the Cleveland Bank. Dr. Howe had long years of study behind him in social movements when he became interested in labor banking. He was a great propagandist for the need of the use of labor's funds in its own interests. Dr. E. D. Scudder, another proponent of labor banking had many years experience in banking. He came into contact with

1. The Farmer-Labor Co-operative Congress, Co-operation, March 1920, pp. 44-5. For Dr. Howe's plan see Co-operation, July 1920, pp. 204-5.
Stone while the Cleveland bank was being planned. Although invited to do so, he did not become active in this bank until 1923 when for a few months he succeeded McCleob as executive officer. On account of a disagreement with Stone, Scudder discontinued his connection with the Engineers, after serving three years as executive officer of the Engineers' bank. It was in his participation in the promotion of the Patterson and Newark labor banks that Scudder's contribution to the movement was most significant, although he was interested in banking enterprises in several other cities.
CHAPTER TWO

THE GROWTH OF THE BANKS

4. The First Labor Banks

On May 15, 1920, the Mount Vernon Savings Bank with capital of $160,000 and surplus of $40,000 opened in the Machinists Building in Washington. Although this was the first labor bank opened in this country, the circumstances of its establishment did not lend themselves to the public notice received by the Bank.

Cleveland bank which opened several months later.

The fact that the Mount Vernon Savings Bank was sponsored by national officers of the International Association of Machinists rather than by the organization itself also lessened the attention it received as a labor bank. Along with Johnston, president of the Commercial National Bank, and other friendly bankers and business men in Washington brought the bank into existence. The rank and file of the union outside of Washington were neither active nor concerned in the new enterprise. The bank was a local affair. It was not until 1923 after the publication of Bocchel's book on Labor's Money that the Mount Vernon Bank established itself in the public mind as the first labor bank.

The inauguration of the Brotherhood of Locomotive Engineers Co-operative National Bank in Cleveland gave the first real impetus to the labor banking movement. The bank was entirely a labor institution. In the midsummer of 1920, a circular announcing the prospec-

2. Locomotive Engineers Journal, August, 1925, pp. 577-8.
tive opening of the bank was sent to all members of forty nine per cent of the capital stock offered to themselves was oversubscribed by more than $300,000. The loyal and prosperous members—or at least some two thousand of them—had quickly grasped the opportunity to support the promising experiment. Within three months the bank was ready for opening. On October twenty fifth the rules of the bank were adopted. On November first the bank was formally opened. Capital of $651,000 had been paid in and the remainder was soon forthcoming.

The deposits received during the first day reached the modest sum of $50,917, but two months later $1,000,000 had been reached. A spectacular growth soon set in which can be best shown by the total deposits listed in the following statements:

<table>
<thead>
<tr>
<th>Date</th>
<th>Total Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 29, 1920</td>
<td>$1,009,230</td>
</tr>
<tr>
<td>June 30, 1921</td>
<td>4,754,604</td>
</tr>
<tr>
<td>December 31, 1921</td>
<td>7,833,504</td>
</tr>
<tr>
<td>June 30, 1922</td>
<td>11,633,267</td>
</tr>
<tr>
<td>December 29, 1922</td>
<td>15,480,657</td>
</tr>
<tr>
<td>June 30, 1923</td>
<td>19,537,898</td>
</tr>
<tr>
<td>December 31, 1923</td>
<td>21,453,324</td>
</tr>
<tr>
<td>June 30, 1924</td>
<td>26,016,688</td>
</tr>
</tbody>
</table>

The sources of these large deposits were but in small part the members of the Brotherhood. People of all classes, but more especially the small-salaried class in Cleveland, were interested in the new bank and supported it with their deposits.

2. Ibid.
3. Locomotive Journal, April, 1921, pp. 107-111.
its, also, poured in from railroad men throughout the country. The unique features of the bank set it apart from the run of old-line institutions.

The name of the bank, Brotherhood of Locomotive Engineers Co-operative National Bank, crystallized in the public mind the two features of the bank which attracted the most attention. The Brotherhood was thus forcefully identified with its offspring. In addition Co-operative struck a pleasing chord. The repeated announcement that this meant limitation of stockholders' dividends to ten per cent on capital stock, and profit sharing with savings depositors, proved to be one of the most effective advertising features discovered in recent years of banking. The payment of a profit sharing dividend in 1921 and thereafter through the first half of 1925 made good the promise and provided a repeated stimulus to new business.

The spectacular growth of the Engineers' bank was due in part to two dynamic but conflicting personalities. With Stone as president of the bank and Grand Chief of the Brotherhood, the respects recorded the successful leader brought support from the railroad labor group. Stone was a man of domineering temperament who demanded the unflinching support of his constituents. His success in trade union activities during the War created an atmosphere of optimism about the new financial venture to which he turned his energies. His lack of knowledge of banking was covered up in the onrush of new business.

1. Brown, J. D. Seven Years of Labor Banking, American Federationist, October, 1927, pp. 1178-81.
In contrast to Stone was McCaleb, the vice-president and executive officer of the bank. McCaleb was essentially a banking theorist and was partially responsible for the introduction of cooperative features in the bank policies. His banking experience had included activity in commercial banking in Texas and service as Assistant Federal Reserve Agent in the Dallas Federal Reserve Bank. More recently his theoretical and altruistic bent had caused him to enter upon a campaign for the extension of credit unions as a protection to working people.

McCaleb's interest in the Cleveland bank was that of an inventor demonstrating a new machine. His enthusiasm, energy, and singleness of purpose towards the goal of revolutionizing banking for the benefit of the working class suggested that emphasis of the end over against the means which marks the reformer. In the urge towards new banking, caution became secondary and the energy which otherwise might have been used in warding off difficulties was spent in sweeping over them.

As long as two such personalities were at one in advancing the cause of the new day in banking, the movement was bound to attract attention. Stone lent the prestige and support of a large, prosperous, and well disciplined organization, while McCaleb made this prestige and support effective in a new financial mechanism which attracted deposits at the rate of a million a month and turned out apparent profits almost immediately at a correspond-rate.

2. Ibid.
B. The Spread Of The Movement

The reaction on their part was that labor must remove its funds from open shop banks. The motives underlying the organization of the next Labor bank was primarily those brought into play by the open shop movement. In Tucson, Arizona, the local banks supported the local chamber of commerce in the movement and, according to reports, refused to finance contractors using trade union labor. As a defense measure, the central labor organization of the city along with local officers and members sponsored a labor bank. The next addition to the "Engineers'" group of banks came in April, 1922, when on McCaleb's advice the newly formed Brotherhood Holding Company purchased a seventy per cent interest in the stock of a bank in the Houghtonham district of Cleveland. Meanwhile in Philadelphia a most spectacular enterprise had been organized by the Central Labor Unions of that city in alliance with the financier Wharton Barker. It was the idea of the latter that a labor bank be established under a trust agreement rather than the usual state charter, with the advantage that such a bank could have almost unlimited powers and be exempt from state bank examination. It was reported while the new bank would be located in Philadelphia, branches would be established in many other cities.

In 1923 the influence of the success of the "Engineers'" Cleveland bank was making itself felt in many parts of the country. In San Bernardino, California, a group of railroad men under the leadership of a tower man, a local business man and a general

chairman of the Brotherhood of Locomotive Engineers on a railroad in the region set about to establish a new bank. Local opposition caused a hurried call to be sent to McCalab for help. He made a hurried trip to California and soon formed the promotion of the bank. The stock was sold to local unionists and other local labor groups.

C. The Amalgamated Banks

It was not until 1922 that the plans for a bank were completed. A few months after the opening of the Chicago bank, the officers of the Amalgamated turned their attentions to plans of a bank in New York. The success of the Cleveland and Chicago banks was considered sufficient to indicate that New York would be a promising field. The bank was incorporated in 1923. The same cooperative feature which appeared in the Chicago bank were introduced in New York.

D. The Engineers' System Expands

In August, 1923, the Brotherhood of Locomotive Engineers, largely through the Brotherhood Investment Company, a ten million dollar subsidiary corporation, became a heavy stockholder and sponsor of four newly formed banks. The first of this chain was the Federal Bank and Trust Company in Birmingham, which was initiated in 1922. The circumstances of the next addition to the Engineers' chain was unusual. The Engineers' of Three Forks, Montana had invested in the stock of a small bank in that place. A group of railroad men in the town, interested in the bank, re-

organized it under the name of Labor National Bank of Montana in 1923. Stock was sold through personal canvas. Serious losses later required the Brotherhood to take control of the bank.

The Minneapolis and Three Forks banks extended the chain far into the Northwest. Spokane were the next to inaugurate. The movement was spontaneous in emulation of the success in Cleveland. Application for a charter was prepared early in 1923 and in the succeeding months subscriptions for the capital of $300,000 were obtained through personal canvas.

I. The American Federation Of Labor Unions

With rapid extension of the Engineers' chain, and the establishment of the Amalgamated banks, the movement had obtained too much headway for the American Federation of Labor, to keep its constituent unions in the rule of critical observers. At the 1921 New York convention, two incidents took place which were of consequence in the movement of a labor bank. McCalieb of the Cleveland bank gave the delegates an enthusiastic talk on labor banks. The A. W. of L. went on record as favoring the socialization of credit. Peter J. Brady for the New York Printing Trades Council called for an appointment of a committee to study labor banking.

Not long after this resolution was passed, the first public step was taken towards the opening of a bank.

In November, 1922, two hundred representatives of the build-

2. Ibid
uring Trades Council held a conference and resolved to organize a labor bank. Brady led a committee and proceeded with the plans of organization. Largely through Brady's activity and wide activity in political circles and financial circles that the bank was opened May 19, 1923, under a state charter as the Federation Bank of New York, with limited dividends and co-operative features.

During 1923 and the first part of 1924, the labor banking movement gained impetus rapidly. At the close of 1923 ten banks were in existence. In 1923 eight more were added, and in 1924 the total reached twenty-five. The rapid growth of the Cleveland bank was being watched by unionists throughout the country. The seeds of emulation which had been sown by Stone and McCaleb in previous years were slowly germinating into plans for banks in which the Engineers had no financial interest. An illustration of the effectiveness of such emulation is the development of the Telegraphers' bank in 1923, in Cincinnati.2

F. Further Additions In The East And The Far West

Several more banks came into existence during the winter of 1924. In New York the International Ladies Garment Workers opened a bank on January 5, 1924. At about this time in Southern California a small group of promoters took it upon themselves to satisfy the local groups' demand for labor banks. The bank which had been opened in San Bernardino in May, 1922, was paying dividends before it had been operating a year. Cash dividends

1. New York State Federation of Labor, Convention Proceedings, 1921, pp. 12, 69.
of fifteen and one-half per cent and a stock dividend of fifteen per cent announced in 1923 were sufficient to stimulate interest in labor bank stock in other cities of the region.

Los Angeles Peoples National Bank, which opened two months later on April 16, 1924, followed a different method. Stock was sold on high pressure and commission basis. McCaleb helped start this bank and became its first president. Although two methods of initiation—that by the officers of a national union and that by outside promoters—predominated during this period of the labor bank movement, two exceptions took place. In Jackson, Michigan, a group of railroad workers met in a box car to lay plans for a labor bank. The leader of the group, Robert J. Menagey, had read concerning the rapid development of labor banking and fostered the idea of a labor bank for Jackson. Support was obtained from certain farmers who looked upon the existing banks as monopolistic. The title, Farmers and Workingmen's Savings Bank was chosen to indicate and encourage this support. On April 10, 1924, sufficient funds had been obtained to start business.

The other case of local spontaneous initiation at this time was that of the Labor National Bank of Great Falls, Montana. Railroad men again were the leading spirits, although the Central Trades Council of the city activity supported the venture.

2. Industrial Relations Department, Labor Banking, pp. 40-41. 1929. It is reported that the Engineers' Cleveland bank aided this bank by the deposit of a considerable sum at the time of its initiation.
C. The Engineers Continue Expansion

The first move in the expansion which became operative in 1923 was the most spectacular and yet the most profitable gesture ever made in the field of finance by a labor union. Early in that year the Engineers purchased a large block of stock in the Empire Trust Company of New York, a large Wall Street bank. The move was hailed on all sides as heralding a new day in the labor movement. Stone became a director in one of the outstanding financial institutions of the country.

A third enterprise, the New York Empire Company, was initiated the following year by the Brotherhood. This company the Wall Street wholesale agency for the securities bought for investment or resale by the Engineers banks throughout the country.

The next step was the inauguration of regional securities companies as intermediate holding and investment companies between Brotherhood banks and the Brotherhood Investment Company in Cleveland. During 1924 several companies were organized and among these were the New England Brotherhood of Locomotive Engineers Securities Corporation. The announced purpose was to fortify the local investing public more efficiently. It was the intention of the Brotherhood officials that each regional securities company would take over from the Brotherhood Investment Company, the controlling stock of any banks in its territory. This plan was carried out in large measure in connection with the inauguration of new banks in several cities and in the case of the Boston

bank which opened May 24, 1924.

On the Pacific Coast four new banks were opened during 1925, and a fifth bank was opened in San Francisco in 1926. These banks varied in capital from $25,000 to $50,000. The Seattle and the San Francisco, although the largest, were the slowest getting under way. The large number of banks and the relatively small number of railroad men in these communities retarded promotion.

II. The Growth Of Locally Sponsored Banks

A good example of the influence of geographical proximity is the organization of banks in Patterson, Newark, and Jersey City in the period of 1924 to 1926. The existence of four banks in New York City, four miles away, was most certainly an important factor in the initiation of these banks, although the groups primarily concerned varied markedly in character in the three states.

Three silk weavers were responsible for the Patterson bank, since it was their energy and perseverance that the apathy of most of the local trade unionists was overcome. For over a year previous to the opening in July, 1924, these three men spoke repeatedly before union members in an attempt to secure sufficient assurance of support before a bank was organized.

A Newark Labor Co-operative National Bank was sponsored by the officers of the New Jersey Federation of Labor, the county central organization and local unions. It opened July 27, 1925.

1. Locomotive Engineers Journal, November, 1924, p. 313.
4. Ibid.
The Labor National Bank of Jersey City, was the last labor bank to be organised in the East. By 1926 labor finance companies were in process of organization in several cities.

The sweep of the labor banking movement in 1925 did not confine itself to those parts of the country where banks existed, but extended into new fields. In Kansas City and Houston, Texas, banks were opened in 1925. During the course of the movement a number of unions were led to start banks, because of the sufficient funds available in their treasury for the purpose. To varying degrees this factor had influenced the Machinists, the Engineers, Telegraphers and Garment Workers toward their goal. Near the close of the movement two more unions entered the business with full treasuries as almost the sole reason for the step. They were the Flint Glass Workers and the Pressmen.

The Flint Glass Workers deliberated a long time before establishing a bank. As early as 1922, a proposal was made for a bank, but not until 1925 did they actually open for business in Toledo, with a capital of $250,000.

The last national trade union to invest in a bank was the International Printing Pressmen's and Assistants' union. Under the leadership of Major George L. Berry, president of the Union, and stockholder in The Hawkins County Bank, Tennessee, the Union purchased the control of The Hawkins County Bank and carried on without change of name in 1926.

Many more banks perhaps would have been organised if it had

not been for advice of Brady of the Federation Bank of New York, cautioning labor groups to go slowly in supporting further promotions.
CHAPTER THREE

The Purposes of Organization

The rank and file are likely to accept as motives in supporting the movement those emphasized by the officers of their union. The main motives or purposes for which labor banks were organized may be reduced without too much danger of over-generalization, to five classes: business, protective, aggressive, cooperative, and psychological. These types of purposes merged into each other in the initiation of almost every labor bank.

A. The Purpose of Business Profits

Two types of business purposes are distinct in the initiation of labor banks. The profitable investment of trade union funds on the one hand and the promoters' profits on the other, although both motives, were generally not coexistent. It was the prosperous condition of the union treasuries, coupled with the prosperity of capitalistic banks, that suggested investment in bank stocks to many trade union officers in the years following 1819. In addition to the prosperous dividends from labor banks, the need for investment advice influenced some trade union officers in favoring labor banks. It was felt that a banker employed by the Union's own institution would be more interested in discovering profitable investment for union funds. The advantages of having a bank as a tenant in the headquarters building influenced several organizations in starting their own organizations. The bank and the building became the union's twin projects in the field of labor finance.
Examples of instances of bank promotions by trade unions where business motives were important are fairly numerous. The Machinists were already stockholders in the Commercial National Bank in Washington when they decided to open a bank of their own as a further investment in banking and as a tenant in their new building. The Engineers, also, were much influenced by prospective dividends and other investments in starting. Other examples are those of the Clerks', Telegraphers', Flint Glass Workers', Ladies' Garment Workers', and Pressmen's banks. Profits and commissions on the sale of the stock of labor bank holding and securities companies brought several banks into existence, either directly or indirectly. The apparent success of the Engineers' extensive scheme led to many imitations. In 1924 and thereafter the Engineers themselves had so many outsiders in their employ and so many persons within the Brotherhood whose trade union interests had become overshadowed by financial interests that one can well say that salaries and commissions kept the system expanding more than did such motives as earnings for the Brotherhood or advancement of the labor movement. This is evident from the fact that the Atlantic Securities Company in Atlantic City, went into receivership in 1928.

II. The Purpose Of Protecting The Labor Movement

The depression of 1921 put labor on the defensive throughout practically all industries in the United States. The open shop drive swept the country. The sympathies of the bankers were with the employers for many reasons. It was to employers
that commercial banks looked for large deposits as well as for
profitable extensions for credit. As a result of this attitude,
complaints and accusations of the interference of banks in labor
disputes began to be heard in many cities. In some cases, employ-
ers dealing with organized labor found themselves under pressure
from their banks to reduce wages below the union scale. Although
these incidents of aggressive action were more spectacular and
received wide attention in trade union circles, the fact that
workers' savings found their way into the hands of open shop
employers in the usual course of commercial and savings bank
operation was a more lasting cause of chagrin to labor leaders.

C. The Purpose Of Advancing The Labor Movement

Stone, Brady, Manion and others in the movement claimed
labor was neglecting its most powerful weapon if it did not con-
centrate in the control of labor's investment power to labor's
advantage. The labor bank and the investment company were con-
sidered the agency through which control could be exercised.
The increasing influence of "Wall Street" in the management of
large corporations was feared not only by the more radical
group, but by the more conservative craft union group who faced
company union competition.

D. The Purpose Of Cooperative Service To Workers

The early proponents of labor banking were interested in
the extension of cooperation as an instrument whereby

2. Brown, Douglas, Seven Years Of Labor Banking, American
   Federationist, October, 1927, v. 34, pp.1176-1181.
labor could improve its position. Stone was keenly interested in the development of cooperative retail stores as a means of combating the high cost of living. The proponents of coopera-
tion saw in the labor bank a possible auxiliary. Past failures and the unsympathetic attitude of many bankers had increased the difficulties in securing bank credits for cooperative stores. The affiliation would be mutually advantageous and would make both more independent of capitalistic interference. Union official-
s saw the opportunity in labor banking in giving the union a more important place in the worker's life. Small loans would aid the worker and keep the bank before the worker as an agency of the labor movement.

E. Psychological Factors In Labor Bank Promotion

Imitation, ambition, and pride in craft and organization appear to be stimuli in some cases second to none of the other motives already discussed. In the other instances, business, protective, or cooperative motives were fundamental, but union loyalty on the part of the rank and file and the personal am-
bition of the officers caused conviction to become action.

The style in trade union activity became the initiation of a labor bank or investment company and in some instances where leadership was not of the highest order, style rather than careful consideration of needs and purposes led to futile attempts to promote a labor bank.

1. International Ladies Garment Workers' Union, Files of Justice 1928, pp. 72-32-37.
2. Beneficial Activities Of American Trade-Unions, U. S. Depart-
CHAPTER FOUR

CIRCUMSTANCES AND METHODS OF ORGANIZATION

National and Local Unions, State Federations, City Centrals, and groups of trade union members acting as individuals, sometimes without outside assistance, and sometimes dominated by promoters, were responsible in ever changing combination for the organization of labor banks. In slightly more than half of the labor banks organized from 1920 to 1926, a Nation Union was the chief supporter if not the sole sponsor for the bank. Then there was the type of initiation in which promoters acting in their own interest started the bank.

The methods followed in organizing labor banks varied widely. In the simplest type of promotion, that by a nation union, the task fell upon the officers of the union. Some unions had on its staff an economist who would investigate into the business of banking. The Engineers not only sent a committee to New York to investigate, but obtained the services of McCaleb and Howe to aid them in organizing. Publicity was easily obtained through the union journals of circulation of its members.

Many times existing banks were purchased which were not in the best of financial condition. This simplified matters in many instances and the banks were taken over at great bargains. Twenty-one labor banks were incorporated under state laws and sixteen under national laws at the time of their organization or transfer to labor control. The minimum capital required for

national banks according to the size of the city made several
banks ineligible for national charter. Expectation as to the
rigidity of examination and regulation influenced them as to
method of incorporation. One bank changed to a national charter
after a year of operation in order to eliminate interference
on the part of the state authorities.

The methods employed for the sale of stock were many.
Committees or individuals attended union meetings, buttonholed
men at work, canvassed homes, or developed local interest
through the labor press. Business agents or system chairmen
with more free time and wider contacts, aided them in many cases.
Success varied with the enthusiasm of the leaders and the group con-
sciousness of the rank and file.

In at least five cities, labor bank stock was sold by
salesmen on commission basis. This was more often done where out-
side promoters were responsible for the initiation of the bank.
Then there was the liberal commission plan of getting rid of stock,
1
exceeding in some cases ten per cent.

1. Hillman, Sidney, The Labor Banking Movement in the U. S.
(Academy of Political Science. April, 1926, pp. 476-7.)
CHAPTER FIVE

CHARACTERISTICS OF LABOR BANKS

A. Trade Union Control

There are certain unique features which differentiate labor banks from other banks and give them social significance. They represent in part at least, an attempt to remodel the present financial system and as such indicate the direction in which labor or those sections of labor which are interested in banks, feel that improvement should be made. First of all, labor banks are controlled by trade unions or their members. There are variations in both the circumstances and degrees of control, but a distinguishing feature is that such control exists. Both national and local trade union organizations, alone or in a wide variety of combinations, in one or in many industries, have established labor banks. Twenty-two labor banks have been controlled by national unions. In some of the cases the control has been exclusive, since the union and its members have owned all of the stock of the bank. The more usual situation, however, has been for the controlling union to sell the minority stock to the general public and to control the bank through ownership of a majority of the shares.

About one-third of the total number of labor banks have been controlled by trade union groups, including state, county, city, or local organizations and their members, rather than by

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1. Industrial Relations Department, University of Princeton,
The Labor Banking Movement In The United States, pp. 82-96.
a single national union. The outstanding bank of this type is the Federation Bank and Trust Company in New York, the stock of which is owned by about forty-two national unions; 112 state organizations, central bodies and local unions; and about 1,100 individuals of whom 800 are trade union members.

Trade union groups have guarded the sale of their stock, too, in order to maintain control of their banks. They have limited ownership of the stock to union members.

B. Cooperative Features

The cooperative features have attracted wide attention, so much so that it is sometimes assumed that labor banks are always cooperative banks. Limitation on the size of individual holdings approaches somewhat the cooperative ideal of an even distribution of voting power. Many banks have limited the number of shares to be owned by any one person or organization.

C. Limitation of Stockholders' Dividends

More important than the limitation of the number of shares one may hold, is the limitation of dividends. This policy and the closely allied policies of restricting the market and price for stock and paying dividends to depositors are the features of labor banking which most nearly approach cooperative banking. Such limitation on dividends is usually contained in the by-laws. The maximum is ten per cent. It is based on the par value of the stock. Five banks have paid dividends of eight per cent or more for a long period of time up to the year 1929.

1. One of Labor's Greatest Hopes, Labor Age, May, 1926, v.15, p. 76-79
3. Wolman, L. Labor Banking After Ten Years, Republic, August '29, p. 10
D. Payment Of Dividends To Savings Depositors

The policy of paying dividends to depositors in the savings bank in addition to their regular interest is in accordance with the cooperative doctrine that the customers of any business should share in its profits.

Since 1925 and 1926, the trend in labor bank opinion and practice has been away from cooperative principles. This is evident from the number of banks which since that time have revised their policies in this respect. A few have definitely eliminated profit sharing provisions from their by-laws.

II. Methods Of Securing Deposits.

Deposits are drawn from the union members, and the public, giving the banks two fields from which to draw. Labor banks frequently offer higher rates of interest than usual. Others while keeping to the usual rate, have computed savings interest on a basis unusually favorable to depositors. For example, some pay interest from the date of deposit to that of withdrawal, whereas generally deposits after the first of the month do not draw interest until the first of the next month. Some compound interest quarterly instead of semiannually. Most of the labor banks remain open longer hours than other banks. The most extreme case was that of the Consumers Bank of Philadelphia which was open from 9 a.m. to 10 p.m. daily. Then there was the arrangements for collecting deposits at the various shops and the depositing by mail too. The

1. Bloomfield's Labor Digest, February 27, 1933, p. 3396.
Engineers' National Bank of Cleveland has approximately $3,000,000 in mail deposits mostly from railroad men. About thirty-three percent of the deposits of the Telegraphers National Bank of St. Louis were by mail in 1917. The labor banks also had an insurance plan in connection with the savings deposits which encouraged deposits. The usual arrangement was for the depositors to make regular payments toward the accumulation of a given sum, the payments varying according to the sum chosen. The bank meanwhile places insurance on the life of the depositor so that if he should die, his heirs would receive the full amount of his proposed savings. The Chicago Amalgamated Trust and Savings Bank used a $5,000 health and accident policy, instead of life insurance.

Other features of the labor bank included small loans for emergency to working men having neither real estate nor securities to offer for collateral. The foreign remittance service was another feature. Perhaps this was the most outstanding of the unusual service provided by the labor banks. It was developed by the Amalgamated banks, and, to a lesser extent, by the International Union Bank of New York. At the time these banks were established there was no way in which money could be sent to Russia, due to the unsettled conditions of the country and its rapidly depreciating currency. There was no certainty that remittances would ever be delivered and, since payments were made in rubles, there was no assurance that any value would remain if they were delivered.

This was distressful to the workers in New York and Chicago who had relatives in Russia suffering and to whom they were unable to send relief. The Amalgamated banks in Chicago and New York were the first in this country to develop facilities for Russian remittances. The union, some time previously, had established the Russian American Industrial Corporation to encourage the investment of American capital in Russia. Through this corporation, arrangements were made with the Russian Commercial and Industrial Bank of Moscow, known as the Prombank, by which the Amalgamated banks could guarantee the payment in dollars of money orders sent to Russia. The Foreign Exchange Department of the bank soon developed similar service to other foreign countries. The need for this was evident in the immediate use to which it was put. From April 14, 1923, to December 31, 1925, the Amalgamated Bank of New York alone sent 333,000 orders to foreign countries amounting to $12,176,393. By 1929, the total amount remitted by the two banks since the beginning of the service was $23,765,094 and the number of separate remittances during the period was $661,701.

2. Ibid.
CHAPTER SIX

POLICIES AND PROBLEMS

The problem and personnel is peculiarly important in all banks, but in labor banks it has proven to be most serious and significant. Labor banks have lacked experience in banking practice as well as concerning bankers. The selection of officers has been made under a handicap which has been of more consequence because of the dependence of labor bank directors upon the one or two experienced bankers they have employed. In fact the selection of the whole personnel of labor banks from president to floor man involve policies and problems not usual in the administration of old-line banks.

In most labor banks the executive officer in charge of the day to day operation has been the cashier. He has had the joint title of vice-president and cashier. In less than a third of the banks has the president been in direct and constant charge of the bank's business. In some instances a president with little or no banking experience has attempted to force his policies upon the experienced vice-president or cashier selected to take care of the business of the bank. In about one half of the banks faulty selections of personnel has caused much inefficiency and discouragement throughout the system. There have been many appointments and selections based upon politics within the unions and their organization. Labor officials instead of trained bankers

1. Lessons of Experience, Saturday Evening Post, April 26, 1930, p. 28.
have received many positions much to the disgust of depositors and others with the labor banks.

Commercial deposits have been less a feature of the labor bank for several reasons. Larger and older enterprises, especially those not dealing with organized labor, have not been prone to do business with a new class bank. The loan limits are not sufficient to satisfy the needs of larger concerns. Many labor banks have developed a sound and profitable commercial business of some proportions. Where experienced bankers have been employed throughout the bank's existence, this type of business has approached in character that of other banks.

B. Investments

In the early days of labor banks, the opinion was repeatedly expressed that labor banks should and would place their funds predominantly in securities rather than in commercial or individual loans. Writers who have looked to the Engineers' banks for experience have found what seemed to be proof that this policy has been followed. Taking the labor bank group as a whole, however, the supposition is becoming less true as time goes on. At the end of 1926 the total loans for all labor banks constituted fifty-five percent of that for loans and investments. By the end of 1928, the amount of loans had risen slightly to approximately fifty-seven percent of the total, and with the discontinuance of several Pacific Coast banks since that time the proportion of

2. Ibid.
loans to investments in continuing banks has been considerably increased.

C. Capitalization

The authorized capitalization of the labor banks has varied from $50,000 to $1,100,000. There has been a shifting upward in the capital and surplus of continuing banks as a group. Eleven banks have increased their authorized capital while one has shown a decrease. Change in subscribed surplus have varied widely from an increase of five hundred thousand in the case of the New York Federation Bank to an entire elimination of the surplus of certain discontinued banks.

The turnover rate of labor banks according to capitalization shows a marked survival of banks of medium sizes:

<table>
<thead>
<tr>
<th>Capital and Surplus at Initiation</th>
<th>Number Initiated</th>
<th>Number Continuing</th>
<th>Per Cent Continuing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $20,000</td>
<td>14</td>
<td>6</td>
<td>43</td>
</tr>
<tr>
<td>$200,000-$400,000</td>
<td>15</td>
<td>13</td>
<td>93</td>
</tr>
<tr>
<td>$50,000 and over</td>
<td>2</td>
<td>4</td>
<td>44</td>
</tr>
</tbody>
</table>

The upward shift in capital and surplus of continuing banks has offset the higher rate of termination of banks originally capitalized at larger amounts. Three of the five larger banks which have ceased to labor banks were Engineers' banks established in larger cities at a time when the Brotherhood system was booming. Among the smaller banks discontinued were several whose limited capital proved an additional handicap in survival. Thus

2. Ibid.
3. Ibid.
it has been shown that the labor bank of medium capitalization, usually from two hundred to three hundred and fifty thousand at initiation, in cities of fifty thousand population and over, has generally been well adapted to take a permanent place for itself as a labor institution. With success, capitalization has been easily increased.

D. Dividends

Most labor banks have suffered the temptation to pay dividends before surplus, undivided profits, and reserves for contingent losses warranted. Both the demand of labor stockholders for returns on their investment and the desire of the bank's directors or management to make a good showing have encouraged such a policy. Three of the first labor banks paid dividends within the first two years. The Brotherhood bank in Cleveland paid a six percent dividend at the close of the first year and a year later went on a ten percent basis. This example augmented the pressure on other labor banks to pay early dividends.

The ignorance of many labor directors and stockholders of their responsibilities and expectations underlies much of the pressure for dividends. In order to sell stock many sponsors and promoters even encouraged the belief that early dividends would be paid. The result was that labor directors urged the payment of dividends upon the active bank managers. The latter were unable to resist the pressure. Strong directors could have resisted the demand, but the position of the executive officers was not always secure.

enough to do so. The desire of enthusiastic promoters to show early prosperity needs little explanation. But there remained thirteen labor banks at one time in existence which never paid dividends. Some had compelling reasons for not doing so, and which led to their termination as labor banks. About a quarter of the labor banks have shown an entirely satisfactory dividend record throughout their existence.
CHAPTER SEVEN
THE SUCCESS OF THE MOVEMENT
(BANKING STANDPOINT)

In a movement consisting of two score or more enterprises and carried on by far larger numbers of men and organisations, the degree of success attained by the movement is difficult to determine from the blurred lines of the composite picture. But in an estimation of its success from the banking standpoint, especially, statistics are of value. The growth and decline of the more significant items appearing on bank statements of condition and the records of dividends paid relative to investment, are fair indices of the success of the movement in monetary terms.

The number of the labor banks grew slowly during the business depression of 1921. From 1922 on, however, momentum was gained which was retained in the main until a maximum of thirty-six labor banks was reached at the end of 1925. Although it was December, 1926, before the last labor bank was added, termination took place in 1925 and 1926. Terminations began to exceed initiations in the latter part of 1926, and a downward trend less sharp than the preceding rise became evident. In 1929 the number of banks was again that existing in early 1924, twenty-five. By June, 1930 there were but fourteen and by the next year, 1931, only eleven were in existence. The decline continued, and along with the great depression we are going through, the number of banks still under labor control was reduced to seven as of December 31, 1931.

While the rise and fall in the number of labor banks is correlated to that in the extent of the Engineers' participation in the movement, the change in trend can be explained but partially by that fact. Eleven out of those terminating were due to causes not related, immediately at least, to the situation existing in the Engineers' system.

Turning to the dividends records of labor banks, the percentage returns were high in the early years on account of the quick returns made by the Engineers' Cleveland bank. By 1904, however, many new non-paying banks brought down the rate. Only in 1923, after every bank had been in existence at least two years, and one half the banks were on a dividend paying basis, did the return again exceed three percent. The losses and the increments, however, cannot be definitely measured, so that all that can be said is that a consolidated profit and loss account for all labor banks would show but a poorer return on investment. A somewhat better return would be shown if only those banks which have continued are included in the computation of returns on investment.

1. Industrial Relations Department, Statistics on Labor Banks, 1929, pp. 254-256.
## Dividends Paid by Banks

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Banks in Existence</th>
<th>No. of Banks Paying Dividends</th>
<th>Dividend Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1922</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>1923</td>
<td>14</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>1924</td>
<td>35</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>1925</td>
<td>30</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>1926</td>
<td>33</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>1927</td>
<td>33</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>1928</td>
<td>28</td>
<td>14</td>
<td></td>
</tr>
</tbody>
</table>

1. "Number of banks in existence" for any year includes those in existence on June 30 of that year. Dividends paid on January of any year included with those of the year previous. Stock dividends not included. (Unable to secure figures to date since 1928.)
B. Banks Continuing Under Labor Control

The number of banks now under labor control equal the same number which existed in 1934, seven. The Engineers' Bank, which opened in 1930, in Cleveland, failed, so fell out of the labor class. All of the so-called U.S. labor banks which had large resources or deposits in 1929-1937 have fallen by the way-side with the exception of the New York and patented bank which is still gain. Among with resources of $7,500,000, thereby leaving the remaining labor banks. The elements of class cooperation and class consciousness which made labor banks a unique movement in its early days have largely disappeared. The New York bank, noted bank has continued to be a unit in the process of a labor union acting in its own capacity. Banking policies, while influenced by the bank's subordination to the union, have been cautious and yet progressive.

Among the other leaders in the small list of labor banks has been the 'Artisans' bank in St. Louis. This bank grew steadily from 1923 to 1927, but from then on its resources have remained at about the present figure, $6,000,000. It has followed a straight course of a successful and conservative savings bank with policies little influenced by its labor connections.

An idea of the condition of the remaining seven labor banks may be had by referring to the summary on the next page.

1. Industrial Relations Department, Princeton University, December 21, 1931, and March 22, 1932.
2. Ibid.
3. Ibid.
<table>
<thead>
<tr>
<th>Bank Location</th>
<th>Bank Name</th>
<th>Surplus &amp; Profit</th>
<th>Capital</th>
<th>Undivided Deposits</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chicago, Ill.</td>
<td>Landmark Trust &amp; Savings Bank</td>
<td>$200,000</td>
<td>$151,277</td>
<td>$2,290,503</td>
<td>$2,731,344</td>
</tr>
<tr>
<td>Indiana, Ind.</td>
<td>United Labor Bank &amp; Trust Co.</td>
<td>112,500</td>
<td>22,500</td>
<td>232,950</td>
<td>467,950</td>
</tr>
<tr>
<td>New Jersey, N. J.</td>
<td>Union National Bank</td>
<td>375,000</td>
<td>219,433</td>
<td>2,953,106</td>
<td>3,677,302</td>
</tr>
<tr>
<td>New York, N. Y.</td>
<td>Immigrated Bank of N. Y.</td>
<td>650,000</td>
<td>22,517</td>
<td>6,233,961</td>
<td>7,092,854</td>
</tr>
<tr>
<td>Pennsylvania, N. J.</td>
<td>Labor National Bank</td>
<td>300,000</td>
<td>154,613</td>
<td>4,830,533</td>
<td>5,892,350</td>
</tr>
<tr>
<td>St. Louis, Mo.</td>
<td>Telephoneers' National Bank</td>
<td>500,000</td>
<td>207,249</td>
<td>5,152,212</td>
<td>6,109,461</td>
</tr>
<tr>
<td>Washington, D. C.</td>
<td>Mt. Vernon Savings Bank</td>
<td>400,000</td>
<td>180,000</td>
<td>3,752,794</td>
<td>4,513,032</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td></td>
<td>2,537,500</td>
<td>927,433</td>
<td>25,929,972</td>
<td>30,684,593</td>
</tr>
</tbody>
</table>
C. Banks Discontinued On Account Of Failure.

The Producers and Consumers Bank in Philadelphia is the most serious instance of such termination. It long outlived its usefulness, even as an experiment, because of the clever but dangerous device of exemption from state examination. On May 2, 1926, the day on which a bill revoking its exemption from examination was signed by the state governor, its officers asked for a receivership. There are few phases of unsound banking which were not exemplified in this ill-fated bank.

Ignorance, inefficiency, dishonesty, poor judgment, and favoritism are among the factors reported as causes for its failure. The failure of the Pittsburgh bank in 1926, was due to equally complex reasons. Self interest, trade union politics and jealousies prevented wide labor support. In 1923 the Tucson United Bank and Trust Company terminated. It was handicapped from the start by incompetent management. It was difficult to obtain experienced officers because of the fact the bank was looked on locally as an experiment only.

Failure to register mortgages, loans to questionable people on jewelry, watches and real estate indicate the loose standards of banking which existed.

The fourth bank which falls into the group of those terminating their careers as labor institutions is the Los Angeles Peoples National Bank. This bank was promoted by a small group among whom excessive enthusiasm for labor banking combined with a speculative fever for profits and influence. In 1928 an assessment of $26.54 a share was

1. The Co-operative League of America, May 12, 1926; also Survive Talks (published by the Philadelphia Rapid Transit Company) January 21, February 4, November 25, 1926.
3. Pittsburg Post-Gazette, October 9, 1926.
levied on its stock and later in that year the capital of the bank was reduced from $500,000 to $350,000 without reimbursement. The labor group failed to pay the assessment and a syndicate of non-labor interests took over the stock and reorganized the bank. Just as in the case of other banks discussed, the seeds of disaster were sown early in this bank’s existence. Losses on loans, small and large, excessive salary expense, inefficiency, ignorance, self-interest of some and indifference of others, combined to bring about a condition which necessitated radical reorganization and refinancing and the termination of seventeen labor banks by 1939. Ten labor banks were sold to outside interests. The conclusions to be drawn concerning the failures of banking policy which brought about the sale of the ten banks prospered under labor control. There is much reason to believe that the degree of success attained varied inversely to the extent labor directors and officers filled positions which should have been occupied by business men and trained bankers. Inability to secure business, frozen loans to friendly interests, and general instability, in different combination, were the most apparent handicaps which these banks acquired through the influence of labor groups or organizations upon their financial policies. The disastrous circumstances which surrounded the operations of two labor banks which never opened could be added. In Harrisburg, Penn., and Atlantic City, N. J., many trade unionists lost heavily through the mismanagement or untrustworthiness of men active in establishing labor banks. In Atlanta, Georgia, another institution on the fringes of the labor banking movement, ended in receivership. These and other

border-line enterprises must be given some weight in the estimation of the success of the labor banking movement from the banking point of view and in judging the movement must be set over against the successful banks earlier described.

CHAPTER XVII
THE SUCCESS OF THE MOVEMENT
(LABOR STANDPOINT)

A. The Attainment of Purposes

1. Business returns

If all the financial profits and losses accruing to labor organizations and their members could be computed and a net figure stated, probably little, if any, net return could be shown. The losses of the engineers' banks and holding companies alone would go far to offset the profits of the dozen or more banks which have earned some dividends. Even disregarding the losses due to failures, impairments, and assessments in various banks, the many years during which some banks have paid no dividends bring down the average yield from all to a rate much less than could have been secured on a savings account.

In the case of banks which have paid dividends with any degree of regularity, stockholders' returns on paid-in investment, averaged with the increase in book value of stock, have in four or five institutions exceeded that easily obtainable on high-grade bonds, real estate mortgages, or similar safe investments. While it may be argued that motives other than financial return justify trade union investment in bank stock, there have been less than a dozen banks which have been sufficiently successful to warrant any such argument. The risks and obligations involved in investing in banks, and the nonliquid character of bank stock in many instances, offset any indirect advantages secured to the trade union from a mediocre institution.

Some advantage has accrued to certain national unions through
the financial advice obtained from the officers of the headquarters bank. Only where highly capable bank officers have been secured, however, has this advice been any better than that available at any high grade institution which the union might use.

3. The protection of Labor's interests

The extent to which labor has protected the trade union movement from the assaults of open shop bankers is not easy to determine on account of the threat involved in the mere existence of a labor bank in a community. But the relative size of most labor banks compared to the other banking institutions in the same community limits greatly the effectiveness of this threat. The decreasing number of labor banks and the few cities in which they have existed makes their influence all the more restricted. The wide publicity given the movement in early years, however, afforded it power far in excess of its size in suggesting to old-line bankers the possibilities of counter-attack should open tactics be used against organized labor. The open shop movement of the post-war years will probably not be repeated soon. More subtle methods of opposing trade union organization have been evolved.

Altogether the labor banking movement has done as much to expose "Labor" to the assaults of "Capital" as to protect it. Rather than protecting the labor movement against anti-union aggressions, the enterprises in the various cities have exposed it to the charge of mismanagement and irresponsibility. This without doubt, has reacted on both growth in membership and employer recognition. It has furnished

1. Paper Makers' Journal, March, 1928, pp. 8-9, 150
2. International Association of Sheet Metal Workers Convention Proceedings, 1928, p. 20
ammunition for the attacks, not only to the opponents of labor organiza-
tion but to the radical groups of this and other countries. The Ameri-
can labor movement has probably been injured far more through the vari-
ous failures in labor banking than through all the machinations of
anti-union bankers.

3. The advancement of labor's interests

Labor banking was aimed to advance the cause of labor as well as
to protect it. By means of loans to fair employers or investments in
their securities, union recognition and collective bargaining were to
be promoted. The occasions upon which this has taken place in
the many years of labor banking have been almost negligible. The New
York syndicated bank alone has more than an instance or two to
record. Even in the latter institution opportunities have been very
few. If the success of labor banking is to be judged by its accomplish-
ments in this respect, there must be serious doubt as to whether it
has not been a flash in the pan. The bad loans made by one large un-
successful bank, if saved to labor, would have done far more to ad-
vance the movement.

The urgent need for safe and profitable investment of funds
seen eliminated the hope that labor banks could loan their funds in a
way to advance union recognition. No matter how much labor officials
have tried to convince themselves and their constituents that this is
possible, the experienced bankers they have employed realize the impos-
sibility of more than a rare instance of such strategic lending. In
general, the records of such loans, where actually made, have little
to commend them to the reasonable banker. Experienced and credal labor
officials have accepted the fact that this purpose of labor banking
was good publicity rather than wise policy.

4. The promotion of cooperation

It is in advancing the cooperative movement that some can be said for labor banking as an adjunct of the labor movement. Even here few banks have made any contribution. The Amalgamated banks, especially have aided that class-conscious, mutual helpfulness which might serve more than any other influence to make the American labor movement comparable to that in Great Britain. Over against the efforts of a few banks must be set the distrust and discouragement brought about by the failures of some trade union ventures. Those banks which have forsworn direct interest in class cooperation have done so wisely in most instances, where the initiative in banking was confined to a small number of individuals, the promotion of the bank as an adjunct of the labor movement could well have been avoided. Once the enterprise was started, however, cooperative methods, if dangerous, were well discontinued. Such discontinuance, although aimed to safeguard the bank, largely eliminated any contribution to the labor movement through the development of cooperative endeavors.

5. To accomplish

Pretext for the labor movement has been advanced by some participants as a contribution of labor banking. These banks have been entirely successful, this may be true. But in those successful banks which have divorced themselves from the labor movement as a cooperative or class-conscious force, the pretext which has accrued has been largely confined to that accorded to the labor representatives who as

1. Brown, J. L. 7 Years of Labor Banking, American Federationist October 1927, p. 1172-81.
individuals have successfully turned their hands to banking. On the other hand, the publicity given the named success of a few banks can not offset the disclosures of inefficiency and failure which have taken place. Taking the movement as a whole, the best that can be said is that these few successful banks have served valiantly to prevent too accepting statements as to the abilities shown by American Labor leaders in financial matters. The organizations outside the American Federation of Labor have provided extremes of success and failure in the movement. Within the Federation itself there has been a wide range, from the New York bank to that in Pittsburgh. But taken as a whole there is little reason to think Labor banking for advancing the prestige of the Federation or its constituent unions.

B. Labor Banking and Union Politics

Within any popular movement politics are present. Within the trade union movement, politics are not only necessarily present but is one of the most active forces. The tactics of the ambitious leader need no explanation. The fundamental principle of conflict which has existed in the labor movement has sharpened the technique of political strategy and has developed master in its use. Unfortunately, instead of becoming a neutral ground, in many instances the bank became the bulwark or the weapon of those union leaders who were in power. To Stone and his colleagues, the Engineers' financial system afforded many pawns in the game of Brotherhood politics. Offices, loans, and commissions were arranged with an eye to advancing the party in power. Quarrels and bickerings arose and peace offerings became necessary. The Los Angeles bank was riddled with political bickerings; the Pittsburgh bank was blighted from the first, and there have been few instances where the
same did not have effect.

Two groups of banks have been able to withstand, at least in large part, the disrupting influence of politics. The first includes those banks sponsored by strong national unions whose officers were highly respected or firmly entrenched because of their ability, that political strategy has been less active in the union and more quiescent in the bank. The second group includes those sponsored by many local unions or labor groups whose either the large number of unions interested or the relative unimportance of the bank has kept it on the sidelines in any union fight. Even in these cases however, the bank has been peculiarly susceptible to the slander of the "outs" and the successful labor bank officer has been looked upon with jealous eyes by the minority groups in union or city federation politics.

Union politics have been instrumental in introducing in some banks the same efficiency which it has brought about in the sponsoring unions. Emphasis on personalities rather than results, unthinking loyalty to domineering leaders, time and energies wasted in useless talk, and unwillingness to take responsibility for thorough performance of hard work frequently color the picture of the mediocre or unsuccessful labor bank. If labor banks could be entirely divorced from unions in which such inefficiency exists, experienced bankers could establish their own standards of workmanship. As long as trade union control continues, however, unless the unions concerned improve their own methods of operation, the political interests of union officials will allow the deadening effect of inefficiency to be evident in the affiliated bank.

C. The Diversion Of Interest And Funds

Little need be said concerning the extent to which the Brotherhood of Locomotive Engineers has suffered as a trade union through the diversion of funds and the efforts of Brotherhood officers into banking ventures. Insurance and pension reserves have been diverted into losing ventures or frozen securities. The 1927 convention loan, which was long contracted on account of financial problems, cost the Brotherhood hundreds of thousands of dollars.

The diversion of time and energies of officers into labor
banking has taken place to some degree wherever a union, national
or local, has become interested in a labor bank. These banks have been
successful this diversion proved worthwhile to the extent their suc-
cess has advanced the cause of labor. Only a few of the most successful
banks have entirely avoided the danger of unprofitable encroachment upon
the time and energy of the officers of sponsoring organizations.

The diversion of labor's funds into unsuccessful labor banks
while serious, will soon be repaired, except where pension and insu-
rance departments have suffered. The relative prosperity of American
labor has given it far too much reserve for these losses to affect
the movement more than slightly. The losses of individual workers and
of outside investors are more serious, but these soon quickly forgotten
except by the losses, themselves.
CONCLUSION

Organized labor in the United States has rarely been successful with its cooperative and business undertakings. Except for the traditional insurance and benefit funds which are established features of many labor unions, haphazardly and slowly, the labor movement before the war ventured only occasionally and on a small scale into the fields of finance and business. The operations set loose the world over by the War took the form in the country of elaborate programs of industrial demonstrations; such as the Blum Plan, and of business enterprises owned and managed by various organizations of labor.

Of all the varied proposals considered during the period, the labor bank was the only one appearing to have caught the imagination of the leaders of organized labor, and by 1936, single unions and related groups were operating thirty-six institutions with resources of $126,000,000. And by 1931, the number had been reduced to eleven with resources of $52,000,000. This was not the least of inflation for the records show that on the beginning of the present year, 1932, there were but seven remaining labor banks with resources of but $30,634,500.

While there have been conspicuous successes among labor banking organizations since 1930, the movement as a whole has failed to realize the hopes of its founders. This failure, according to various writers and authorities, in banking, has been due too in the main, the role which politics has played in the contact
of American labor banks. Since this latest experiment of organized labor in business is not an isolated incident in the history of the activities of Labor movements, either in the United States or in Europe, but in many respects the experience of the past, its probable causes deserve some further analysis and comment.

The facts of labor banking, in their most dramatic aspects, are best illustrated in the story of the financial business undertakings organized by the Brotherhood of Locomotive Engineers. The banking episode in this union began with the opening of the Brotherhood of Locomotive Engineers' Cooperative National Bank of Cleveland in November, 1920. Shortly thereafter, and almost without interruption during the next six years, additional banks owned and controlled by the Brotherhood, by its members or by subsidiary financial companies organized for the purpose were started throughout the country. To simplify and expedite the sale of stock, the Brotherhood created a series of investment and holding companies. Its activities were meanwhile not limited to banks and financial companies. Thus the holding and investment companies through new corporations desired to own and operate specific enterprises, the Brotherhood and its members and clients bought and operated coal mining properties, laundries, office buildings, apartment houses, and even the west, undertook to create and settle west of the city of Venice, Florida to the extent of $14,000,000.

In 1927 Warren Stone, head of the Brotherhood, and the moving spirit behind those new colonies of his union, died. In June of
the same year a special convention of the Brotherhood was convened in Cleveland to consider the financial condition of its subsidiary institutions and indeed of the union itself. The reports submitted to this convention disclosed all of the usual consequences incompetence and inexperienced management and of unseemly financial pyramidism. The portfolio of the banks contained excessive amounts of frozen assets and of bad commercial paper; interlocking ownership and management had led to the shifting of liabilities from one institution to another and had thus spread ruin among all; and such undertakings as depended for the ultimate soundness and recovery on completion, were shut down through the lack of new funds.

It was such a condition that the Brotherhood Convention of 1927 was invited to repair. It took the first and most essential step in a program of financial reconstruction by assessing each member $5.00 each month during a period of twenty-four months, and by this means created a fund from which the Brotherhood banks might make up their losses out of commercial loans gone sour, and other impaired assets. The convention ordered radical changes in the management; established a new financial administration within the union; and, authorized the liquidation and sale of many of its properties. Since then both banks and other enterprises have been liquidated and sold. The disposition of ventures like that of Venice, Florida, is still undecided. The whole process of liquidation is not yet recorded. All that can be said now is that the experiment to date has cost thousands of working people and others, great losses.
This in bare outline is the account of what has happened to the most ambitious recent excursion of the labor movement into the field of business for profit. Some of the other financial institutions of labor which, in this period were organized and then liquidated or sold, were neither so large nor so complicated as the enterprises of the brotherhood; but many of them were conceived and managed in so different a manner.

In a measure the excess of these enterprises of labor are due to the accident of the period. Most of them, particularly those of the locomotive engineers, were planned during the boom years of the war, and later carried on their writhings in the post-war years of prosperity and speculative enticements. Like the average small investor, they caught the fever of easy profits; misinterpreted the true meaning of gigantic mergers and contributions; and failed thoroughly to appreciate the necessity for deliberate and sound growth. It is, for instance, commonly believed that the large profits which the Engineers' Bank of Cleveland early in its history made from its holdings of United States Government securities contributed to an exaggerated and fallacious notion of the normal sources and level of earning profits.

More important and more fundamental, however, are those factors that operate in the nature and traditional practices of trade unions.

The preoccupation of labor organizations are largely legislative and not administrative. Typical officers of unions are
were concerned with the making of new rules and procedure or elaborating the old ones, than with creating skillful and elas-
tic administrative practices, designed to fit the peculiarities
of each new situation. Progress in union control is often measured
by the accumulation of additional constitutional provisions
and certain rules. May conditions, therefore which do not fit
known patterns, and are often powerful enough to undermine the
foundations of a labor organization, are forgotten, disregarded,
or never seen.

The executive experience, likewise, of the bulk of labor
officials is a slow and monotonous. Organizers, who are in many
unions powerful instrumentalities of the administration, spend
their time recruiting people to join the union or maintain-
ing critical centers. The business agent, in the ordinary organ-
ization, settles down after a while to a routine job of fixing
piece rate or adjusting petty grievances. The range of his ob-
servations and interests becomes more and more restricted with
the passage of time. Only when a trade union has undertaken in
its own interests to study the problem of its industry and to
assume an increasing share of the responsibility for its
own policies for those of the industry, does the union begin to
produce officials who are alert, thoughtful, and alive to problems.
But such unions, as is well known, are rare here and elsewhere.

Both in state and mind in experience, then, the labor union
has not been equipped to face its undertakings which require in
their executive personnel the qualities of skill, experience, and elasticity of mind. Even remote experiments in labor management, like that of the British building guild, failed in the same way as the banks of the Locomotive Engineers, because its managers did not know precisely what they were about.

Experience in the few cases of successful business enterprise by organized labor already shows how progressive unionism has created the type of official which traditional unionism so sadly lacks; and last, again, exposure of such men to the fresh experience of banking and business has contributed to sharpen their wits and to enhance their usefulness to the labor movement.

Like all movements which pioneer new fields of social endeavor, labor banking has passed through a cycle of growth and decline. After twelve years of experience, the elements of success and failure can be sifted and weighed. Labor's entrance into finance early caught the imagination of many students of social problems. The accomplishments of the successful labor banks, which have been few, have warranted the keen interest and enthusiasm they have aroused. As a permanent residual, their continued growth will permit further contributions to democratic banking. But it is the labor movement and its leaders who must consider gruvely both the debits and credits of the experiment. Without the most painstaking examination of the experiences of the past, a revival of the movement of the post-war years would be both dangerous and inexcusable.
Note: While the preceding study is based somewhat on correspondence, many articles on labor banking have been consulted in its preparation. Most of these articles appeared during the earlier years of the movement, however, and include much repetition of facts and opinions. They have been included in part A following, along with the small number of books and pamphlets in which labor banking or related subjects are discussed.

The reports of conventions and official journals of national trade unions or federations interested in labor banking have proved a fruitful source of information and are found in part C.

In part C are listed the periodicals in which unsigned articles on labor banking have appeared at frequent intervals.

A comprehensive and accurate bibliography of published material on labor banking appeared in the Monthly Labor Review of September, 1923. It was prepared by Miss Laura Thompson, Librarian of the United States Department of Labor. This bibliography has been used by the writer to supplement his own sources, and many of the items in the bibliography are included here.

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