Chapter Ten

BANKERS, SALESMEN, AND SPECULATORS

ONE day in 1915 or 1916 Charles Edwin Mitchell and Bruce Barton were standing together by a window in the Bankers' Club in New York, looking down upon the city. Said Mitchell:

"Every once in a while one of our bond men comes into my office and tells me he can't find any bond buyers. When that happens I don't argue with him. I say, 'Get your hat and come out to lunch.' Then I bring him up here and stand him in front of one of these windows. 'Look down there,' I say. 'There are six million people with incomes that aggregate thousands of millions of dollars. They are just waiting for someone to come and tell them what to do with their savings. Take a good look, eat a good lunch, and then go down and tell them.'"

Those remarks of Mitchell's—I quote them from a magazine article by Barton—were laden with implications of which Mitchell himself was then unaware. To be sure, they were made some time before he became one of the mightiest powers in American banking. They were made before his fortieth birthday; at just about the time when he was invited to leave his own investment-selling concern and become the president of the National City Company, the National City Bank's security affiliate: the Siamese twin by means of which it was able to trade in securities without incurring the displeasure of the law. Old James Stillman, though he was living mostly in Europe and was failing in health, was then the power behind the bank, and Frank Vanderlip was its active head. The future still hid what was to come in the next few years: the death of Stillman in 1918; the falling-out between Vanderlip and the directors of the bank in 1919, which was to thrust young James A. Stillman into the presidency; and, after young Stillman in turn was thrust out in 1921, the selection of Mitchell as the new president.

The remarks were significant because they revealed the nature of Mitchell's indisputable talents, because the selection of a man of such talents as the chief executive of the richest bank in the United States foreshadowed a

change in the spirit of American banking, and because the influence of Mitchell in the financial world of the nineteen-twenties was to give impetus to that change.

Mitchell was a salesman.

To understand clearly what it meant to have the spirit of salesmanship invade commercial banking, one must remind oneself of a few very elementary facts. In the first place, a bank—a commercial bank, that is to say, as distinguished from an investment banking house, which is quite a different thing—is a custodian of your money and mine, charged by law and still more by honor with the duty of lending or investing that money prudently, so that you and I will not suffer loss. In the second place, the bank, as lender and investor of our money, is a nourisher and stimulator of business. And in the third place, the bank is more than a custodian and lender of money: it is a manufacturer of money. Only a small proportion of the funds in use in the country—somewhere between a fifth and a tenth of them in normal times—are currency; the rest are check money, manufactured by the banks; and not by the banks as a group, but by individual banks wherever they may be from Maine to California.

The process of manufacture may be illustrated by the following over-simplified example. Suppose you deposit a thousand dollars in the Middletown National Bank. This amount, minus what the bank holds as a reserve for safety—say ten per cent of it—is thereupon available for lending. Now suppose I come in and want to borrow from the bank. Nine hundred dollars of the thousand which you deposited is available to be lent to me. The bank lends it. But it does not hand it over to me in cash. The bank chalks up a credit of nine hundred dollars beside my name: those nine hundred dollars become a deposit to my account. Thus the total deposits in the bank are increased by nine hundred dollars; and thus, miraculously, the bank has more money available for lending—not the whole sum which was written opposite my name, for a part of this sum must be held as a reserve, but say eight hundred dollars of it. Now suppose our neighbor Mr. Jones comes in and wants to borrow. The bank can lend him eight hundred dollars, credit this sum to his account, and thus have, say, seven hundred dollars more to lend to Mr. Robinson. And so the process continues; not to the bitter end, of course, for each time you or I draw a check we thereby reduce the total amount of money which the bank can lend; but far enough to make the amount of check

money in the country from five to ten times as great as the amount of currency. The example here given, it must be remembered, is over-simplified. In practice no single loan would go through the process outlined above. But it substantially dramatizes a development which actually would involve many banks and thousands of depositors.

To hear some people discuss inflation, one might suppose that the only possible kind of inflation were that which can be brought about by the government through the use of the printing press, printing greenbacks; but banking or credit inflation of the sort described above has been a normal financial process for a very long time and has come about as the joint result of innumerable acts of judgment on the part of thousands of individual bankers as they received deposits and made loans. The money thus manufactured is quite as legal as a dollar bill, as each of us is aware when he pays his bills by check.

Thus the commercial banker, although he is engaged in private business, is permitted to exercise a public function of high importance. The responsibility which rests upon him is thereby increased. For if he makes imprudent loans or investments he is not only imperiling your deposit and mine, he is also imperiling the quality and stability of a part of the national supply of money.

We have already noticed in previous chapters of this book how lax, during the early part of the century, were the standards of safety imposed upon the banks. Each state had its own legal requirements, and they were mostly low. The United States set higher requirements for national banks, but a bank was not required to enter the national system if it chose not to do so. Hence there were, in effect, forty-nine systems instead of one. The Federal Reserve System had been superimposed upon this chaotic situation, partly to mobilize reserves for use wherever and whenever they might be suddenly needed, as in a disaster or a panic, and partly to bring the supply of check money under a measure of control. It had been very valuable, during the war and the depression of 1921, as we have seen; so valuable, in fact, that there was a distinct impression in the public mind—and even, to a considerable extent, in the banking mind—that it offered a sure guarantee against disaster. But it did not. Its powers were limited. A vast number of the smaller banks were not Federal Reserve members and were thus beyond its reach, and even the member banks were to a very great degree free to lend and invest money according to their own best judgment.

It is very illuminating to notice what happened to this unsystematic combination of forty-nine banking systems during the years of boundless financial confidence.

To some readers who recall vividly the utter breakdown of American banking during the years 1930–1933 it may seem, in misleading retrospect, as if bank failures had been rare in the previous years of affluence. This is far from true; during the years 1923 to 1929, inclusive, bank failures occurred in the United States *at an average rate of nearly two a day*. During those seven years there were 4,787 failures; and they were well distributed throughout the period. Here are the figures. There were

648 in 1923
776 in 1924
612 in 1925
956 in 1926
662 in 1927
491 in 1928
and 642 in 1929

To be sure, during these years not a single big metropolitan bank went under. The victims were small banks, mostly in small towns. The direct cause of the destruction of most of them was the drop in the value of farm land after the agricultural boom which ended in 1920, leaving quantities of farmers with over-mortgaged acres and heavy debts for farm equipment, the payments on which could be met only by selling their crops at inadequate prices. Many other banks went down when the Florida real-estate boom and the widespread boomlets patterned upon it collapsed in 1926 and 1927. Yet they would hardly have perished in such numbers had most of them not been too small or too badly located to diversify their loans properly in the interests of safety, or too incompetently managed and complacently supervised to pursue sound banking policies. The record was disgraceful.

The city banks did far better. But they were changing character in a significant way. The chief traditional use for the funds deposited in a bank had been in the making of commercial loans: that is, loans to businesses to finance seasonal operations or specific ventures: loans which would be paid off when the goods which had been manufactured or bought with the

borrowed money were sold. These short-term commercial loans were constantly being repaid; they did not tie up money over a long period of time, and were thus—if discriminatingly made—considered prudent. During the rising prosperity of the nineteen-twenties one might have expected an increase in the total amount of these commercial loans. Oddly enough, there was virtually none. There did not seem to be a growing demand for them, even when business was boiling. (It was easy to raise money for business by the sale of long-term securities such as bonds or stock; and furthermore, the giants of industry kept large cash reserves and maintained low inventories of goods and were thus able, as it were, to lend themselves most of the money which they needed from time to time.)

There was nevertheless a large banking inflation; so great was the increase in the amount of check-money manufactured by the banks that Dr. Lauchlin Currie has estimated that the total national supply of money climbed from about 21¾ billions in 1922 to over 26½ billions in 1929—a growth of nearly five billions. And there was also a very large increase in the total of loans and investments by the banks of the country—something like a fifty per cent increase; according to the figures for Federal Reserve member banks only, loans and investments moved upward from a little over 24 billions in 1922 to more than 35½ billions in 1929.

What accounted for this increase, if not commercial loans? The answer to this question is significant.

1. Investments in securities: there was a three-billion dollar increase in this item—from seven billions to ten billions.

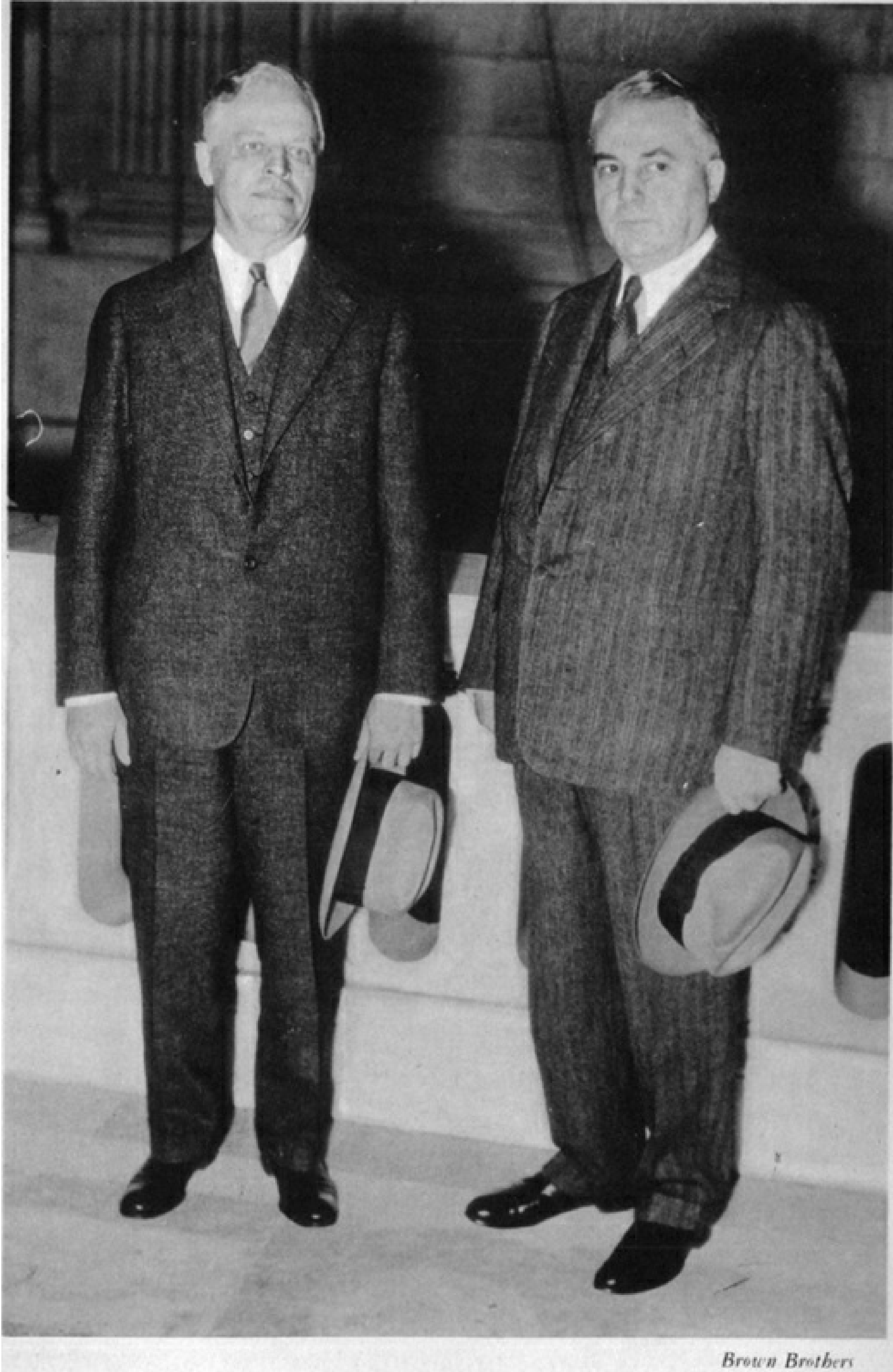
2. Loans on securities: that is, loans which, if not paid back, could be made good only by selling the bonds or stock with which they were secured: there was a five-and-a-half-billion-dollar increase in this item—from four and a half billions to ten billions.

3. And, in minor degree, loans on city real estate (which during the latter part of this period was having a spectacular boom, and in any case could hardly be converted into cash on short notice): this item increased from a little over one billion to over 2¾ billions.

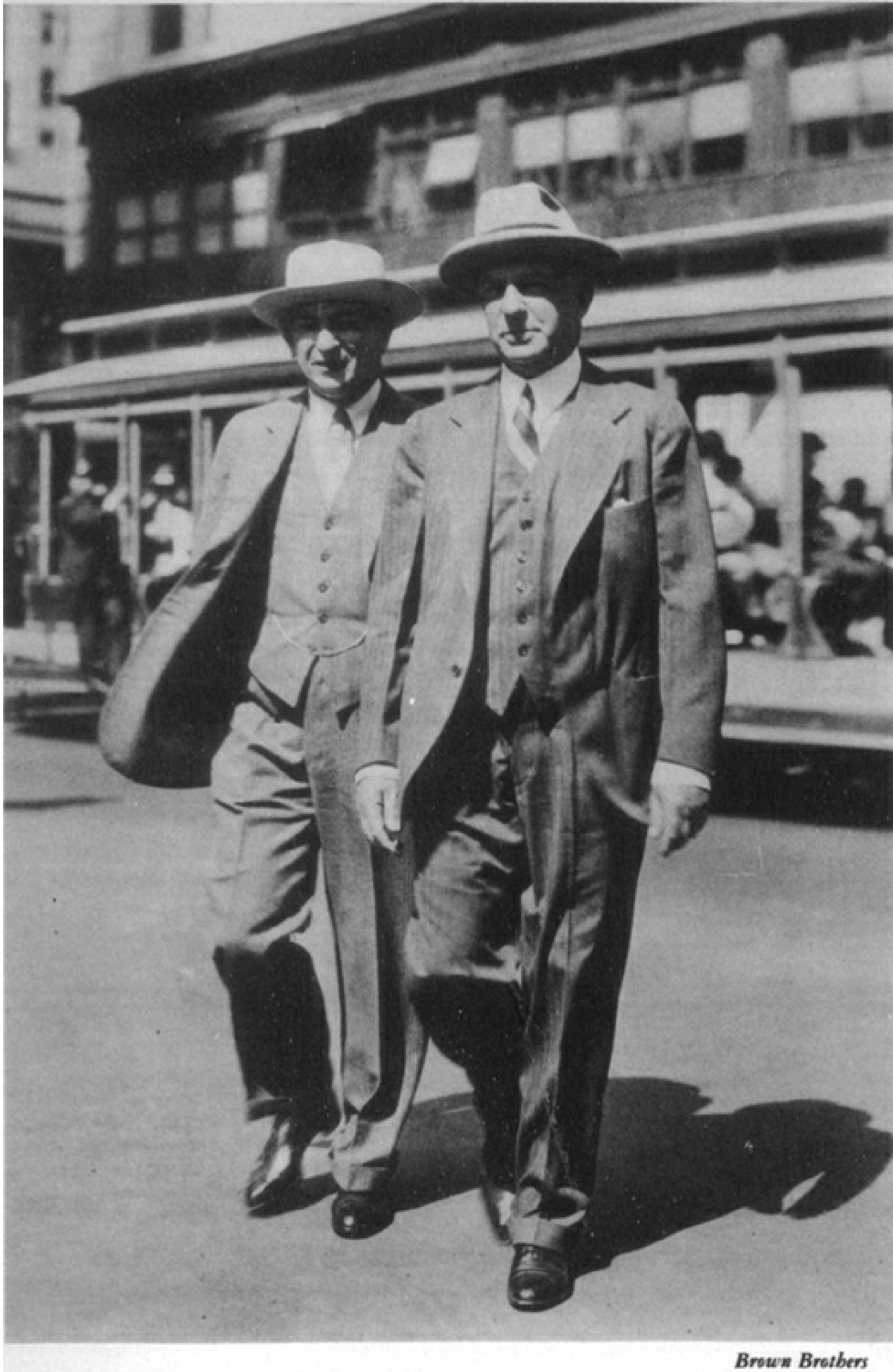
The significance of these changes is clear. The commercial banks of the country were putting a smaller proportion of their funds than previously into the current financing of business—the traditional use for such funds, and the safest. They were putting a much larger proportion than previously into

making—or backing—long-term investments in stocks, bonds, or real estate. Thus they were becoming more dependent, both for the safety of their deposits and for the quality of the money they manufactured, upon the condition of the investment and speculative markets—a fact which was to become distinctly and regrettably evident during the early nineteen-thirties.

They were also—a fact which was evident at once—becoming good customers for investment bankers who had securities to sell. This fact, coupled with the fact that insurance companies and other financial institutions were expanding rapidly, and the further fact that since the Liberty Loan campaigns more private individuals had become investment-minded than ever before, smoothed the pathway to success for men like Charles E. Mitchell. It is difficult, in matters like this, to distinguish clearly between cause and effect. The fact that the banking inflation was reflected in enlarged investments probably both encouraged Mitchellism and was encouraged by it. In any case it is fair to say that the rise and potency of such a man as Mitchell were characteristic signs of the times.



THE VAN SWERINGEN BROTHERS
M. J. (left) and O. P. (right) Van Sweringen, photographed as they came to testify before the Senate Committee in 1933



Brown Brothers

CHARLES E. MITCHELL
(at the right) on his way to testify early in 1933; Max Steuer, his lawyer, accompanies him

Mitchell was not born to the deep purple of the banking aristocracy. He came from the shabby and unfashionable Boston suburb of Chelsea; went to college at Amherst, but had to earn part of his expenses by teaching public speaking; began his business career as a clerk in the office of the Western Electric Company in Chicago, spent his evenings taking night courses in bookkeeping and commercial law, rose in a few years to the position of credit manager, developed a shrewd idea for the consolidation of a number of concerns which made telephone switchboards, took this idea to New York, to Oakleigh Thorne, president of the Trust Company of America, and made such an impression upon Thorne that he was asked to join the bank as Thorne’s assistant. That was in 1907—on the eve of the great panic in which the Trust Company of America was to be a storm center. Through the exhausting days and nights of the panic young Mitchell, now barely thirty years old, was at Thorne’s right hand; there were nights when he had to work so late that it was not worth while trying to go home, and he snatched a brief sleep curled up on the floor of the president’s office. Four years later he formed his own investment house. Five years after that—in 1916—he was chosen for the presidency of the National City Company.

What had brought him so far in such a brief span of years? Inexhaustible energy, a restless imagination, a powerful faculty for concentration; that talent for organizing and stimulating the efforts of other people which we call executive ability; that specialized and commercialized variety of the talent for persuasion which we call salesmanship. Mitchell was a big man physically, solid and broad-shouldered, with a strong face: bold jaw, blunt-ended nose, stern mouth, keen eyes: the face of a man, not of sensibility, but of gross power. He believed in keeping fit—for years he walked every morning the whole seven miles from his house in the east Seventies to the National City Bank. He worked mightily, studying, learning, and not forgetting that social contacts of the right sort can be very valuable to a rising financier. His confident energy galvanized other people. There flowed from him the sort of vital personal force which enables a military commander to rally his men for a successful assault—a force which the accidents of circumstance, in an acquisitive society, directed into rallying bond salesmen. When, like Napoleon upon a hilltop, Mitchell looked down from the windows of the Bankers’ Club upon the field of campaign, he showed his lieutenants not an armed enemy but a host of sales prospects, millions of dollars strong.

When he took over the management of the National City Company, in 1916, it controlled millions of dollars but its staff consisted of only four people working in a single room. He saw a bright future for it, and began to build up a great sales force. Bruce Barton, than whom there was no more enthusiastic trumpeter of the glories of big business during the nineteen twenties, described the Mitchell method: “Instead of waiting for investors to come, he took young men and women, gave them a course of training in the sale of securities, and sent them out to *find* the investors. Such methods, pursued with such vigor and on such a scale, were revolutionary.”

Still the National City Company was a mere appendage of the Bank. Yet there was no other man in the organization who equaled Mitchell in personal force. And so when James A. Stillman had to leave the presidency in 1921, Mitchell assumed direction of the whole vast concern: not merely of the expanding affiliate which sold and traded in securities, but also of the Bank itself, the custodian of other people’s savings, the nourisher of business, the manufacturer of a part of the national supply of money.

All through the seven fat years Mitchell’s salesmen—by 1929 there were 350 of them, with offices in fifty-eight cities connected with the New York headquarters by means of eleven thousand miles of private wire—were engaged in finding investors and telling them what to do with their savings. Behind these salesmen there was a relentless pressure to get results. Whether or not the sales letters quoted by Julian Sherrod in his *Scapegoats* were actually sales letters sent out from New York to Mitchell’s men, at least they suggest the spirit in which these men and others like them were exhorted to dispose of their wares. “You cannot stand still in this business—you either go forwards or backwards.” “The trouble with most Security Salesmen has been that in the past three or four years they have been order takers.” “As I see it, you fellows are not Self-Starters.” “… we do want to be absolutely sure that, with the exception of the cubs, we have no one in our sales force but producers.” “I should hate to think there is any man in our sales crowd who would confess to his inability to sell at least some of any issue of either bonds or preferred stock that we think good enough to offer. In fact this would be an impossible situation and, in the interest of all concerned, one which we would not permit to continue.…”

There were sales contests for these salesmen of stocks and bonds, just as there were sales contests in those days for men who sold vacuum-cleaners

and novelties: in one contest which began in September, 1929, just as the prices of securities were about to go over the cliff's edge into the depression, the National City Company offered $25,000 in prize money and the scoring was done on an elaborate point system—one point for each share of General Mills common stock which they disposed of, 4 points for each share of Missouri-Kansas-Texas 7 per cent preferred stock, and so forth. Under the whip of such incentives, a salesman could hardly be expected to look with a coolly impartial eye upon the disposition of an investor's savings, or to recommend speculative investments only to business men in close and active touch with the course of the markets. What counted in such a business was results—"and results mean orders."

The Barton article on Mitchell from which I have already quoted bore a title which in retrospect seems ironical. It was called—after the hortatory style of the *American Magazine's* success stories in that era—"IS THERE ANYTHING HERE THAT OTHER MEN COULDN'T DO?" Apparently there was not. High-powered security salesmanship became widespread.

Buyers were so easily persuaded and the sale of securities was so lucrative that soon there was a furious competition among investment bankers and the investment affiliates of the big banks to find concerns which were willing to put out bonds or stocks for expansion. The manufacturer did not have to go hat in hand to the bankers to ask their assistance; the bankers came to him, eager to issue securities for him and feed them out to banks and private buyers. And among these bankers the representatives of the security affiliates of the commercial banks were becoming more and more numerous. Mitchellism was becoming contagious. In 1927 the affiliates originated less than one-sixth as much of the volume of security issues as did the private bankers; in 1928 they originated nearly one-third as much; in 1929, nearly four-fifths as much.

One sort of security which it was very easy to sell was the bonds of foreign states, and here the strenuousness of the competition approached the ridiculous. Young men representing big New York banks camped in Balkan and South American capitals in the frantic hope of inducing the local financial dignitaries to issue bonds. Sometimes these young men were not only ignorant of the language of the country but of its customs and traditions, and even of its political and financial record; and there might be three or four of them maneuvering for a single bond issue, each eager to get ahead of the

others by whatever means could be contrived. Small wonder, under the circumstances, that some of this headlong financing did not redound to the credit of the banks which made the loans and sold the bonds, or that it led in due course to the shrinkage of assets of hundreds of American banks and to the impoverishment of thousands of embittered investors.

Before long some of the more experienced investment bankers became frankly apprehensive of the reckless way in which this foreign financing was being conducted. Said Thomas W. Lamont of the House of Morgan in 1927: "From the point of view of the American investor it is obviously necessary to scan the situation with increasing circumspection and to avoid rash or excessive lending. I have in mind the reports that I have recently heard of American bankers and firms competing on almost a violent scale for the purpose of obtaining loans in various foreign money markets overseas.

"Naturally it is a tempting thing for certain of the European governments to find a horde of American bankers sitting on their doorsteps offering them money.… That sort of competition tends to insecurity and unsound practice."

The House of Morgan had spoken—yet the business went right on. For example, Mitchell's own National City Company subsequently sold two issues of Peruvian bonds—despite the fact that memoranda written from time to time by officers of the Company and the Bank during the previous five or six years had stated that "Peru has been careless in the fulfillment of contractual obligations," and had referred to Peru's "bad-debt record" as an "adverse moral and political risk." The Company sold two issues of bonds of the State of Minas Geraes, Brazil, despite the fact that a member of the foreign department of the bank had drawn attention to the "inefficiency and ineptitude" of the officials of the state in connection with previous loans to them, and "the complete ignorance, carelessness, and negligence of the former State officials in respect to external long-term borrowing." The Peruvian bonds went into default in 1931; the bonds of the State of Minas Geraes, in 1932. Many other extreme examples of foreign lending might be cited; and the number of banking houses involved in them bears witness that "there was not anything here which other men couldn't do." The business of selling foreign securities to Americans assumed huge proportions—and by 1934 over a third of the outstanding foreign securities were in default.

In passing judgment upon such bond issues one must make allowance for the fact that sincere opinions, even within a single institution, may differ

upon the merits of any investment issue; and also for the fact that the world depression dragged down into default many foreign bond issues which in the nineteen-twenties would have seemed good risks even to the conservative banker. It is difficult to escape the conclusion, however, that it was all too easy to decide in favor of an issue when other banking houses were also in the market for it and a staff of salesmen all over the country were ready and able to sell almost anything to small banks and private investors.

By 1927 Mitchell's men were selling not merely bonds and preferred stock but common stock also, thus definitely encouraging the speculative bull market. As the market boomed, the National City Company would accumulate stock by buying it on the market and would sell it all over the country through its salesmen. In 1929 it sold over a million shares of Anaconda Copper—a speculative common stock. It even sold over a million shares of the stock of the National City Bank itself, not only distributing them through its sales force, but trading in them on the market more heavily than any other firm or individual. (Banks were forbidden by law to deal in their own stock—but of course it was not the National City Bank which was doing the trading, but its affiliate.)

I know of no evidence that the lending or investment of the money deposited in the National City Bank itself was unfavorably affected by the aggressive selling campaigns carried on under Mitchell's inspiration by the Bank's *alter ego*. Yet the fact that the legal device of a technically separate investment affiliate enabled Mitchell and his associates to serve two masters bore interesting results.

For example, depositors in the National City Bank who wished the advice of the bank on investments would be referred to the City Company. Listen now to a bit of testimony in the Senate investigation:

MR. PECORA: And if that depositor or customer then followed up that suggestion by calling upon the National City Company for advice as to his investments, it was not an unusual thing for the National City Company to suggest investment in securities that the Company was sponsoring, was it?

MR. HUGH BAKER (President of the National City Company): That is right.

Again, when a salesman from the National City Company called upon a small-town banker or investor, it can hardly be denied that he carried with him the prestige which grew out of the size and importance and sound financial reputation of the National City Bank itself. No wonder the small-

town banker bought; anything which was good enough for the biggest bank in the country was good enough for him.

And one must also consider the effect of this double interest upon the officers of the Bank in their relation to the general economic situation. Early in 1929 Mitchell’s bank lent millions of dollars in the call market to stockbrokers in defiance of the wishes of the Federal Reserve Board, which was trying to check the epidemic of speculation. Was his judgment in so doing completely unaffected by the fact that within the preceding four months he had been one of the managers of a joint-account operation in copper stocks; that his National City Company was selling common stocks, and had on hand at that time a large block of shares of Anaconda Copper common; and that his own financial fortunes were bound up with those of the National City Company through the existence of a “management fund,” based on the profits of the Company, from which Mitchell had been given three-quarters of a million dollars as his share of the profits for 1928? Again, as the stock market began to collapse, in the latter months of 1929, Mitchell was one of the most vociferous of all defenders of the existing price-level. Was he motivated solely by his calm banking judgment as the head of a great institution sensible of its responsibility to depositors, to business, and to the country as a whole for the maintenance of economic stability?

Salesmanship in banking was having its inevitable effect.

2

From Mitchell’s National City Bank in Wall Street, New York, we now journey all the way across the continent to San Francisco. For the next tendency in American banking which calls for our consideration is the tendency toward concentration into a few hands of power over commercial banks, and the most picturesque and remarkable example of this was contributed by a San Franciscan: Amadeo Peter Giannini.

Giannini was a pyramid-builder. There were many striking parallels between his career and those of other pyramid-builders like Insull and the Van Sweringens. Like Insull, he was of foreign origin: though he was born in California, his father was an Italian immigrant. Like Oris Van Sweringen, he was aided throughout his career by a brother with a name as unusual as his: the younger Giannini was named Attilio. Like both Insull and the Van

Sweringens, Amadeo Giannini was not born to wealth and his formal schooling was limited.

At the age of twelve this Italian boy was living on an incredible schedule: going to school by day, and getting up at one or two o'clock each morning to work in his step-father's produce firm until his school hours began. At the age of nineteen he became a member of the firm. At the age of thirty-one he retired from the produce business, having made enough money to bring him in an income of five thousand a year. But such energy could not long remain quiet: soon he was operating in real estate and serving on the board of directors of a bank, and in 1904—when he was only thirty-four years old—he established a bank of his own. It was in the Italian district of San Francisco, it was designed for the Italian-speaking population, and he called it the Bank of Italy.

Almost at the outset of his banking career Giannini showed his resourcefulness. In 1906 the city of San Francisco was rocked by earthquake and swept by fire. As the flames approached the little Bank of Italy, the young banker piled his cash and securities into a horse-drawn wagon and with a guard of two soldiers took them to his home at San Mateo, twenty miles from San Francisco, where he buried them in the garden; and then while the ruins of the city were still smoking he set up a desk in the open air down by the waterfront, put up a sign over the desk which read BANK OF ITALY, and began doing business again—the first San Francisco bank to resume.

His institution prospered and began to open branch offices. Before he had reached his fiftieth birthday there were twenty-five of them, mostly outside San Francisco. Then came the nineteen-twenties and the new era of financial ambition, and Giannini's banking system began to expand in earnest.

There is no need to trace in detail the steps by which this Italian ex-produce merchant advanced, but something should be said of the background and method of his expansion program. There had long been a prejudice in America against branch banking—in other words, against the operation of local branch offices by big banks. One reason for this was doubtless the small-town man's fierce distrust of the "city feller"; another was a very justifiable fear of reckless or unprincipled absentee ownership. It was good, thought the small-town merchant or the rancher or farmer of the neighboring countryside, to be able to call the president of the bank "Ed," and to know

that it was run for the benefit of the community and not for the benefit of some metropolitan capitalist who might loot it for his own distant and devious purposes. There were, to be sure, two sides to this argument: the appalling record of failures among small-town banks in the nineteen-twenties is sufficient evidence that "Ed" was sometimes a fine fellow but an incompetent banker. The popular objection to branch banking, however, had crystallized into many laws and regulations restricting its development. And when a banker began to buy up other banks to convert them into branches, naturally rival bankers would oppose him by fanning the popular prejudice and, if necessary, by calling for new laws and restrictions.

In the early nineteen-twenties, this prejudice was slowly melting in the warm airs of financial confidence. Farm lands had not fallen in value so fast and so far in California as in other parts of the country, and thus the country banks in that state were mostly prospering well enough to appeal to an aggressive capitalist as investments. Giannini bought and bought—and presently the conservative bankers of the state realized that the little Bank of Italy, upon which they had hitherto looked with a condescending eye, had covered a good deal of the northern part of the state with branch offices and was becoming a menacing power in California finance.

They rose in opposition. Giannini, hot with zeal for expansion, sought to acquire banks in Los Angeles to serve as branches, and found that there seemed to be none for sale—his rivals had seen to that. Angrily he declared that he would open new branch offices in competition with the existing banks; he was said to have threatened to pepper the southern end of the state with branches so thickly that it would look like a target fired upon at close range with a shotgun loaded with birdshot. The state banking department stood in his way; Giannini waged a political campaign against it and won. The authorities somewhat relaxed their regulations, and he went ahead faster than ever.

Ironically, even when the regulations which safeguarded branch banking in California were strictest, they did not prevent Giannini from employing methods of expansion which in the wrong hands could have become very dangerous. The ingenuity of corporation lawyers is usually two or three steps ahead of that of legislators. His principal method was to form holding companies and use their funds to accumulate stock in local banks, which he would then form into branches of the Bank of Italy or of his big Los Angeles

unit, the Bank of America. He raised the money to form the holding companies by selling stock to the public, through the security affiliates of his banks as well as through other investment concerns.

As time went on, he maintained his grip on the growing system by piling one holding company on top of another, Insull-fashion. Like Insull, he paid high prices for what he bought: competition was sharp and he had no choice unless he were to cease his campaign of conquest. As his reputation grew, the price of the stocks of his holding companies shot up, offering a temptation to speculators. His principal holding company during most of this campaign was the Bancitaly Corporation. From the first his loyal fellow-Italians had been eager to purchase Bancitaly stock; presently thousands of other California investors and speculators were attracted to it; soon it was bought and sold in huge quantities on the New York Curb Market as well as on the San Francisco Stock Exchange, professional operators took it up, and little plungers all over the country who hardly knew what sort of business this Bancitaly was engaged in were staking their meager capital upon it. Giannini had become the center of a vast speculative boom, and there was grave danger that the nature of his operations would involve his banks and his whole corporate structure in sustaining this boom.

Despite this danger, Giannini drove ahead. He seemed to be putting his investors' money into the purchase of everything in sight. By 1929 the Giannini system included no less than 453 banking offices in California alone. His principal bank in San Francisco—no longer called the Bank of Italy, but naturalized, as it were, into the Bank of America National Trust and Savings Association—had become the fourth largest commercial banking institution in the country; it was bigger than any bank in Chicago, and only three of the giants of New York overshadowed it: Mitchell's National City, Wiggin's Chase National, and the Guaranty Trust Company.

Nor was Giannini content to operate in California alone. He had invaded New York itself, securing control of the old Bank of America, which by 1930 had 32 branches of its own. As if to show that it was not enough to have a banking empire, Giannini and his associates controlled a fire insurance company, a life insurance company, mortgage companies, and public utilities. They controlled a bank in Milan, Italy. And they even owned shares—under the spell of what imperial dream, who knows?—in the Bank of England, the Bank of France, and the Reichsbank. An extraordinary collection of

properties for a man who twenty years before had been the head of but a single small bank used chiefly by Italian immigrants!

The endlessly changing pyramid of corporations through which Giannini ruled over this domain was topped, as you may have guessed, by a Delaware corporation: The Transamerica Corporation. Even a San Franciscan, when in the grip of financial ambition, would turn to that little state on the Atlantic seaboard for his instruments of conquest.

A strange and wonderful thing was this pyramid. Was there no better way, one asks oneself, of achieving the very real advantages of branch banking—the advantages of an opportunity for skillful management of little banks, for healthy diversification of loans and investments, and above all for the imposition of some sort of order upon a banking anarchy—than by thus piling together under one dominating management a vast number of banks, affiliates, holding companies, stock-selling concerns, real-estate companies, and public utilities, with all the invitations to unbridled irresponsibility and speculative management—in short, to the service of two masters—which such a structure offered?

Needless to say, when the speculative tide turned, thousands upon thousands of Giannini's investors suffered grave losses. Parts of the edifice were seriously affected. Giannini almost lost his control of the whole system to his Blair allies in New York. As it was, he lost his New York bank, the Bank of America; it was absorbed by Mitchell's National City. As the cream of earnings ran thin, the price of Transamerica stock slid from a 1929 high of 67⅜ down to a 1932 low of 2½. That the whole structure did not utterly go to pieces and that Giannini's California banking system did not collapse—except insofar as the entire banking system of the United States collapsed—was probably due to the fact that Giannini himself had not become thoroughly imbued with the speculative spirit, and that personal greed had not entered into his program as into the programs of some other pyramiders.

When the stock of his Bancitaly Corporation had gone far too high in 1928, Giannini had not hesitated to protest that it was not worth so much. When he had given a million and a half dollars to the University of California, it was reported that this sum constituted the greater part of his personal fortune. Not caring overmuch for money for its own sake, he was able to resist the invitations which his methods of conquest extended to him, and in large degree to prevent his associates from accepting them. With the

aid of able assistants, including some former Canadian bankers, he saw to it that his bank's management remained within bounds. What chiefly impelled Giannini was a sincere belief in branch banking, coupled with a fervid ambition: a royal lust like that of the Roman empire-builders—and of his compatriot Mussolini—for the glory of conquest. He loved power, loved victory; and the way to power and victory, for a modern Caesar of the financial world, lay in the use of the corporate devices of the time, and above all of the corporate pyramid.

The impulse to combine banks into systems and groups and chains was not confined in the nineteen-twenties to Amadeo Giannini. It was widespread. By the autumn of 1929 there were 273 chains or groups in operation in the United States, involving 1,858 banks and over eighteen per cent of the banking resources of the country. The vicissitudes of some of these other chains and groups show all too well the dangers inherent in holding-company control of banks. In Detroit, for example, two big holding companies took charge of many of the leading banks. Some of these banks had invested too large a proportion of their depositors' funds in real estate, or had otherwise succumbed to the lure of a bigger and better speculative future. At the onset of the depression in the nineteen-thirties, the profits of these banks naturally began to fall off, and the condition of many of their investments became progressively worse. Yet they were compelled to go on paying dividends to the two holding companies—the Guardian Detroit Union Group, Inc., and the Detroit Bankers Company—in order that these holding companies might in turn continue to pay dividends. Had the dividends been earned? No matter: they must be paid. What happened later, everybody knows. It was the downfall of these Detroit banks, early in 1933, which precipitated the collapse of the entire banking system of the United States.

But during the seven fat years no such crises were putting the holding-company method of control—or any other method—to the test. Mergers or combinations of big banks were taking place not merely in California and in Michigan, but in Chicago and conspicuously in New York. The National City Bank took unto itself the Farmers Loan & Trust Company and thus became a two-billion dollar institution, to the accompaniment of enthusiastic applause. The Guaranty Trust Company took unto itself the Bank of Commerce, thus approaching the two-billion-dollar mark, if not quite reaching it. The Chase National absorbed the Equitable Trust Company, thrusting ahead of the

others. The thrill of bigness had become as irresistible to banks as to the planners of twelve-hundred-foot skyscrapers. Bigness and power: they enthralled Mitchell of the National City and Wiggin of the Chase as they enthralled Amadeo Peter Giannini, the one-time produce-merchant's boy from the Italian district of San Francisco.

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As you approach almost any of our American cities by air, you see this city first as a large irregular brownish discoloration upon the landscape, overhung by a pall of smoke. But presently you notice at the center of the discoloration a protuberance: a jagged cluster of whitish pinnacles. That cluster of pinnacles—the towering office buildings, hotels, and apartment houses at the center of the city, where land is at a premium—is in large degree a surviving outward manifestation of one of the two great speculative manias of the nineteen-twenties. One of these manias, of course, was for speculation in stocks: a phenomenon to which we shall give due consideration shortly. The other was for real-estate speculation.

Someone has said that the history of the United States is the story of a gigantic land boom. By the nineteen-twenties the frontier had long been closed, but habits are slow to die and the boom continued. First it passed like a ravaging disease through the farm lands of the country, leaving behind it, after 1921, a trail of debt, wrecked banks, and distress. In 1924 and 1925 it descended upon the State of Florida; here the characteristic symptom of the epidemic was a delusion that there was an unlimited supply of millionaires and other idlers prepared to live for months of the year in Venetian luxury, playing golf and polo and rushing about expensive lagoons in speedboats. By the time the Florida boom collapsed—with the inevitable result of ruined speculators and dying banks—it had given impetus to a whole series of summer-resort, winter-resort, and suburban boomlets in other parts of the country, similar to it in frenzy, absurdity, and after-effects. But meanwhile the fever of real-estate speculation had entered the phase in which it was to do the greatest damage to the larger banks of the country. It had attacked the centers of American cities.

From Manhattan to Los Angeles there was a bull market in city lots and an aggressive building of skyscrapers. The logic of this movement was that the

supply of desirable urban land was limited; few people seemed to realize that the possibility of pushing skyscrapers up to almost any height could pretty successfully defeat this limitation. Anyhow, each city thrust up its cluster of pinnacles at the center—pinnacles which, unlike the prices of common stocks, would not come down again when the impulse that had created them had been frustrated. They stand today where they were built, half-empty reminders of the fact that the speculative spirit of the nineteen-twenties saw its most dazzling future in raising the standard of living, not of the poor, but of the rich, by providing for them loftier and more luxurious offices and more lordly dwellings.

Possibly the most illuminating way of suggesting the effect upon the commercial banking system of this boom in city real estate, as well as of the boom in stocks, may be to look briefly at an extreme example, an exhibit of the pathology of banking. The failure of the Bank of United States, late in the year 1930, was the largest bank failure which had taken place up to that time in the whole history of the country. It was also the forerunner of further disasters to come. If we put the microscope to this egregious specimen we may see in aggravated form a few of the causes of some of those other disasters.

The Bank of United States, founded by a Jewish garment manufacturer named Marcus and managed in later years by his son and another garment manufacturer named Singer, had grown rapidly through a series of mergers, acquiring the stock of other banks or exchanging this stock for its own, sometimes at extravagant prices; by the spring of 1929 it had thus become a large institution, with deposits of over two hundred million dollars. Naturally, being an up-and-coming bank, it had a security affiliate; indeed, it had a whole series of affiliated or subsidiary corporations through which the men at the head of the bank might engage in various forms of investment or speculation, with the aid of money lent to these corporations by the legally separate bank: in other words, with the depositors' money. As M. R. Werner puts it in his account of the adventures of the Bank of United States: "Whenever they needed money for the enterprises in which they indulged, Marcus and Singer pulled corporations out of drawers and borrowed for them. The officers of these corporations were minor officials of the bank, and frequently the same three, Mr. Lip-schutz, Mr. Duffy, and Mr. Rubenstein." Thus the bankers were ingeniously set free of the annoying restrictions which

the laws had thrown about the use of depositors' money.

As 1927 gave way to 1928, and 1928 to 1929, these bankers became more and more urgently interested in the market price of the stock of their bank. One reason for this was that their affiliate, the Bankus Corporation, was actively engaged in buying and selling this stock as it rose along with other stocks in the bull market. Another reason was that Marcus and Singer had a syndicate of their own, through which they were personally engaged in pool operations in the stock. Still another reason was that when the Bank of United States absorbed other banks by exchanging its stock for theirs at goodly prices, the former stockholders of these other banks, finding blocks of Bank of United States stock in their hands and noting that the market quotations for it were invitingly high, were under a natural impulse to sell out; and this constant selling tended to depress those quotations, to the embarrassment of the Bankus Corporation and of Marcus and Singer's personal syndicate. Marcus and Singer therefore became actively interested in distributing the stock of the bank as widely as possible among people who would be unlikely to dump it on the market: in selling it to small depositors and other innocents. But still the price sagged. So the Bankus Corporation went on buying the stock to hold the price up. And it went on borrowing from the Bank to finance these purchases—borrowing the depositors' money.

Thus a desperate situation developed: to a greater and greater degree the Bank found itself financing a speculative campaign which could not be successful unless prices continued to rise.

But this was not all. The men who ran the Bank were not only stock-market minded, they were real-estate minded. Through the various dummy corporations at their disposal, they had been putting the depositors' money into the financing of ambitious apartment-house projects, mostly along the west side of Central Park, New York. The shining towers which they built adorned the rapidly changing skyline of Manhattan, but as investments they were declared by a bank examiner to have been "based exclusively on optimism instead of good business policies and sound judgment." Banks, of course, were not supposed to invest in real estate, but that fact did not trouble Marcus and Singer; banks could lend money to corporations, and these corporations could do it. Why lose such a chance to make big money?

The rest of the story can be very briefly told. After the panic of 1929, the price of Bank of United States stock fell. The money locked up in speculative

real-estate ventures could not be extracted. The bank foundered.

Now it would be grossly unjust to suggest that such reckless adventures were typical of the course of American banking during the fat years. Most American bankers were men of probity, conscious of the gravity of their responsibilities to their depositors. Yet there is no denying that the tendencies shown in exaggerated form in the Bank of United States were sufficiently prevalent to affect the general banking structure.

Indeed, it may have occurred to the reader as he followed the story of this bank that there was something faintly familiar about some of the elements of it. Rapid expansion through purchases of other banks at high prices: did we not see this happening in California too, when Giannini was in full career? The bank's affiliate trading in the bank's own stock: was Mitchell's National City Company not doing this? Distributing this stock through a vigorous selling campaign: was not Mitchell doing that too?

Very well; but what about the element of injudicious investment in real estate? That this was a factor in the fortunes of other and less grossly mismanaged commercial banks than the Bank of United States, that there was some truth in the British remark that American bankers did not know the difference between a bill and a mortgage, is suggested, first, by the cold statistics of the increase in loans on city real estate by American banks from a little over one billion dollars in 1922 to over 2¾ billions in 1929. (One must bear in mind, too, the probability that the 1929 figure does not adequately represent the extent to which the commercial banks had become involved in the fortunes of skyscraper office buildings and big apartment houses: for real-estate ventures, as we have noticed, could readily be disguised as loans to construction companies.) The over-indulgence of bankers in real-estate financing is suggested, in the second place, by the experience of the men who examined the banks of the country after the grand smash of 1933: again and again they had to report that the greatest factor of weakness was the prevalence of real-estate paper in the portfolios of banks. And it is suggested, in the third place, by concrete instances such as that of two big banks in Cleveland.

These two big Cleveland banks were the Union Trust Company and the Guardian Trust Company. In January, 1929, the Union Trust Company had loans outstanding to a total of a little over two hundred and twenty million dollars; and of this total, over seventy-six millions—more than one-third—

was in the form of loans on real estate. That was one of the effects of the building boom inspired by the glittering example of the brothers Van Sweringen. As for the Guardian Trust Company, let us turn to the report of the Senate Banking and Currency Committee which investigated the Cleveland collapse: “At the time of the closing of the bank the Guardian Trust Company and its subsidiaries were engaged, besides conducting a banking business, in the operation of an office building, a chain of hotels, a coal mine, and residential and business properties …” The Guardian, incidentally, had several subsidiary corporations which could take over its real-estate investments when these began to look a little questionable for the portfolio of a supposedly conservatively managed bank.

Speculation in the steel-and-masonry pinnacles of urban prosperity was not the exclusive concern of gentlemen like Messrs. Singer and Marcus.

Another form of speculation in which we have found these gentlemen engaged was personal speculation in the stock of their own bank. To find a parallel to this exploit we do not need to roam the country; we need only regard the exploits of the head of the bank which in 1930 passed the National City Bank in size and thus became the biggest in the country, indeed the biggest in the world: an institution of the most splendid importance, the Chase National Bank.

The Chairman of the Board of this bank was Albert H. Wiggin. The bank had, of course, a subsidiary, the Chase Securities Corporation, which participated in many trading accounts (otherwise known as stock-market pool operations) in various stocks, including the stock of the Chase National Bank itself. But that is merely mentioned by the way. Albert H. Wiggin likewise participated in such trading accounts—not personally in his own name, but through the medium of one or the other of his private corporations.

There were few stranger blossoms in the corporate garden than the private corporation. It enabled one to engage in transactions with which one would not care to have one’s personal connection generally known; and it also enabled one to put one’s profits beyond the reach of the income-tax collector. Taxes on corporate profits were not as heavy as upon the upper brackets of personal income, and the profits of one’s private corporation did not have to appear in one’s personal accounts unless or until one chose that the corporation should pay dividends. A variant of this device, also in favor among the rich, was the use of a Canadian corporation. The Canadian

income-tax laws happened to differ from those in the United States in that a Canadian corporation which acquired stock need not record this acquisition for tax purposes at the price which it paid for it; it could record it at the going market price. Thus if an American magnate who had a Canadian corporation in his financial stable had bought, say, a thousand shares of Steel for $150,000, and the market price for Steel had gone from 150 to 250, and he wanted to sell and realize a neat profit of $100,000, he could dodge the tax on this profit: by going through the appropriate legal motions he could transfer this stock to his Canadian corporation, record it on the books of the Canadian corporation at $250,000 rather than at the purchase price of $150,000, and let the Canadian corporation sell it for $250,000—showing no profit at all for tax purposes. Albert H. Wiggin had three American private corporations, officered and directed by officers and directors of the Chase National Bank and the Chase Securities Corporation; he also had three Canadian corporations.

His three American corporations, during the six years 1927–1932, inclusive, *made over ten million dollars in transactions in the stock of the Chase National Bank, of which he was the head*.

The man who through the medium of these private corporations, and with the aid of officers and directors of his bank, was engaged in serving his stockholders by buying stock from them cheap and selling it to them dear, and who was incidentally participating in stock-market pools in other stocks, with or without the assistance of officers and directors of the companies whose shares were thus taken in hand: this man was no ex-garment manufacturer from the East Side, no unseasoned novice at banking. He was a man of long financial experience, who had been with the Chase Bank itself for twenty-five years. He was a director of scores of corporations. His power was great. His influence was even greater. As the head of one of the mightiest commercial banks in the country, he bore a very heavy responsibility for the maintenance of sound banking conditions: for seeing that the speculative epidemic did not seriously involve the banking structure of the country to the detriment of depositors, business, and that structure of bank credits which served the country as money. And yet this man, wearing a disguise which might shield him from the tax collectors of the Treasury Department, was playing the market in the shares of his own bank.

Years afterwards, when the Senate Banking and Currency Committee had

called Wiggin before them and had dragged from him these and other damaging admissions, Ferdinand Pecora, counsel to the Committee, asked him what had prompted the Chase Securities Corporation to engage in trading in stocks.

"I think the times," said Wiggin.

"I assume you mean the speculative atmosphere?" asked Pecora.

"I think perhaps that covers it," said Wiggin. "There was a great deal of atmosphere. There were a great many people who began to think you did a great injustice to everybody if you did not have equity stocks. It even got to be the custom to think that trust funds—it was a pity to limit them so that they could not invest in equity stocks; that we were doing a great injustice to them. In other words, it was the times."

"Did you yield to the temper of the times in that respect?" pursued Pecora.

"I am afraid so."

Let us leave it at that; realizing as we do so that we are setting down the only possible excuse for the speculative spirit which possessed many other men than Albert H. Wiggin, and which, along with the spirit of headlong salesmanship and the spirit of reckless expansion, pervaded the commercial banking system and prepared it for its downfall. "It was the times."