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Cleveland: A city that was wrecked, 1933.

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392

CLEVELAND--A CITY THAT WAS WRECKED
What Bankers and Financial Jugglers Did to Our City

BY

Rabbi Abba Hillel Silver
At The Temple, Sunday,
November 12, 1933.

As a rule, my friends, we are inclined to attribute our depression to impersonal causes -- over-production, under-consumption, shrinkage of the market, frozen credit, the gold standard, uncollectable debts -- impersonal causes. And the more we dwell on these real or imaginary causes of this depression, the more prone are we to overlook the human element involved in the situation.

A world-wide economic depression, is of course, caused by world-wide economic factors. But the reason for the depth of the depression, the reason for the degree of its severity in each country and in each locality varies and must be sought for in the conditions prevailing in that country or in that locality -- in the distinctive legal or institutional setup and in the practices of the men who control the financial situation in each place.

Thus, for example, if there were no bank failures in England or in Canada all through this depression, while thousands of banks large and small crashed in our own country, we cannot rightly ascribe the failure of these banks entirely or largely, if at all, to the depression.

In the same way we should ask ourselves why certain banks in the United States failed while others survived the storm. When we thus pass from the general to the particular, we shall soon discover that in almost every instance some kind of mismanagement, of bad banking practice, of greed or of callous indifference to the social trusts was in a large measure responsible for the collapse of the financial institution. We shall also discover that in almost every instance of a bank failure, collusion between bank executives and a relatively few big businessmen, financiers, manipulators and speculators was responsible for the undermining of the solvency of those banks.

How much this personal equation can be a factor in the financial setup was brought home to us recently in Cleveland in the vast investigations in some of the banks. Nearly fifty percent of of the banking facilities and some three million dollars were involved in these closed banks. Cleveland stands out in the country as one of the few cities where the financial structure broke down most disastrously.

The startling disclosures which were brought to light by the investigation which is going on, how the interest of the depositors were consistently sacrificed to personal greed, the manner in which responsible heads of these financial institutions exploited their trusts and their knowledge, the miserable subterfuges to which they resorted to in order to mislead the public, the fine fingerprint of finesse which they frequently displayed while keeping within the letter of the law, while at the same time they speculated with other people's money -- all these accumulated evidences of financial debauchery have left a strench in the nostrils of our people.

And these acts of civic betrayal -- for they were that -- these acts of civic betrayal were performed by leaders of the community, not by nondescript individuals. They were performed by so called public spirited citizens, men prominent in our social and philanthropic life, men staid and respected, church going men.

Is there any wonder then why people have lost confidence not merely in the financial institutions but in the entire civic leadership of our people? The people who trusted in these men have been hoodwinked and victimized by the shocking duplicity of men who have been models of civic virtue in public and cheats, grafters and chiselers in private.

This indictment cannot of course in justice be made to cover all bankers and all public leaders of this city and it is not so intended. There are banks that performed and are performing in our city their large economic functions, honestly and intelligently. They have merited and they do now merit the full confidence of the people. There are businessmen in this community and everywhere who would never and have never attempted to amass great fortunes through financial juggling with other people's money and an effort to expose the malefactors is the greatest possible service which can be rendered to the honest men and the honest institutions. For that which destroys public confidence is not a criticism of evil but the perpetration of evil.

It is clear to anyone who has followed the recent investigation closely that the closed banks need not have closed at all in spite of the depression if the men charged with their administration had applied themselves to the legitimate business of managing their banks and had zealously safeguarded the interests of their depositors -- in other words, if they had been bankers instead of money sharks.

It is equally clear that a few financial jugglers in the city practically wrecked the two greatest banking institutions here; and that if the heads of the institutions had been as eager to protect their depositors and their stock-holders as they were to further the preposterous schemes of a few wizards of finance, banks would be open today.

The story of these two gentlemen, these captains of finance who helped to wreck the banks, ought to be written down in book form and preserved for future generations. It is an excellent record and testament of the amazing business era which has now come to a close.

There was a time when these two gentlemen brothers were regarded as a sort of sacred cow which could not be criticized. The public and the press joined in one great hallelujah to these great builders of Cleveland.

There were a few, however, but their voices were not hearkened to -- there were a few people who prophecied years ago that Cleveland would wake up one day with a terrific Van Sweringen headache. It was clear to any cool observer of the economic trend in the life of the community that the great and costly building project these men were developing on the Public Square was unnecessary and therefore an economic waste for which the people here and elsewhere would some day have to pay.

The growth of the city, its industrial expansion did not warrant that building project. The city needed a new Union Depot, nothing more. The Van Sweringens did not only give the city a new Union Depot -- with only three railroads running into it -- but they gave the city much more than it needed. As a result the normal development of the city -- the normal expansion radiatingaway from the public square was interrupted.

Real estate values in other parts of the city were destroyed. Office buildings on Euclid Avenue were depleted to fill the new office buildings in the terminal area thereby destroying the value of these buildings. The Terminal project which cost ninety-three million dollars is now a white elephant and the tax delinquency of that group of buildings alone annually amounts to some seven hundred thousand dollars.

The first large scale enterprise of these two gentlemen was real estate. Vast tracts of farm lands between Shaker Heights and Chagrin River were parcelled out into suburban lots far beyond the needs of the metropolitan population. The development of that farm land followed. Roads, sewers and watermains had to be built. These improvements were paid for in part by the company and in part by public funds. Part of the public funds thus expended were of course assessed against the property and the taxes were paid by the people to cover interest and amortizations on these properties. There is today an accumulated tax deficit of nearly three million dollars.

If your county has not the wherewithal to pay its employees and teachers, you will understand at least a part of the reason for the cause of the deficit.

These same gentlemen then proceeded to acquire control of the Cleveland Street Railway Co. This was done in order to bolster up their Rapid Transit which was operating at a great loss in order to focuss transit operations so as to benefit their Terminal and Shaker Heights properties. The Guardian Bank accomodated these gentlemen with a million and a half in order to gain control of the Cleveland Railway Co. Today this stock of the Cleveland Railway Co. which has a guaranteed six percent return is selling between thirty-six and forty. The city has a less efficient system. The stock-holders are the poorer for this absorption of the Street Railway lines in the Van Sweringen financial octopus.

These two gentlemen are renowned throughout the land as builders of a railway empire. This sounds romantic to the American ear. Few people stop to inquire about the financial manipulation, the terrible cost which was paid not by the empire builders themselves but by those whose money was used through bank loans to finance these vast operations without their knowledge and without their consent--whose monies were endangered and wasted in these vast financial operations.

The Van Sweringens began their great railroad pyramid with the purchase from the New York Central of its holdings in the Nickle Plate for two million dollars. Did the Van Sweringens pay the two million dollars out of their own funds? Not at all! Anybody could do that. Empire builders use other people's money.

Here again the Guardian bank was the good angel. This is the way it was done. The Nickle Plate deposited two million dollars of the company's money in the Guardian -- not the Van Sweringen's money. The Nickle Plate money was deposited in the Guardian. The Guardian then loaned the Van Sweringens two million dollars. The Van Sweringens took the two million dollars and purchased the holdings of the New York Central in the Nickle Plate and that which they purchased was used as collateral for the two million dollar loan. In other words the Van Sweringens purchased the stock of the railroad with the railroad's own money. That is empire building.

Now if all these projects to which I have alluded had been carried on by these gentlemen with their own capital, we might question the social utility of the project but no one would have the right to question their right to do with their money whatever they wanted. But other people's monies were used -- monies taken from the coffers of the banks, monies deposited, the savings and earnings of hundreds of thousands of people.

When the Union Trust Company closed its doors, the Van Sweringen interests owed that concern over ten million dollars -- the people's money. What the collateral is worth, I leave to your imagination.

But this is significant. At one time four and one-half million dollars worth of good collateral posted against this loan by the Van Sweringens was withdrawn from the Union Trust Co. with the consent of its officers and sent to the J. P. Morgan Co. of New York. In place of the four and one-half million dollars of collateral they substituted collateral worth three hundred and eighty million dollars. In November, 1929, the Vaness Company, a Van Sweringen organization borrowed nine million dollars. Four Cleveland banks participated -- The Union Trust Co., two million dollars and the Guardian, two and one-half million dollars. The collateral posted, at least with the Union, had absolutely no market value, consisting almost entirely of stock of the Van Sweringen's own companies. In other words, good money was taken from the banks and paper was substituted for it.
I single out these two gentlemen, not because I have any particular animosity toward them. I don't know them. Though I believe that they were largely responsible for what happened in our community, there are other people who helped.

There was a gentlemen by the name of Kenyon V. Painter, one of the directors and the largest stock-holder of the Union. This gentleman was able to borrow four and a quarter million dollars from that bank, three of which are not yet paid. And it was brought out by the investigation that bank appraisers had boosted the value of his collateral in some instances eight hundred percent in order to make possible a new loan. In one instance it was brought out that he was allowed to draw out one-half million dollars without any payment on the loan. It was suggested that the loan was made by the bank to Mr. Painter for the purpose of enabling him to buy stock and thus to keep up the value of the stock in the Union -- all with other people's money -- not their own.

Mr. Painter is today basking in the sunshine of Italy just as Mr. Insull is today basking in the sun of beautiful Greece. Remarkable what a yearning these gentlemen get for the Old World. I would suggest that Mr. Painter not try any such stunts in Mussolini's Italy.

It was a common practice for directors and officers of both of these banks to loan themselves money out of the funds of the banks. Thus the officers and directors of the Union Trust borrowed eight and three-quarter million dollars of which seven million is still unpaid, and the officers and the directors of the Guardian borrowed three million dollars. Many more millions were loaned to corporations in which these officers and directors had sizable financial interests. The Guardian Bank, I understand, was fond of indulging in a practice of deluding its depositors, a practice popularly known as window dressing. The purpose of this window dressing is naturally to show that the bank is in better financial condition than it really is --

to decrease bills payable and increase bills for deposit. Here is the way it is done. In 1931, for example, -- sometime in 1931, the Guardian borrowed seven million dollars from a credit corporation in New York. They of course sent collateral to cover the loan. Around statement time the credit corporation was asked to forward collateral to some bank in New York. The bank in turn was asked to pay the credit corporation seven million dollars. Instructions were given to the bank that in three or four days collateral was to be returned to the credit corporation and the loan reinstated. In the meantime, the Guardian issued a check to the bank for seven million dollars. This was detached. The check would be in transit or in clearance at the time the statement was drawn up, so that in this public statement, the amount of the check -- seven million dollars was included in the deposit liabilities of the bank, thereby increasing the total deposits by seven million dollars. At the same time it was carried as a payment of the bank's liability. The deposits aggregated seven million dollars more than the actual deposits and the liabilities seven million dollars less than they really were. That is real "chochma". That takes brains. And on six different occasions the Guardian indulged in this deception, a deception which if practiced by the individual business man would send him to the penitentiary.

Another practice which was generously indulged in was the following. As you know, there are two types of depositors; demand depositors, who can withdraw money from the bank without giving notice; and time depositors, who must give notice of intention to withdraw. A three percent reserve must be kept in the Federal Bank against time money and a ten percent reserve must be kept against demand money. In order to delude the Federal Reserve, in order to deposit only three percent on all deposits instead of ten percent on all demand deposits. banks would request depositors to send the bank a letter stating that all their deposits were really time deposits, but actually the bank would promise their depositors to count their money as demand deposits. This letter might interest you. It was written by a Sr. Vice-President to one of the bank's depositors.

"As you know, we have to keep a ten percent reserve in the Federal Bank against money which we have on demand and a three percent reserve against money which is called time money.

"Some of our larger customers are cooperating with us so that we can count their deposits as time money and I am wondering if I can have an understanding of the same nature with you.

"All I would ask you to do would be to write me a letter stating that the money held on deposit here by your company would not be drawn except upon a thirty day notice to us.

"That letter we would use only in the event the Federal Reserve Bank asked us for evidence supporting our contention relative to time deposits. I want you to understand, however, that your money is subject check whenever you require, the same as usual.

"This may seem a very unusual request but the first time I see you I can explain more in detail. Of course, this letter is strictly confidential between you and me.

I wish I had the time to speak of another pernicious practice which helped to wreck the banks, the practice of affiliates. The purpose of the affiliates is to hide the operations of the bank and to show that the bank is more liquid than it really is. I understand that the Guardian had twenty-six affiliates.

A word really ought to be said about the salaries of officers and directors of banks. It is indicative, it shows a certain cynicism in the trust which men had for them. The directors and officers voted themselves salaries. The depositors did not vote the salaries. Now, the Governor of the Bank of England -- which also is a pretty good financial institution -- gets an annual salary of ten thousand dollars. The Governor of the Federal Reserve gets a salary of twelve thousand. The President of the United States, and all his "tzores" gets a salary of seventy-five thousand dollars annually. But J. Arthur House pulls down the salary of one hundred eight thousand dollars. That, of course, includes a Christmas present and bonuses. He never forgot to give himself a Christmas present. Think what this gentleman did for his depositors for one hundred eight thousand dollars and think what he might have done were he to get two hundred thousand dollars.

Ohio is one of the few states in the Union which permits banks to invest in common stock. An examination of the portfolios of the closed banks shows that much of the stock is of a highly speculative nature not fit for investment purposes and that many of the stock securities in those portfolios were in companies of which officers of these banks were financially interested. Not only were the bankers themselves culpable. The State was culpable. The men charged with the inspection of the banks were culpable. The law provides that every bank in the state should be examined twice annually. In cities which have a Clearing House Association, the banks were assessed and paid for the expense of the investigation which was to take place twice a year. But the last examination of the Guardian took place in 1923 and even the State Bank departments only examined this bank three times since 1928.

Why do I recite these facts? I recite them as evidence of a total break down of business ethics on the part of many lenders of money. It is evidenceof a moral debacle to which much of our grave misfortune in the city must be placed.

I make bold to say that if our country finds it more difficult to get out of this depression than any other country, in spite of our great economic resources, the reason for that must be placed not to the impersonal depression but to the undermining of the financial structure and our credit structure by these wizards of finance -- the Insulls, the Eatons, the Wiggenses and hundreds like unto them who have brought the foundation of that structure down in ruins about them.

It will take this country years to recover. It is a moral bankruptcy of the financial leaders quite as much as a world-wide depression in which we are now living.

Ultimately, of course, these banking abuses will be corrected by the government. I am sure we will have one uniform Federal Banking System instead of forty-nine -- forty-eight State and one National. The Glass Bill has already adopted many necessary banking reforms. But no system is rascal proof. This break down in in ethics and honor of people in high positions will stand as a blot on the record of our nation.

But this is not my construction, only. It is the construction of men from within the banking system. I should like to read a sentence or two from an article called "Wanted: Real Banking Reform." "But the large banks which got into difficulties and failed, or barely excaped failure, did so solely because of the kind of business they transacted. They deliberately extended their activities beyond the proper function of commercial banking, not because they were driven to do so by the necessity of obtaining adequate earnings but because of the inordinate greed of their managers for profits. They used the funds of their depositors for speculation, whether in the form of purchasing high-yield but low-grade securities, or of making long-term loans against real estate mortgages or lending too freely to their own officers and directors, or of trafficking in stocks and bonds through their own securities affiliates." Our city of Cleveland had its full dose of all these practices. Hinc illae lachrimae? Wherefore those tears?

1. As a rule - inclined to attribute our depression to impersonal causes
Overproduction - underconsump - frozen credits - shrinking - gold stan. uncollectable

The more we dwell on these real or putative causes - overlook the human, the personal equation

A world-wide econ. depr. is undoubtedly due to

But the reason for ~~effect~~ depth - the degree of its severity which varies - must be sought for in conditions closer to home, in the distinc. legal or inst. set-ups of each locality, or in the practices of the men who control

2- Thus if no banks failed in England or Canada in spite we cannot rightly ascribe their failure entirely, or even largely, if at all to the Dep.

In the same way we must ask ourselves why certain banks in the U.S. failed while - survived the storm

And when we thus pass from the general to the part. we shall discover that in almost every instance mismanagement, bad banking practices, greed, callous - were, in a large measure.

3. We shall also discover that in almost every instance of large bank failures, collusion bet. bank executives and a relatively few big industrialists, speculators or captains of finance, was responsible for undermining the solvency of those institutions

4. How much the personal equation, ~~as the~~ can be a factor in the failure of financial institutions was brot home in the recent ~~investigations~~ of some of our closed banks. 2.

nearly 50% of the banking facilities of Clev. and some 300 m. ~~were involved in the cl~~ of depositors money were involved in these closed banks.

5. The startling disclosures which were brot to light.
- how interests of depositors - consistently - personal greed
- the manner in which resp. heads exploited
- the miserable subterfuges resorted to - mislead
- the fine-finger finesse which they frequently displayed in keeping within letter of law - speculation
- the accumulated evidences of financial debauchery stench in nostrils of our people.

6. And these acts of civic betrayal - performed by leaders in
- so-called public spirited men
- men who figured prominently - philanthropic life
- staid and respectable church men

Is it any wonder that men have lost confidence not only - entire civic leadership
- They, who trusted these men, had been hood-winked and victimized by a shocking duplicity on the part of men who were found to be models of civic virtue in public, and cheats, and grafters in private

3

7. The indictment, cannot of course, be made to cover all bankers and all bus. leaders in our city, and it is not so intended.

- There are banks which have performed - honestly intelligently
- They have merited and do now merit - confidence
- All men within a given calling - tarred with same
→ There are business leaders - attempted amass them financial juggling with other people's money.
→ An effort to expose the malfactors - greatest service to these men and to these institutions.
→ For ~~that~~ the man ~~which~~ who destroys confidence is not the critic

8. It is clear to anyone who has followed up the recent crisis of the closed banks - that these banks need not if the men charged with their administration had applied ess. - legitimate bus. of their banks and had ~~[illegible]~~ zealously guarded

- In a word - if they had been bankers - money sharks.

9- It is equally clear that a few financial jugglers practically wrecked the two great banks -
And that if the heads of these institutions had been as eager as they were ~~th~~ to further the preposterous financial schemes of a few men, in the hope - be operating

10- The story of 2 of these gentlemen deserves to be written down
and preserved for future generations
It is an excellent record and testament of the amazing bus.
era
There was a time when these 2 — sacred cows — criticize
Public and Press joined in one great hallelujah
There were a few, however, who prophesied — first-class

11- For it was clear — that the great + costly building project
which they were develop. on the Public Square — was
unnecessary + ∴ an econ. waste — for which the people
– The growth of the city — and its indust. + bus. expansion
– The city needed a new Union ~~Terminal~~ Depot + nothing else
– The V.S. did not give the city a Union Depot — 3.
and they gave much besides which the city did not

12- As a result, the normal devel. of the city, radiating
away — was interrupted.
– Real Estate values in other parts of the city destroyed
– The decline in property value on Euclid Av. 1924 and 1929
– Office buildings were depleted to fill — destroy. value

13. The ~~Depot~~ Terminal project cost 93 m. — and it is now a white Elephant
Tax delinquency — $700.000

(5)

14. The first large-scale enterprise of these 2 gentlemen was Real Estate.
- Vast tracts of farm land bet. Shaker Heights and Chagrin River - parcelled out into suburban lots.
- far beyond the needs of the metropolitan population
- Roads, sewers and watermains had to be built
- These improvements were paid for, in part by the Co. and in part by public funds
- Part of the public funds, thus expended, are, of course, assessed against the property, and taxes are paid by the property owners to cover interest and amortization
- On these properties, ~~___~~ for the improvement of which public funds were expended, there is to-day an accumulated tax deficit of - $2.800.000

15. The same gentlemen then proceeded to acquire control of the Cl. Street Railway.
In order to bolster up their Rapid Transit lines which were operating at a great loss.

And in order to ~~___~~ focus transit operations so as to benefit their Terminal and their Shaker Heights properties
- The Guardian Bank accomodated, 1½ m. of deb. money stock control
- To-day, the stock of the Cl. - 6% guarantee - selling 36-40.
- The City now has a less efficient - stock-holder - power - absorption by Octopus -

16. - These 2 gentlemen are renowned as builders of a Railroad Empire.

- This sound romantic to an Amer. ear.
- Few stop to inquire about the finan. manipulations which precede such a monumental undertaking and the terrible cost not to the builders, but to those whose money, thru bank loans, was used in the undertaking, without their knowledge & consent
- The V.Sw. began their great railroad pyramid with the purchase from the N.Y.C. of its holding in the Nickle Plate - for 2 m.
- Did they use their own 2 m? Not at all. Empire builders use other people's money. - It is reported
- Again the Guardian Bank was the good angel
- The N.P. deposited 2 m. of the Co's funds in the G.
- The bank then loaned the V.S. 2 million d.
- The V.S. then paid the N.Y.C. the 2 " for the N.P. stock which was used as a collateral for the loan
  In other words the V-S. purchased the stock of the railroad with the railroad's own money

17. Had all these projects which the V. - their own capital

- But other peoples money was largely used - Money which people deposited for safe-keeping with banks
- Their savings, their earnings were worked in these grandiose schemes

17

18. When the Union Trust closed - the V. interests owed the bank more 10 m.

- The present value of their collateral - left to imagi.

- Part of the orig. collateral - 4½ - was withdrawn with consent - J. P. Morgan & Co - Other collateral was substituted - $380.000.

19. In Nov. 1929 - Vanses Co - borrowed 9 m. - 4 banks - Union 2 m; Guardian 2½.

- The Collateral pledged with Union had no market value
- It consisted almost entirely of stock of Van's own companies.

20. There was another big manipulator who helped to drain the resources of one of the banks.

- Kenyon V. Painter; one of the directors & the largest stockholder of the Union was able to borrow 4¼ m. - 3 m. of which is still unpaid.
- It was brot out in the investigation that bank appraisers had boosted the value of his collateral, in some instances, 800 %. to make possible the loans
- In one instance ½ m. of collateral was allowed to be withdrawn, without any payment on the loan.

- It has been suggested that the loans was made by the bank for the purpose of enabling Mr. Painter to purchase the Bank stock in order

- In Italy - Greece.

21a It was a common practice for the directors & officers of the G. to loan themselves money – the depositors' money.

Union. 8¾ m – 7 still unpaid

Guardian. 3 m – and many more m. to corporations.

21. Guardian – fraud – Window Dressing – to delude depositors

- The purpose of W. Dr. is to show that the bank is in a stronger position than it really is – to reduce the amount of bills payable and increase the total amount of deposits.

- when the financial statement of the bank was to be published, the following maneuver was resorted to

- 1931, borrowed 7m. from Credit Corp. of N.Y. and sent collateral to cover loan.

- Around statement time, Credit Corp. asked to forward coll. to a bank in N.Y.
- Bank ordered to pay Credit Corp. 7 m. ~~for which~~ ~~the G. sent the bank a check for 7 m~~.

- Instructions were also given that after 3 or 4 days collateral was to returned to Credit Corp. and the loan reinstated.

- In the mean-time the Guardian would issue a check to the N.Y. Bank for 7 m.

- This check would be in transit or clearance on the day the statement was issued.

- In the statement the amount of the outstanding check was included as a deposit liability, thereby increasing the total amt of deposits by 7 m.

at the same time it was carried as payment, the bank's liability

– So that the final condensed statement showed deposits aggr. 7 m. more than the actual deposits
And liabilities 7 m. less than they actually were.

On 6 diff. occasions Guardian indulged in this deception.

22. Another practice
(1) Demand deposits (2) Time deposits
Against Demand – 10% . Time – 3%.
– In order to delude Fed. Reserve
(Just)

23. Affiliates – pernicious practice
Purpose – hide operations of bank, cover up losses and give false picture of the liquidity of the bank

2-6.

24. Salaries – Cynicism. Voted Ess.
Gov. of Bank of England – 10.000
" " Fed. Reserves – 12.000
Pres. of U. S. – 75.000
J. Arthur House – 108.000. Bonus + Christmas bonus
– He never forgot to give himself
– Think what he might have done

(7) Ohio is one of the few states in the Union which permits banks to invest in common stock. An examination of the portfolios of the closed banks shows that much of the stock was of a highly speculative nature, not fit for investment purposes. Many of these stock securities were issued by companies in which the officers & directors of the banks had sizable financial interests. Some of the collateral on loans belonged to this same class.

(8) Law provides that every bank in State should be examined twice annually in cities which have a Clearing House Assessor. Banks ~~pa~~ were assessed and paid for their examination.

But the last examination of the Guardian took place in 1923.

State Banking Dept. only 3 exam since 1928.

B. Recital – Total break-down of business ethics – moral debacle – { If our econ. depression is more severe than in any other country, there is a reason in the kind of finan. practices we indulged in; bank frauds – swindlers, wizards,

(1) Ultimately correction – Federal Banking ~~Law~~ System instead of 49 systems.

(2) The Glass Bill has already enacted many necessary banking reforms.

(3) But the record of the break-down should be kept clear. Man was found sadly wanting. Not merely institutions! Those who knew better. Of its leaders!

May I interject in these days of Anti-Sem. – Jews.

Writing in Harpers – Oct. Wanted: Real Banking Reform' – Mr. Isaac Green: states –

Cleveland has had a full dose of all these practices. We were spared none –

the experience of this country in recent years (not to mention the experience of Canada) would indicate that a minimum capitalization of from $300,000 to $500,000 would be desirable. This, of course, would necessitate the elimination as independent units of from 85 to 95 per cent of all the banks now operating in the United States, these smaller units being transformed into branches of larger institutions.

A system composed only of large banks, however, will not of itself be sufficient to insure immunity from failure. This is amply demonstrated by the record of failures in recent years among large institutions. The Congressman quoted above was well within his rights in implying that many of our large metropolitan banks have been badly managed; so badly managed indeed, that in all probability many of those which have escaped failure would have succumbed had they been obliged to meet the conditions which the small crossroads banks have had to contend with.

But the large banks which got into difficulties and failed, or barely escaped failure, did so solely because of the kind of business they transacted. They deliberately extended their activities beyond the proper function of commercial banking, not because they were driven to do so by the necessity of obtaining adequate earnings but because of the inordinate greed of their managers for profits. They used the funds of their depositors for speculation, whether in the form of purchasing high-yield but low-grade securities, or of making long-term loans against real estate mortgages or lending too freely to their own officers and directors, or of trafficking in stocks and bonds through their own securities affiliates.

A second indispensable condition for a sound commercial banking system, therefore, is that its functions be rigorously defined and adhered to. In other countries, notably Canada and England, this has been largely attained through the operation of large banks over long periods in accordance with firmly established traditions. In this country, however, no such traditions have been established. There are honorable exceptions scattered about here and there, not only in the large cities but in the smaller centers; but unquestionably the overwhelming majority of our banks not only engage in every sort of business permitted by law but through their legislative lobbies are constantly endeavoring to have the restrictions of the law relaxed.

Under such conditions the functions of our commercial banking system will have to be defined and enforced by law. Manifestly, moreover, it will have to be federal law and made applicable to every commercial banking institution in the United States. Our experience with forty-eight separate State systems, each competing in laxity with the national system, has made it clear beyond question that all commercial banking must be brought under federal control. For, quite apart from the fact that many of the States would undoubtedly continue to offer inducements for the operation of banks under their own laws rather than those of the federal government, the commercial banking system, with its responsibility for the trustworthiness of our principal medium of exchange, must be, above all other economic agencies, an instrument of the nation as a whole.

IV

A commercial bank should be defined by federal law as any institution which accepts money from the public in the form of deposits. Other institutions should not be allowed to accept deposits as such; nor should they be permitted to use the word "bank" in a corporate or firm name. Thus a bank should always be understood to mean a commercial bank. All deposits should be legally on the same basis, and subjected to reserve requirements in proportion to their actual rate of turnover rather than to any classification the banks might wish to make as to those which are payable on demand or after notice. The banks should be allowed to pay interest on deposits only to the extent necessary to procure the funds needed for their legitimate operations, and the Federal Reserve Board should be vested with authority to impose limitations on the rate paid. (For reasons that will become clear later on, the Board should also be empowered to limit the interest rate charged for loans.)

The guiding principle of all banking legislation should arise out of the fact that the banks are the custodians and the creators of deposit currency. Everything necessary for the proper performance of this function they should be permitted to do. Everything which would impair their efficiency or endanger their safety in this role should be prohibited.

This means in practical application that they should operate as strictly commercial banks. Unfortunately, the word "commercial" as applied to banking cannot be rigorously defined. In a general way every banker knows what it means; that is, he knows that a commercial bank is an institution which accepts funds from the public in the form of deposits and invests those funds in short-term loans for commercial purposes. But over such questions as exactly how long a short-term loan may be and precisely what kind of transactions are commercial there may be endless disagreement. The Federal Reserve Board has attempted to settle these questions by its definition of the requirements of paper eligible for rediscount—that is, the notes and other credit instruments which may be turned over by member banks to the Federal Reserve Banks in exchange for cash. And its definition has been based squarely upon the suitability of the paper in question as collateral for the issue of Federal Reserve notes, which for all practical purposes are exactly the same as deposit currency.

Most of the bankers of the United States apparently believe that they should be permitted to invest a portion of the funds entrusted to them in securities, on the theory that these can always be readily sold for cash and will, therefore, constitute what is called a "secondary reserve." But the secondary reserve theory, so far as the banks of the United States are concerned, has been thoroughly discredited during the past few years. When it has become necessary for banks to realize on their securities, their precipitate action in trying to sell them in large volume has demoralized the market. Bank assets have thus suffered such severe declines in value that many institutions have been rendered insolvent and forced to close their doors. No doubt this is to a considerable extent explained by the fact that their holdings have been made up of too large a proportion of low-grade or speculative securities. But absolutely all long-term securities are to some extent speculative. So also, of course, are short-term commercial notes, but clearly the element of speculation here is much less than in the case of stocks and bonds. Consequently, in accordance with strict commercial banking principles, the banks should not be allowed to own as investments any long-term securities whatever.

In this country an exception will no doubt have to be made in the case of government securities, so long as our national debt remains so large as it is and continues to increase. This will be necessary in order to find a market

THE GUARDIAN TRUST COMPANY

LETTER FROM CORRESPONDENCE FILES (COPY)

October 23, 1929

Mr. E. H. Johnston,
c/o Henry L. Doherty & Company,
New York City.

Dear Mr. Johnston:

As you know, we have to keep a ten per cent reserve in the Federal Bank against money which we have on demand and a three per cent reserve against money which is called time money.

Some of our larger customers are cooperating with us so that we can count their deposits as time money and I am wondering if I can have an understanding of the same nature with you.

All I would ask you to do would be to write me a letter stating that the money held on deposit here by Henry L. Doherty & Company or the Cities Service Company would not be drawn except upon a thirty day notice to us.

That letter we would use only in the event the Federal Reserve Bank asked us for evidence supporting our contention relative to time deposits. I want you to understand, however, that your money is subject check whenever you require, the same as usual.

This may seem a very unusual request but the first time I see you I can explain more in detail. Of course, this letter is strictly confidential between you and me.

Very truly yours,

(Signed) H.C.R.

Senior Vice President.

HCR-CT

1. ~~Heretofore~~ As a rule we have been inclined to attribute dep. to impersonal causes: overproduction, underconsumption, frozen credits; shrinking world markets; the gold standard, uncollectible foreign debts. The more we dwell upon these putative or real causes of the dep. the more are we prone to overlook the human, the personal equation in the situation ~~theme~~. A world-wide econ. depression is undoubtedly due to the operation of general econ. laws. But the extent ~~quantity~~ of the depression, the degree of its severity which varies from country to country and from locality to locality must be sought for in conditions ~~closer~~ to home, in the peculiar legal institutional set-up of each locality, and in the practices of the men who guided ~~behind~~ their institutions and the financial structure.

Thus if no banks failed in England or in Canada in spite of the world-wide depression and thousands of banks great and small crashed in the U.S. — we ~~other do not~~ cannot logically ~~attribute~~ ~~explain~~ their failure, these banks ~~to~~ entirely or even largely if at all to the depression. ~~But if~~ In the same way we must ask ~~inquire~~ ~~what part~~ why certain banks in the U.S. failed, while others were able to survive the storm. And when we thus pass from the general to the particular, we shall discover that in almost every instance ~~there was~~ mismanagement, bad banking practice, greed and callous irresponsibility to a social trust were in a large measure responsible for the financial collapse.

We shall also discover that in almost every instance collusion bet. the bank executive ~~officer~~ and a relatively few big indebted, speculators, or financial manipulators was ~~who~~ responsible for emptying the coffers of the banks of their real money ~~of the deposits~~ and replacing them with the kind of securities which waste away ~~to~~ when ~~they the~~ most ~~need them, needed~~ sharp blasts of adverse econ. conditions strike them

How much the personal element ~~was~~ + not the depression itself is a factor in the failure of financial institutions was brot home to Clevelanders in the investigations, the last 6 months, of the 2 closed banks - G. & Union, of the third - the Standard - whose Pres. was recently sentenced to the Penitentiary. Nearly 50% of the banking facilities of Cleveland were involved in the closed banks of ~~this~~ our city. And some 300 m. dollars of depositors money.

The ~~so~~ startling evidence which was brot to light of how the interests of the depositors were consistently sacrificed by the resp. heads of these great institutions to personal greed, the manner in which they exploited their position and their information which they possessed, the miserable subterfuges to which they resorted to mislead ~~the~~ people, the finesse which they proficiency ~~displayed~~ in keeping within the letter of the law while shamefully ~~sacrificing~~ speculating with other people's money - these accumulated evidences of financial debauchery have been a stench in the nostrils of our people here.

And these acts of civic betrayal were performed by leaders in the commun. - so called public spirited citizens - men who figured prominently in the philan. life of the city - staid and respectable church men. Is it any wonder that men have lost confidence not merely in the financial institutions of our city - but in its entire civic leadership as well. They have been bewildered and outraged by this amazing duplicity X on the part of ~~men~~ civic leaders whom they trusted and whom they now discover to have been models of civic virtue in public and cheats ~~and~~ grafters and chiselers in private. (over)

~~Fact~~ It is clear to any one who has followed up the recent investigations of the closed banks, that these banks need never ~~not~~ have closed, if the few men entrusted with their administration had applied even to the

The indictment of course does not cover all banks and all business leaders in the city. There are banks which have performed and are performing their econ. functions in the life of our community, honestly and intelligently. ~~and~~ They have merited and do now merit the fullest confidence of our people. ~~and~~ All men within a given calling cannot and should not be tarred with the same brush. There are bus. leaders who have never attempted to amass wealth thru financial juggling with other people's money.

An effort to expose the malfeasors is the greatest service which can be rendered these men and these institutions. That which destroys confidence in them is not the critic of evil but the perpetrator of evil by intricate business of their banks, and had zealously guarded the interests of their depositors; in other words, if they had been bankers, instead of money sharks.

It is equally clear that ~~the Van Sweringens~~ a few financial wizards practically wrecked both the Union & the Guardian banks, and that if the heads of these banks had been as eager to protect their hundreds of 1000s of depositors and stockholders as they were to further the preposterous financial schemes of these few men, in the hope of sharing in the profits, ~~these~~ the banks would be operating to-day.

The story of ~~these~~ two of these gentlemen deserves to be written down in book-form and preserved for future ages. It ~~will~~ would make an excellent testament and record of the amazing business era which ~~came~~ has come to an end. ~~in 1929~~ There was a time when these 2 were the sacred cows of Cleveland. No one dared to utter a word of criticism of them. Public & press joined in a mighty hallelujah to these great builders of Cleveland. There were a few people ~~I was among the~~ ~~very few~~ who 10 years ago prophesied that they ~~would~~ would some day wake up with a first-class, terrific V.S. headache.

For it was clear to any cool observer that the great & costly building project which they were developing on the public square was unnecessary and therefore an economic waste for which the ~~city~~ people, the city and others would some day have to pay. The growth of the city and its industrial expansion did not warrant it. The city needed a new union depot and that's all. That depot should have been built when the old one was, on the Lake Front. The V.S. did not give us a Union Depot — for only 3 roads out of 7 run into it to-day, but they gave us much besides which the city did not need.

As a result the normal, ~~radiai~~ devel. of the city radiating away from the Public Square was stopped; real estate values were destroyed — the decline in property values on Euclid Av. for example began not in 1929, but in 1924 — office buildings were ~~emptied~~ depleted to fill the new office buildings constructed by the V.S. — thus destroying ~~the~~ value and impoverishing their owners.

The depot project cost 93 m. dollars and it is now a white elephant. The tax delinquency on it amounts to —

The ambitious real estate development out Shaker Heights way and elsewhere is a story all by itself.. Vast tracts of farm land were — farm, lanes and the woods; the speculative development — parceled out in suburban lots. Roads, sewers and watermains had to be built. These improvements were paid for in part by the ~~Vans~~ V.S. developing co, and in part by public funds. Part of these public funds thus ~~so~~ expended are assessed against the property and taxes are paid by the property owners to cover interest and amortization. On these properties there is now an accumulated tax deficit of — ~~But the county has to pay interest on its bonds, and the interest is a first lien on taxes paid.~~

The same gentlemen then proceeded to acquire control of the Cl. Street Railway in order to break up their Rapid Transit, and to force transit operations in the city so that their properties at the Terminal and Shaker Heights would be benefited. The Guardian Trust accommodated the V.S. with a loan of 1 1/2 with which to let them acquire stock control of the Street Railway.

The ~~Street~~ street of the Railway tho it carries a six percent guarantee is now selling at 36–40. The city now has a less efficient street railway system and the stock-holders are the poorer – ~~for~~ because of this absorption into the V.S. octopus.

The V.S. are builders of a railroad empire. That sounds romantic to the ear of an average American. The financial juggling which precedes such a monumental undertaking and the sensible cost, not to the builders but to ~~those~~ whose ~~money~~ the banks' loans ~~they used~~ in the undertaking – ~~frequently~~ without their knowledge or consent, he is not always aware of. Thus the V.S. began their great railroad pyramid with the purchase of ~~the Nickle Plate~~ from the N.Y.C. for ~~2 m. dollars~~ of its holding in the Nickle Plate for 2 m. dollars. Did they use their own 2 m. dollars in the transaction. Not at all. No one can do that. Empire builders use other people's money. Again the Guardian Bank was the accomodating friend. And here is how it is reported to have been ~~was~~ done: The Nickle Plate deposited 2 m. dollars of the Co's funds in the Guar. Bank. The bank then loaned 2 m. dollars to the Vans. The Vans then paid the 2 m. to the N.Y.C. for the Nickle Plate Stock which was used as collateral for the loan. The Vans, in other words, purchased the stock of the railroad with the railroad's own money! ... And this stock became the basis of ~~many~~ the railroad Empire ~~of the future for railroad ...~~ ~~of the Vans~~ which the Vans built.

Guardian! When the Union ~~or~~ Trust Co ~~Bank~~ closed the Van. S. interests owed that bank more than 10 m. dollars. ~~Their~~ The present value of their collateral ~~is worth~~ may well be left to your imagination. Part of the original collateral which the V. put up to cover their loan of 4 1/2 m. for Empire was with-drawn by them with the consent of the Bank examiner

Had all these projects which the V. were fostering ~~carrying~~ ~~on~~ thru their numerous paper organizations, been carried on with their own capital, the V.S. would have been risking their own, and while one could criticize their wisdom or their social utility ~~, they~~ one could not question their right under the system in which we live.

But o these people's money was largely used! The money which people deposited for safe-keeping with banks: their earnings and their savings were worked in these ~~schemes~~ grandiose schemes.

turned ~~to them~~ over to the J. P. Morgan & Co; presumably as the basis for an additional loan; and only $380.000 was put back in substitute collateral with the Union.

~~This same bank illegally invested in V.S.'s Alleghany Corp. and lost 1/4 m. dollars.~~

In Nov. 1929 - the Vaness Co. a V.S. corp made a loan of 9 m. 4 banks participated in it. The Union = 2 m. The Guardian = 2½ m. Now, the collateral posted with Union had a market value. The collateral consisted of ~~shares~~ stock in V.S. own companies.

~~Thus unscrupulous big business and irresponsible banking conspired to dissipate the earnings & savings of the citizens of Cleveland.~~

~~Of others~~ A few other items of banking practice in these closed banks are significant

(1) Union advanced loans totaling 4 1/4 ~~3½ m.~~ dollars to Kenyon V. Painter one of its directors, and its largest stock holder. 3 m. still unpaid! Bank appraisers boosted the value of his collateral 800% to make possible the loans. In one instance 1/2 m. collateral was returned to Mr. Painter without any payment on his loan.

It has been suggested that the loans were made by the bank for the purpose of enabling Mr. Painter to ~~purchase~~ the bank stock in order to keep up the market value of the U. Trust Co. stock.

Mr. P. is now, ~~basking~~ I understand, basking in the sunshine of Italy. Advise him not to loans made to officers & directors concerns

(2) 8 3/4 m. loaned to former officers and directors of Union. Nearly 7 m. still due. Directors of G. owe about 3 m. & the Corporations in which they are interested ~~from 15-20 m.~~ millions more.

(3) The Guardian B. was especially fond of that well-known practice of window-dressing to delude its depositors and prospective depositors. The purpose of this window dressing is to reduce the amount of bills payable shown in the published financial statement, and increase the amount shown as total deposits. ~~This was accomplished by a series of maneuvers assisted by some bank in N.Y.~~

The G. ~~owed~~ borrowed in 1931 7 m. from Credit Corp. N.Y. ~~When statement~~ and sent collateral to N.Y. to cover the loan. When statement time arrived, the Credit Corp. was asked to forward the coll. to a bank in N.Y. and instructions were sent to bank to pay the Credit Corp. the amount of the loan - 7 m. Instructions also stated that after 3 or 4 days, collateral was to be returned to Credit Corp and the loan reinstated.

Then on 29 of month, the G. would issue check to N.Y. bank for the amount of the loan - 7 m. This check or checks would be in transit, or clearance on the day the statement was issued. While this check was outstanding it was included in the statement as an outstanding deposit liability thereby increasing the total amount of deposits by 7 m. At the same time this outstanding check was carried as payment of the banks outstanding liability. So that the final condensed statement showed deposits of (eq.) 1m. more than the actual deposits and the same time the liability would be decreased by a similar amount of 1 m.

On 6 diff. occasions the S. indulged in this window dressing practice

(4) Another practice of the S. was this: There are 2 kinds of deposits (1) demand deposits ~~as~~ pay able on demand / and (2) time deposits required notice

Against demand deposits the bank is required to keep 10% reserve in the Federal Reserve Bank —

Against time deposit – only 3%. and circumvent ~~this safety~~ regulation

In order to delude the Fed. Reserve, the S. would request its demand depositors to write them a letter stating that their deposits are time deposits, which the bank proceed to regard their deposits as ~~time~~ demand deposit, subject to check withdrawal at any time.

Quote.

(5) Affiliates: One of the most pernicious practices —

The S. had 26 affiliates, org. controlled by it. Their sole purpose was to hide operations of the bank and cover up losses and also to give a distorted picture of the liquidity of the bank.

(6) Salaries: The [illegible] – Voted Ees.

Gov. of Bk. of England – 10.000
" " Fed. Reserve – 12.000
Pres. of U.S. 75.000
J. Arthur Hause 108.000 Bonus + Christmas ~~gift~~ present
He never

sermon 392

ABSTRACT OF ADDRESS DELIVERED BY RABBI ABBA HILLEL SILVER AT THE TEMPLE, ANSEL AND EAST 105TH STREET ON SUNDAY MORNING, NOVEMBER 12TH

CLEVELAND -- A CITY THAT WAS WRECKED

As a rule we are inclined to attribute our depression to impersonal causes. But the degree of its severity which varies from country to country and locality to locality must be sought for in conditions closer to home, in the legal and institutional set up or in the practices of the men who control the financial situation. Thus, if no banks fail in England or Canada all through this depression, while thousands crashed in the United States, we cannot rightly ascribe the failure of these banks or even largely, if at all, to the depression. In the same way we must ask ourselves why certain banks in the United States failed while others survived the storm. And when we pass from the general to the particular, we shall discover that in almost every instance, mismanagement, bad banking practices, greed and callous disregard of social trusts were in a large measure responsible for the collapse of the financial institutions.

We shall also discover that in almost every instance of large bank failures, collusion between bank executives and a relatively few big industrialists, speculators or financial wizards was reponsible for destroying the solvency of the institutions.

The startlingdiscoveries which were brought to light by the investigations of the closed banks of Cleveland, how interests of depositors were consistently sacrificed to personal greed, the miserable subterfuges to which the heads of the institutions resorted to in order to mislead the public, the fine finger finesse which they displayed to keep within the law, ~~whilx~~ all the accumulated evidences of debauchery have left a stench in the nostrils of our people.

And these activities of civic betrayal were perpetrated by leaders in the community, so called public spirited men who figure prominently in the philanthropic and even religious life of the city. Is there any wonder that people have lost confidence not only in financial institutions, but in our entire civic leadership? They who trusted implicitly have been victimized by the shocking duplicity on the part of men who were found to be models of civic virtue in public and cheats and grafters in private.

"The indictment cannot, of course, be made to cover all bankers and all business leaders in our city and it is not so intende.d. There are banks and institutions which have performed and which are performing our economic in the life of our community honestly and intelligently. They have merited and do now merit public confidence. There are business leaders here and elsewhere who have never attempted to amass private fortunes through financial juggling with other people's money. An effort to expose the malefactors is the greatest possible service which can be rendered to these men and to these institutions. For that which destroys public confidence is not a criticism of evil but the   of evil.

Rabbi Silver discussed the practices and the financial deals of the men who were responsible for wrecking the banks of Cleveland.

"Ultimately these abuses will be corrected," he continued. "Ultimately a uniform Federal Bank System in place of the forty-nine which we now have will be built up. The Glass Bill has already enacted many necessary banking reforms.

"But the record of the breakdown should be kept clear. Not merely the laws and the institutions were found wanting in the crisis, but particularly our leaders. If our country finds it so much more difficult to get out of the depression than other countries in spite of our great economic ~~xxxxxx~~ resources, it is due largely to the fact that for years many of the financial leaders of our country undermined the financial structure and the credit structure and even religious life of the city. Is there any wonder that people have lost confidence not only in financial institutions, but in our entire civic leadership? They who trusted implicitly have been victimized by the shocking duplicity on the part of men who were found to be models of civic virtue in public and cheats and grafters in private.

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