Robert La Follette on Amending the National Banking Laws

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Author: Robert La Follette
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Summary Overview

Robert La Follette was a prominent American politician and reformer known for his progressive and liberal ideals. As a governor of Wisconsin and later a U.S. senator, he championed numerous reforms aimed at reducing corruption, increasing government transparency, and promoting voters' rights.

La Follette was a strong advocate for the direct election of senators (leading to the 17th Amendment), initiative and referendum processes, labor rights, and anti-trust measures. His efforts were rooted in progressive principles, emphasizing democratic participation, regulation of corporations, and social justice.

Throughout much of his career, La Follette, popularly known as "Fighting Bob," was admittedly combative and suspicious. At the same time, he was an indefatigable investigator and speaker who could often intimidate opponents with mounds of supporting data and his effective speechmaking. He always characterized himself as a spokesperson for a public trampled by predatory capitalists and Wall Street speculators. In 1908, in his speech on the amendment of National Banking Laws, La Follette indicted the entire financial system, which he believed was grinding down the true producers of the nation—common people. He saw the marriage of investment banks with corporations as creating what he termed a "money trust" of groups lining their pockets and putting at peril smaller institutions and businesses.

Defining Moment

In the Senate, La Follette was one of the more vocal members, focusing in particular on giant business, which he saw as an evil in itself. In 1906, breaking the unwritten rule that freshman senators should not speak, he delivered an address on strengthening the pending Hepburn Act, a railroad regulation bill that was so detailed that it filled 148 pages of the Congressional Record. He produced similar documentation in advocating the direct election of senators, more powerful antitrust legislation, income redistribution, lower tariffs, and protection for American workers. He led the attack against the Aldrich-Vreeland bill in 1908, a measure to allow banks to issue emergency currency against securities and bonds. In his presentation, he claimed that fewer than a hundred men dominated and controlled business and industry in America.

Robert La Follette. Photo via Wikimedia Commons. [Public domain.]

On March 17, 1908, La Follette began a series of speeches attacking the money trust. This first speech was triggered by the Aldrich currency bill, proposed in the aftermath of the Panic of 1907. Nelson Aldrich, the powerful chairman of the Senate Finance Committee, proposed the issue of $500 million in emergency currency that would be backed by state, municipal, and private railroad bonds. Edward B. Vreeland of New York offered a similar bill in the House. Aldrich soon renounced the clause involving railroad bonds, acting out of the fear that the proposal would injure the Finance Committee members William B. Allison of Iowa and Chester I. Long of Kansas in their forthcoming races for reelection. La Follette had intended to blast Aldrich's original proposal, but he hastily rewrote his speech, with the result containing some of the most sensationalist charges ever made on the floor of Congress.

Author Biography

Robert Marion La Follette, a son of farmers, was born on June 14, 1855, in Primrose, Wisconsin. At age twenty he entered the University of Wisconsin, graduating in 1879. In 1880, after briefly attending law school, he was elected district attorney of Dane County, where Madison, the capital of Wisconsin, is located. In 1884 he was elected as the youngest member of U.S. House of Representatives, where he was so orthodox in his Republicanism that he ardently supported the high rates of the McKinley Tariff. The victim of a Democratic landslide in 1890, he resumed his law practice in Madison. An attempted bribe by the Wisconsin senator Philetus Sawyer, who asked La Follette to intervene in a case in which his brother-in-law was judge, radicalized the young attorney, who henceforth became a strong foe of entrenched interests.

After two abortive bids for Wisconsin's governorship, La Follette won the race in 1900 and was reelected in both 1902 and 1904. He pushed through a battery of reform measures, including conservation acts, antilobbying laws, regulation of telephone and telegraph companies, educational expansion, public utility controls, consumer protection, tax and civil service legislation, a direct primary, and railroad and industrial commissions. He also pioneered what was called the "Wisconsin idea" by which university experts aided in drafting significant legislation. While still governor, he was chosen in January 1905 by the state legislature to represent Wisconsin in the U.S. Senate, where he would serve until his death in 1925.

Although he was nominally a Republican, he broke with the presidency of William Howard Taft over the high Payne-Aldrich Tariff and over alleged corruption in the Department of the Interior. He sought to gain the Republican presidential nomination of 1912, his platform including collective bargaining, public ownership of water power and railroads, aid to farmers, a ban on child labor, and the recall of federal judges. Nevertheless, his major supporters abandoned him once former President Theodore Roosevelt entered the race.

Historical Document

On Amending the National Banking Laws

Eighteen hundred and ninety-eight was the beginning of great industrial reorganization. Men directly engaged in production brought about in the first instance an association of the independent concerns which they had built up. These reorganizations were at the outset limited to those turning out finished products similar in kind. Within a period of three years following, 149 such reorganizations were effected with a total stock and bond capitalization of $3,784,000,000. In making these reorganizations, the opportunity for a large paper capitalization offered too great a temptation to be resisted. This was but the first stage in the creation of fictitious wealth. The success of these organizations led quickly on to a consolidation of combined industries, until a mere handful of men controlled the industrial production of the country.

The opportunity to associate the reorganization of the industrial institutions of the country with banking capital presented itself. Such connections were a powerful aid to reorganization, and reorganization offered an unlimited field for speculation....

I have compiled a list of about one hundred men with their directorships in the great corporate business enterprises of the United States. It furnishes indisputable proof of the community of interest that controls the industrial life of the country....

It discloses their connections with the transportation, the industrial, and the commercial life of the American people. This exhibit will make it clear to anyone that a small group of men hold in their hands the business of this country.

No student of the economic changes in recent years can escape the conclusion that the railroads, telegraph, shipping, cable, telephone, traction, express, mining, iron, steel, coal, oil, gas, electric light, cotton, copper, sugar, tobacco, agricultural implements, and the food products are completely controlled and mainly owned by these hundred men; that they have through reorganization multiplied their wealth almost beyond their own ability to know its amount with accuracy....

But the country seems not to understand how completely great banking institutions in the principal money centers have become bound up with the control of industrial institutions, nor the logical connection of this relationship to the financial depression which we have so recently suffered, nor the dangers which threaten us from this source in the future....

The closeness of business association between Wall Street and the centralized banking power of New York can, unfortunately, be but imperfectly traced through the official reports. It would seem that the radical changes taking place in the banking business of the country, suggesting to the conservative, economic, and financial authorities the gravest possible dangers to our industrial and commercial integrity, might well have caused the Treasury Department to recognize the necessity of so directing its investigations of the national banks in the greater cities which are centers of speculation and to so classify their returns as to inform itself and the country definitely respecting such changes. This has not been done....

It is, however, possible to find evidence which establishes the diversion of a large volume of the bank resources to securities which are the subject of speculative operation in the stock exchange....

Official figures do not show the real condition. The reports from banks upon which statistics are based fail to make clear the actual investment in speculative securities.... These banks have either established connections with trust companies or have organized inside trust companies as a protection and convenience.... These companies afford a convenient cover for the banks.... Their securities can be borrowed and shuffled back and forth to make a good showing. The trust companies can handle securities which the banks can not touch. They can underwrite bonds and float loans for which the banks could not openly stand sponsor. They can deal with themselves in innumerable ways to their own benefit and the detriment of the public....

The effect of the proposed legislation becomes more apparent as we investigate the grouping together of the great financial institutions holding these railroad bonds and other special securities and then trace their connection with the companies issuing these bonds....

The twenty-three directors of the National City Bank, the head of the Standard Oil group, and the directors of the National Bank of Commerce, thirty-nine in number, hold 1,007 directorships on the great transportation, industrial, and commercial institutions of this country....

Fourteen of the directors of the National City Bank are at the head of fourteen great combinations representing 38 per cent of the capitalization of all the industrial trusts of the country.

The railroad lines represented on the board of this one bank cover the country like a network.... These same twenty-three directors, through their various connections, represent more than 350 other banks, trust companies, railroads, and industrial corporations, with an aggregate capitalization of more than twelve thousand million dollars....

It was inevitable that this massing of banking power should attract to itself the resources of other banks throughout the country. Capital attracts capital. It inspires confidence. It appeals to the imagination....

The law providing that 15 per cent of the deposits of a country bank should be held for the protection of its depositors conveniently permits three-fifths of the amount to be deposited in reserve city banks, and of the 25 per cent of reserve for the protection of depositors in reserve city banks one-half may be deposited with central reserve city banks. As there are but three central reserve cities, one of which, of course, is New York City, the alluring interest rates which these all-powerful groups could offer inevitably tended to draw the great proportion of lawful reserves subject to transfer from the country and reserve banks....

The power which the New York banks derive through these vast accumulations of the resources of other national banks strengthen their position so that they could draw in the surplus money of all the other financial institutions of the country, State, private, and savings banks and trust companies....

The ability of these group banks of New York through their connected interests to engage in underwriting, to finance promotion schemes, where the profits resulting from overcapitalization represent hundreds of millions of dollars, places them beyond let or hindrance from competitors elsewhere in the country. Their ability to take advantage of conditions in Wall Street ... would enable them to command, almost at will, the capital of the country for these speculative purposes.

But one result could follow. Floating the stocks and bonds in overcapitalized transportation, traction, mining, and industrial organizations does not create wealth, but it does absorb capital. Through the agency of these great groups hundreds of millions of dollars of the wealth of the country have been tied up....

The plain truth is that legitimate commercial banking is being eaten up by financial banking. The greatest banks of the financial center of the country have ceased to be agents of commerce and have become primarily agencies of promotion and speculation.... Trained men, who a dozen years ago stood first among the bankers of the world as heads of the greatest banks of New York City, are, in the main, either displaced or do the bidding of men who are not bankers, but masters of organization....

Sir, can any sane man doubt the power of a little group of men in whose hands are lodged the control of the railroads and the industries, outside of agriculture, as well as the great banks, insurance, and trust companies of the principal money center of the country, to give commercial banking and general business a shock at will?...

Taking the general conditions of the country, it is difficult to find any sufficient reason outside of manipulation for the extraordinary panic of October, 1907....

The panic came. It had been scheduled to arrive. The way had been prepared. Those who were directing it were not the men to miss anything in their way as it advanced....

The panic was working well. The stock market had gone to smash. Harriman was buying back Union Pacific shorts, but still smashing the market. Morgan was buying in short steel stocks and bonds, but still smashing the market.... The country banks were begging for their balances. Business was being held up.... On the street and in the brokers' offices the strain of apprehension was intense. In the midst of a Wall Street fight, when fear supersedes reason, it is difficult for those who are in it, but not directing it, to determine how much is real, how much is sham. Some of the guns are loaded only with blank cartridges to alarm; some are loaded with powder and ball to kill....

The floor of the stock exchange was chosen as the scene for the closing act, October 24 the time.

This [list] will make it clear to anyone that a small group of men hold in their hands the business of this country.

The men who had created the money stringency, who had absorbed the surplus capital of the country with promotions and reorganization schemes, who had deliberately forced a panic and frightened many innocent depositors to aid them by hoarding, who had held up the country banks by lawlessly refusing to return their deposits, never lost sight of one of the chief objects to be attained. The cause of currency revision was not neglected for one moment. It was printed day by day in their press; it passed from mouth to mouth.... High interest rates should be made to plead for emergency money through the telegraph dispatches of October 24 in every countinghouse, factory, and shop in America. The banks refused credit to old customers—all business to new customers. Call loans for money were at last denied at any price.... It spelled ruin....

How perfect the stage setting! How real it all seemed! But back of the scenes Morgan and Stillman were in conference. They had made their representations at Washington. They knew when the next installment of aid would reach New York.... They awaited its arrival and deposit. Thereupon they pooled an equal amount. But they held it.... Interest rates soared. Wall street was driven to a frenzy.... The smashing of the market became terrific. Still they waited.... Men looked into each other's ghastly faces. Then, at precisely 2.15, the curtain went up with Morgan and Standard Oil in the center of the stage with money—real money, twenty-five millions of money—giving it away at 10 per cent....

And so ended the panic.

How beautifully it all worked out. They had the whole country terrorized. They had the money of the deposits of the banks of every State in the Union to the amount of five hundred million, nearly all of which was in the vaults of the big group banks. This served two purposes—it made the country banks join in the cry for currency revision and it supplied the big operators with money to squeeze out investors and speculators at the very bottom of the decline, taking in the stock at an enormous profit.... The operations of Morgan and the Standard Oil furnish additional evidence of the character of this panic. We have record proof of their utter contempt for commercial interests.... Did they give aid and support to the distressed merchant and manufacturer?... Alas, no. They pursued the course of the speculating banker.... They let great commercial houses, great manufacturing concerns,... down to ruin and dishonor, while they protected their speculative patrons. No better evidence could be asked to establish the character of this panic or the character of the men who were in command. By their fruits ye shall know them!

Glossary

capitalization: the total value of a company, based usually on the total value of the company's shares of stock

Harriman: E.H. Harriman, father of W. Averell Harriman and director of the Union Pacific Railroad

Morgan: James Pierpont Morgan, American financier in the steel industry

shorts: also called "short sales," an investment technique that involves first selling a stock one does not own with the expectation of later buying the stock back at a lower price when its value falls, thus realizing a profit in a falling market

speculative securities: investments that are highly risky but hold the potential for large profits

Stillman: James Stillman, American financier and banker

trust companies: combinations of companies, usually formed with the purpose of driving out competition

underwrite: to guarantee financial support; to finance stocks or bonds and sell them to the public

Wall Street: the street in Lower Manhattan where the New York Stock Exchange is located; as a figure of speech, the financial sector of the economy

Document Analysis

By the beginning of the twentieth century, the corporation became the linchpin of the American economy. Moreover, thanks to such devices as the trust and the holding company, many of these enterprises became increasingly concentrated in fewer hands. By 1904 two-fifths of all manufacturing was controlled by 305 industrial combinations possessing an aggregate capital of $7 billion. The epitome of such consolidation of power was John D. Rockefeller's Standard Oil Company, a firm that by 1900 dominated the petroleum industry. The imbalanced situation was fostered by Wall Street investment banks, particularly J.P. Morgan & Company. These banks would raise needed capital for new corporations by selling their stocks and bonds and would, at the same time, police these new ventures by placing their own representatives on the boards of directors and by controlling sources of credit. Critics of this new centralization, such as La Follette, referred to the phenomenon as the "money trust."

In his Senate speech of March 17, 1908, La Follette begins with the accusation that about a hundred men "hold in their hands the business of the country." He lists the enterprises they controlled, ranging from railroads to mining, from cotton to food. He then points to the domination of American banking by Wall Street, which he found to be involved in destructive speculation. The Wisconsin senator refers to a special committee, established in 1905 by the New York State Legislature and headed by the state senator William M. Armstrong, which investigated the corrupt use of life insurance funds. Wall Street banks either established connections with trust companies or organized such firms themselves so as to sell securities, underwrite bonds, and float loans that ordinary banks could not openly sponsor. La Follette then produces a massive "List of Men Who Control Industrial, Franchise, Transportation, and Financial Business of the United States, with Their Directorships and Offices in Various Corporations." This document covered ten pages of fine print in the Congressional Record. Here, La Follette argues, was firm evidence showing the control exercised by Morgan and Standard Oil at the expense of ordinary Americans.

In the last part of his speech, La Follette accuses the Morgan and Standard Oil banks of creating the Panic of 1907 so as to line their own pockets. During the October panic, the great New York financial institutions were unable to supply funds to needy banks in the interior of the country. Therefore, bankruptcies took place among several large industrial corporations and many small western and southern banks as well. Only intervention by J.P. Morgan himself, who switched funds from one bank to another as well as to securities markets, could save the day. La Follette, however, does not see Morgan as a redeemer but as one who profited unjustly from the crisis. He quotes predictions of impending disaster made that summer by James J. Hill, chairman of the Great Northern Railway Company, and Edward Payson Ripley, president of the Atchison, Topeka and Santa Fe Railway. He also notes warnings of banking concentration made by Thomas F. Woodlock, former editor of the Wall Street Journal; Charles J. Bullock, an economist at Williams College; and the commercial expert Edward E. Pratt.

Essential Themes

It was Morgan's effort to squeeze out a conglomeration centering on the Heinze United Copper Company that created the panic. Only after it became obvious that "every countinghouse, factory, and shop in America" might be affected did J.P. Morgan and James Stillman, board chairman of the Rockefeller-controlled National City Bank of New York, meet on October 24 to end the crisis. La Follette concludes by denouncing the Morgan and Rockefeller interests for sacrificing "the distressed merchant and manufacturer" to the interests of "the speculating banker." His final remark, "By their fruits ye shall know them!" was taken from Jesus' Sermon on the Mount (Matthew 7:20).

La Follette's claims were widely publicized. Not surprisingly, he was immediately challenged. The president of the First National Bank of Chicago, one of the men on the senator's list, called the speech "worse than rot" and said that it was "a deliberate stirring up of passion and rage among people who have no facility for acquiring knowledge at first hand and are dependent upon men whom they trust" (*New York Times*, March 19, 1908). Such attacks did not faze La Follette, who concluded his series of addresses on March 24. On this occasion he denied that he was attacking such figures as Rockefeller, Morgan, and E.H. Harriman, of the Union Pacific Railroad, as individuals, remarking that they were merely types, the embodiment of an evil. It was what drove them that had to be destroyed in order to safeguard America's free institutions.

Some business interests backed La Follette, among them the New York Board of Trade, which distributed copies of the speech among its most active members. Indeed, in contrast to earlier requests, this time it was companies in the Northeast, not the Midwest, that sought many reprints. Aldrich accepted a La Follette amendment prohibiting banks from investing in the securities of other firms in which they had interlocking directorates. However, defeated by a vote of thirty-seven to thirteen was a La Follette proposal to forbid banks from making loans to people who were officers of the same banks. On May 29, La Follette proved furious enough to start a filibuster of the Aldrich-Vreeland bill. Battling a cold and addressing his Senate colleagues in ninety-degree heat, La Follette spoke for a record nineteen hours, but parliamentary blundering by allies led to the bill's adoption, by a vote of forty-three to twenty-two. Only with the adoption of the Federal Reserve System in 1913 were genuine reforms made to the nation's banking and credit system.

—Justus D. Doenecke, PhD

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