FEDERAL RESERVE BOARD
WASHINGTON

July 1930

Amendments Given to La Follett

Interlocking Directorate between Banks.

Open Market Com.

Given to La Follette

INTERLOCKING DIRECTORATES BETWEEN BANKS

I offer the following amendments to section 329:

(1) On page 183, line 25, strike out the words "more than one" and substitute the word "any".

(2) On page 185, commencing with line 1, strike out everything through line 5.

(3) On page 185, line 6, change "(6)" to "(5)".

(4) On page 185, line 9, change "(7)" to "(6)".

(5) On page 185, commencing with line 10, strike out everything through line 17.

Section 329 amends the provisions of the Clayton Antitrust Act relating to interlocking directorates between banks. It contains a mixture of good and evil. It would simplify the provisions of existing law relating to directors of national banks and extend them to cover also directors of State banks which are members of the Federal Reserve System, which is very desirable. But sandwiched in between these desirable provisions are certain exemptions and exceptions which have all the earmarks of having been inserted in the bill for the purpose of permitting some of the large banks in the financial district of New York and other large cities to continue interlocking relationships which they now have and to create new ones. It would permit them to create again interlocking relationships which have been outlawed ever since Congress passed the Clayton Antitrust Act in 1914 as a result of the Pujo investigation.

The present law forbids a director of a national bank to be a director of <u>any other bank</u> except with the permission of the Federal Reserve Board but does not apply to interlocking directorates between State banks where no national bank is involved, even though such State banks may be members of the Federal Reserve System.

The House Bill would extend the law to cover State member banks of the Federal Reserve System as well as national banks, repeal the authority of the Federal Reserve Board to issue special permits for interlocking directorates, and substitute a provision permitting the Board to make exceptions for certain classes of institutions by general regulations.

The Senate Bill would extend the law to interlocking directorates between State member banks and contains no provision authorizing the Federal Reserve Board to make exceptions; but it incorporates several exceptions in the law itself.

The most important of these is not one of the frankly enumerated exceptions, but one incorporated in the prohibition itself by the words "more than one" which appear on page 183, line 25. These words have this effect:

Whereas the present law forbids a director of a national bank to be a director of <u>any other bank</u> and the House Bill would forbid a director of a member bank, State or national, to be a director of <u>any other bank</u>, the Senate Bill would merely forbid a director of a member bank to serve as director of "more than one" other bank. Thus there is hidden in the very heart of the prohibition an exception which would permit a director of any member bank, State or national, to serve as a director of any other one bank.

This would not only permit a director of a State member bank to continue to be a director of any other bank, but would also permit a director of a national bank to become a director of any other one bank -- something which is now forbidden except by special permission of the Federal Reserve Board.

These three little words "more than one" would permit every director of any of the large banks in Wall Street to be a director of one other large bank in Wall Street. Thus, they would permit the Bankers Trust company, with twenty directors, to have one of its directors on the board of each one of twenty other banks in New York. Likewise, the Guaranty Trust Company, with twenty-five directors, could have one of its directors on the board of each one of twenty-five other banks in New York City. The National City Bank, with nineteen directors, could have one of its directors on the board of each one of nineteen other banks in New York City; and so on. By this means, all the big banks in Wall Street could be so closely interwoven that they would constitute a veritable money trust.

Moreover, by similar means, the banks in New York could be tied up with the banks in Boston, Philadelphia, Pittsburgh, Cleveland, Chicago, and other great money centers until all of the great banks would be so closely linked together by interlocking directors that no project of large proportions could obtain banking accommodations without first obtaining the consent and meeting the terms of a comparatively small group of men.

This is exactly the kind of situation that was disclosed by the Pujo investigation and which led to the passage of section 8 of the Clayton Act.

In view of the extent to which the Pujo investigation disclosed the representation of J. P. Morgan and Company on the boards of directors of numerous different banks and other financial institutions, I have taken the trouble to look up the members of that firm in Poor's Register of Directors. I found that, in addition to several of them being partners in the private banking firm of Drexel and Company of Philadelphia, and numerous other foreign and domestic financial institutions, two of the partners are directors of the Guaranty Trust Company of New York, three of them are directors of the Bankers Trust Company of New York, and two of them are directors of the New York Trust Company. None of them are directors of national banks, because the Clayton Act forbids them to be directors of national banks. If we permit these three little words "more than one" to remain in the bill, however, they could not only continue to be directors of the Guaranty Trust Company, the Bankers Trust Company, and the New York Trust Company, but they could become directors of national banks. In this manner they could extend their influence over other financial institutions and create again a situation similar to that disclosed by the Pujo investigation and outlawed by the Clayton Act.

These three innocent little words "more than one", therefore, would nullify to a large extent the purpose and effect of the Clayton Act. They should be stricken from the bill.

Paragraph numbered 5 (page 185, line 1) should also be stricken out. It would permit banks located in different cities to have interlocking directors without any restrictions whatsoever. It would permit all of the great banks in Boston, New York, Philadelphia, Pittsburgh, Cleveland, Chicago and other great financial centers, to be so linked up by interlocking directors as to constitute a money trust of such vast power that it could have a strangle hold on American business and control the economic welfare of the entire country. Such a situation has been outlawed ever since the passage of the Clayton Act in 1914, and we should not open the door to its creation again.

The paragraph commencing on page 185, line 10, would exempt all existing interlocking relationships and permit them to continue until February 1, 1939. Such a postponement would appear to be reasonable; but a similar provision in the original Clayton Act caused Congress no end of trouble and led to a substantial diminution of the effectiveness of the law.

The effective date of section 8 of the original Clayton Act was postponed for two years; and, before the section became effective, so much pressure was brought upon Congress that it amended the law so as to authorize the Federal Reserve Board to grant permits allowing persons to serve as directors of not more than three banks within the prohibited classes if they were not in substantial competition. The result is that there are thousands of interlocking directorates which would have been outlawed if the statute had been permitted to go into effect without delay.

This bill would extend the Clayton Act to cover State member banks; and, if we postpone its effective date, the bankers will be back here at the next session of Congress importuning us to amend the law again so as to make exceptions and exemptions which will materially impair, if not utterly nullify, the effect of this salutary amendment. I am afraid that history will repeat itself and that Congress will yield to the importunities of the bankers. Let us settle the question now for all time by making this section effective immediately.

A paragraph of section 8 of the Clayton Act which would not be repealed would permit all bank directors to serve out their present terms. In other words, they could serve until the annual election of directors next January, notwithstanding this amendment. This would give the banks ample time to arrange for the necessary changes in their boards of directors; but would get the business over with by the middle of January. With the existing relationships once broken up, the pressure on Congress to amend the law would not be nearly so great and the danger of a repetition of the mistake of 1916 would be greatly diminished.