A Study of the Attitude of Organized Labor Toward Monetary Reform and Monetary Policy, 1866-1965.

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A STUDY OF THE ATTITUDE OF ORGANIZED LABOR TOWARD
MONETARY REFORM AND MONETARY POLICY, 1866-1965

A Dissertation
Submitted to the Graduate Faculty of the
Louisiana State University and
Agricultural and Mechanical College
in partial fulfillment of the
requirements for the degree of
Doctor of Philosophy

in

The Department of Economics

by
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B. A. Wofford College, 1961
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ABSTRACT

Even though organized labor in the United States has been primarily concerned with such goals as higher wages, shorter hours, and better working conditions, it has also indicated an interest in many other economic, social and political problems.

The purpose of this study has been to show the attitude of organized labor toward monetary reform and monetary policy in the United States from 1866-1965. The views of the peak organizations, such as the National Labor Union, Industrial Congress and Industrial Brotherhood, Knights of Labor, American Federation of Labor, Congress of Industrial Organizations, and the merged AFL-CIO have been selected as representative of American organized labor. Labor union convention proceedings, organized labor publications, governmental hearings, and the works of scholars in the fields of labor and money and banking have been utilized in the research.

The development of organized labor's attitude toward monetary policy and monetary reform has been in three
primary stages: 1866-1928, limited knowledge and understanding; 1929-1945, expansion and learning; 1946-1965, increased maturity and involvement.

From 1866 to 1929, organized labor suffered from a basic lack of understanding of the United States monetary system and a clear definition of money. Yet, the platforms of the early national labor unions included monetary reform proposals which were limited in depth and somewhat radical by nature. The defects of the National Banking System perhaps justified organized labor's proposals for monetary reform. Even when the enactment of the Federal Reserve System attempted to overcome these defects, organized labor did not exhibit its opinion toward the new system; however, it pragmatically supported amendments which would be beneficial to the laboring class. Deep-rooted fears of bankers resulted in organized labor's efforts to by-pass commercial banks whenever possible by the use of postal savings and labor banks.

In the 1929-1945 period, organized labor expanded its knowledge of the operations of the United States' monetary system and its interest into the area of international monetary reform. The Great Depression brought to organized labor leaders a realization of the
need for exploration in this area. No doubt influenced by financial experts' articles which appeared in organized labor publications, it supported those legislative measures which sought to strengthen, centralize and regulate the banking system. Although organized labor was not critical of the Federal Reserve's easy monetary policy in the 1930's, it advocated stronger government action to achieve business recovery.

In the past World War II era, organized labor has been more actively involved with monetary reform legislation and has deepened its analysis of monetary policy. It felt that the Federal Reserve's tight monetary policy was executed to fight a "phantom inflation" at the expense of high levels of employment and production. Because of its desire that the objectives of the Employment Act of 1946 be achieved, organized labor has offered proposals concerning the methods by which the Federal Reserve could strengthen and use more judiciously the instruments of monetary control. It has recommended that changes be made in the structure and composition of the Federal Reserve System with primary emphasis on the inclusion of organized labor's representation.
In view of the progress organized labor has made in its understanding of the United States monetary system, no doubt the future will bring an even greater participation on its part. If Congress should abrogate the independence of the Federal Reserve and bring it under closer control, organized labor may well achieve its desired place within the System's composition.
CHAPTER I

INTRODUCTION

Nature of the Problem

From its meager beginnings almost 200 years ago, American unionism has grown into a varied and complex constituent of today's society. Although organized labor throughout the years has shown primary interest in such matters as higher wages, better working conditions, and shorter working hours, there have been many other economic, social and political problems that have come to its attention. Some of them have received little more than passing notice; others at times have greatly agitated organized labor and caused active exertion on its part. One economic area which has attracted the interest of organized labor is monetary policy and monetary reform because changes in these areas have a decided effect on the laboring man.

Even though the average worker has little or no understanding of monetary policy and reform as it pertains to
the economy, he may be concerned with the cost of borrowing money, the purchasing power of his dollar, or the security of his savings. Therefore, in order to protect the interests of their members, labor leaders have become involved with the "money question" by expressing their thoughts in pamphlets, newspaper and journal articles, convention resolutions and in government hearings. They have brought forth their views to the members of their associations and to the public at large.

**Purpose**

Histories of organized labor have been written wherein labor's position on monetary reform and policy have been briefly mentioned or incorporated to some extent. However, to the knowledge of this writer, a thorough investigation of labor's attitude toward this subject has not been made.

The purpose of this dissertation is to present an explanation of organized labor's attitude toward the changes that have taken place in the United States monetary system and monetary policies. The study delves into the reasoning, thoughts, and justifications of labor's position toward monetary policy and monetary reform. The various proposals set forth by organized labor as their solutions to the
monetary problems will be examined with special notice to its continued growth of awareness and concern.

Sources

The American Federation of Labor and Congress of Industrial Organizations, today and prior to the merger of 1955, have issued various publications voicing labor's attitude toward monetary policy and monetary reform. The following are examples: The American Federationist (AFL; also AFL-CIO), Economic Trends and Outlook (AFL-CIO), Industrial Union Department Bulletin and Digest (AFL-CIO), Labor's Economic Review (AFL-CIO), AFL Weekly Newsletter (AFL), Labor's Monthly Survey (AFL) and Economic Outlook (CIO). These, in addition to statements presented by the AFL-CIO, are used quite extensively in the dissertation. Further significant sources which state formally the attitude of organized labor are convention proceedings and government hearings. Other government documents are incorporated in the study as they pertain to specific acts and bills, along with the works of authors in the fields of labor and money and banking.
Method of Approach and Organization

This dissertation will concentrate on the views of the peak organizations such as the National Labor Union, Industrial Congress and Industrial Brotherhood, Knights of Labor, American Federation of Labor, the Congress of Industrial Organizations, and the merged AFL-CIO as representative of American organized labor.

The study will:

1. Trace the viewpoint of post Civil War labor organizations toward monetary reform from 1866 to 1900.

2. Present a picture of the significant changes in the banking system from 1900 to 1928 and the position taken by organized labor. Special consideration is given to the Federal Reserve, Postal Savings Banks, and Labor Banking.

3. Examine the basic monetary reforms that were initiated during the Great Depression and the reaction to these reforms and the proposals offered by organized labor.

4. Set forth the basic monetary policy of the Federal Reserve from 1914 to 1965 and the effects on and concern by organized labor.

5. Show recent participation of organized labor in Bretton Woods and Federal Reserve legislation.
6. Evaluate the historical stand taken by American organized labor toward monetary policy and monetary reform and determine what their expected position could be in the future.
The Post-Civil War proponents of monetary reform in the ranks of the labor movement derived their ideas largely from Edward Kellogg.\(^1\) After losing his fortune in the Panic of 1837, he studied the monetary system and developed a plan for financial reform. Kellogg argued that the nation's monetary laws were oppressive to labor because bankers were permitted to create and loan money. The result was money scarcity and high interest rates. Kellogg felt that a fundamental reform was needed, and to achieve this, he recommended that the government establish a "National Safety Fund" with one or more branches to make public loans in every state. Through real estate mortgages bearing a 1.1 per cent interest rate, paper money would be issued from the fund. In turn, banks would have to lower their interest rates, enabling the workingman to

secure money more reasonably. In the 1850's, Kellogg's plan did not impress the labor movement, for their experiences with wildcat banking had made them skeptical of paper money schemes.

During the Civil War, there was growing concern by labor over bankers' political control:

While the workingmen were enlisting in the services of their country, the bankers and owners of gold were working their way into Congress. . . . These men enacted such legislation as was beneficial to themselves; they diminished the volume of currency and reduced the price of labor and property . . .

Immediately following the War, financiers and the working class were locked in a struggle over the redemption of government bonds. Businessmen demanded redemption in gold and the debtors wanted redemption in greenbacks which had been issued during the Civil War. Also, the high interest rates on government bonds diverted money from

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2Edward Kellogg's original work, Labor and Other Capital, appeared in 1848. For additional information, see Edward Kellogg, Labor and Capital: A New Monetary System, ed. Mary Kellogg Putnam (New York: John W. Lovell Co., 1884), 374 pp.


5Rayback, loc. cit.
industrial, commercial and manufacturing enterprises. It was in this type of financial climate that the workers found themselves. Unable to cope with these problems, they turned to organized labor to introduce various plans of monetary reform.

National Labor Union

The National Labor Union, organized at Baltimore in 1866, was the predecessor of the Knights of Labor and the American Federation of Labor. The most prominent demand by workers at the 1866 convention was an eight-hour day. There was some discussion on the money situation, however:

The right of the workingmen to take action on the subject of the currency of the United States was at that time seriously questioned. It was an unpardonable offense to suggest to Congress that it should take notice of the issue of legal tender paper money or an issue of government bonds bearing a low rate of interest.

Yet, the consensus among leading trade unionists was that a new weapon had to be found to end labor's degradation and elevate it to its rightful place in society. This

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6 Foner, op. cit., p. 422.
8 Powderly, op. cit., p. 42.
weapon was cooperatives formed by the workers. But, as long as the control of credit and money remained in private hands, laborers could not by any system secure their position. It was first necessary that the monetary system be "restored to the people."  

There were several labor leaders, among them William H. Sylvis, Richard F. Trevellick, and Andrew C. Cameron, who were advocates of Kellogg's theories. They persuaded the National Labor Union in 1867 to adopt a monetary reform platform based on a modification of Kellogg's program. Their plan called for the repeal of the national banking system, and the substitution of legal-tender treasury notes as the exclusive currency of the nation. The government would set the interest rates and reduce to three per cent the interest on bonds redeemable for greenbacks. In addition, government loans in the form of greenbacks would be available to the public at about one per cent interest. Sylvis, in his enthusiasm for the currency reform, said, "When a just monetary system has been established there

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10 Rayback, loc. cit.
will no longer exist a necessity for trade unions."\textsuperscript{11}

The money reformers of the National Labor Union were quite aware that inflation of prices would follow their proposal. Yet, immediately following the Civil War, prices were declining as a result of retirement of greenbacks by the Secretary of the Treasury. When congressional legislation of 1868 ceased their retirement to prevent the decline in prices, it stopped short of the inter-convertible bond and government loans to private business--the machinery of the revolutionary scheme.\textsuperscript{12}

By 1870 the National Labor Union had split into two factions: half trade and half political. With business recovery, many of the trade unionists found greenbackism "highly amusing." This description annoyed the reformers and contributed to lack of unity. Some of the members supported a labor party, while others, stressing "pure and simple" unionism, looked upon political activity as a hopeless vision. In this disjoined state, survival of the organization was virtually impossible.\textsuperscript{13}

\textsuperscript{11}The platform of the National Labor Union, 1867, is reproduced by Powderly, \textit{op. cit.}, pp. 46-52, 203.

\textsuperscript{12}Commons and Associates, \textit{op. cit.}, II, pp. 121-122.

\textsuperscript{13}Rayback, \textit{op. cit.}, p. 128.
Although the National Labor Union was short lived, it played a significant role in labor history. While placing strong emphasis on monetary reform and political action, it pointed out to the American people that the government of the United States was becoming dominated by large scale industrial and financial interests.\textsuperscript{14}

Industrial Congress and Industrial Brotherhood

With the disintegration of the National Labor Union, the effort to form a national federation had not ended; shortly before the Panic of 1873, a new attempt was made. Representatives of the National Trade Union, which had withdrawn from the National Labor Union, assembled at Cleveland in July of that year.\textsuperscript{15} Under the name of The Industrial Congress, they drew up a plan of action, although no constitution was adopted.\textsuperscript{16} Because of the trade union nature of the Congress, the financial plank in the platform concerning the interconvertible bond and paper money system was included only after heated debate, while cooperative

\textsuperscript{14}Foner, \textit{op. cit.}, p. 432.

\textsuperscript{15}Commons and Associates, \textit{op. cit.}, II, p. 157.

\textsuperscript{16}Powderly, \textit{op. cit.}, p. 60.
ventures were given only a brief endorsement.  

The second convention, held in Rochester, New York, in April of 1874, was of greater importance because of the fusion of the Industrial Brotherhood with the Industrial Congress. The convention accepted the ritual, as well as the name, of the Industrial Brotherhood. However, some delegates were opposed to item eighteen of the Brotherhood platform for it appeared to dictate to the government.

The plank read as follows:

To prevail upon the government to establish a just standard of distribution between capital and labor by providing a purely national circulating medium based upon the faith and resources of the nation, issued directly to the people, without the intervention of any system of banking corporations, which money shall be of legal tender in the payment of all debts, public or private, and interchangeable at the option of the holder for government bonds, bearing a rate of interest not to exceed three and sixty-five hundredths per cent, subject to future legislation.

The feelings of the majority were expressed by one delegate when he said:

... Money is only the representative of value. We make the value. Why, may I ask, should we not

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18 Ibid., pp. 163, 196. The Industrial Brotherhood was a secret labor federation.
19 The entire platform of the Industrial Brotherhood is given by Powderly. op. cit., pp. 63-65.
see to it that the value is honestly and fairly represented by an honest American currency based upon the real tangible possessions of the people of the United States, instead of a few imaginary golden dollars . . .

A vote was then taken and the platform was adopted. This concept for monetary reform would continue but not the Industrial Brotherhood for it had been launched during the Panic of 1873 and ensuing depression. Few delegates attended the convention of 1875 which marked the close of their organization.

Greenback Labor Party

As organized labor's interest and strength in political action dwindled during 1874 and 1875, the main initiative for political organization was assumed by the farmers. In 1875, there were several attempts to organize an Independent Party, and one convention was held in Cleveland. Delegates were agrarians, lawyers, and some leaders from the trade unions that folded. They adopted a platform stressing financial reform and were called the Greenback Party.

The platform declared "the solution of the money question

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20Ibid., p. 63.
22Foner, op. cit., pp. 475-477
more deeply affects the material interest of the people than any other question in issue before the people." The Party demanded the payment of the national debt in greenbacks and the issue of interconvertible legal tender currency and bonds bearing not more than 3.5 per cent per annum. 23

That same year, representatives from organized labor and Grangers attended a Cincinnati Conference headed by Horace H. Day who had been a participant in the National Labor Union. Against Day's wishes, the delegates chose to unite with the Greenback Party, and accepted its platform, which differed slightly from their own. From the time of the uniting until 1879, every Greenback platform included the repeal of resumption of the Specie Payment Act 24 which had passed in January of 1875. This inclusion


24 The Act contained a variety of provisions designed to appeal to silver advocates (replacement of fractional currency by silver coins); paper money advocates (removal of all limits on the aggregate issue of national bank notes and linking the retirement of greenbacks—the aggregate outstanding not to fall below $300 million—to the increase in national bank notes); and gold standard advocates (its main provisions). Milton Friedman and Anna Jacobson Schwartz, A Monetary History of the United States 1867-1960 (Princeton: Princeton University Press, 1963), p. 48.
was a contribution of the Cincinnati Conference.\textsuperscript{25}

Generally, organized labor was not interested in uniting with the Greenback Party because it felt the Party would not be of special benefit to them. But, in 1877 laborers began to join\textsuperscript{26} because of resentment toward government handling of strikes.\textsuperscript{27} Various alliances of laborers and Greenbackers appeared in Ohio and Pennsylvania, while a Workingmen's Party was developing in New York. These mergers suggested to greenback and labor party leaders the feasibility of uniting their forces, and the result was a national convention held at Toledo, Ohio, in 1878. The National Party was thus formed and adopted the typical greenback and labor demands in its platform,\textsuperscript{28} but the interconvertible 3.65 bonds were not mentioned.\textsuperscript{29}

\textsuperscript{25}Foner, \textit{op. cit.}, p. 477. See also, Commons and Associates, \textit{op. cit.}, II, p. 169.

\textsuperscript{26}Foner, \textit{op. cit.}, pp. 478-479.

\textsuperscript{27}The most violent and most significant labor upheaval in the nineteenth century was the Railway Strike of 1877. For detailed discussion, see Rayback, \textit{op. cit.}, pp. 133-136.

\textsuperscript{28}Commons and Associates, \textit{op. cit.}, II, pp. 240-241.

\textsuperscript{29}Foner, \textit{op. cit.}, p. 483.
The presidential election of 1878 was the apex of the Greenback Labor Party, with disintegration following shortly thereafter. The alliance was based on a shallow foundation. The agrarian element stressed monetary reform and cared little for labor demands. In that same year, the chief demand of the party (the repeal of the Specie Payment Act) disappeared as January 1, 1879, was the date fixed for resumption. By 1880, the party platform called for a government monopoly of paper currency and for unlimited coinage of silver. Thereafter, the Party itself was of little significance, although the financial program lived on.

Knights of Labor

The Noble Order of the Knights of Labor was formed by Uriah Stephens at Philadelphia in 1869. It stemmed from a Philadelphia Garment Workers Local which had been blacklisted into almost total inactivity during the recession of 1866-68. Thus Stephens felt the need for concealment of

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30Rayback, op. cit., p. 138.
32Friedman and Schwartz, loc. cit.
labor's activity and the Knights remained a secret organization from 1869 to 1878.\textsuperscript{33}

In the early years, the Knights participated in a unifying movement which had been initiated by the Junior Sons of '76.\textsuperscript{34} A convention was called at Tyrone, Pennsylvania in 1875, and included the socialists, Sons of '76, and Knights, but the unification was not a success. Agreement could not be reached on the matters of monetary reform and the use of political action.\textsuperscript{35}

A surge of workmen came into the order as a result of the Railway Strike of 1877 and indecision over the attitude to take toward the Greenback Labor Movement. A national convention became a necessity and was called in early January of 1878 at Reading, Pennsylvania.\textsuperscript{36} The Reading General Assembly accepted for the most part the preamble of the Industrial Brotherhood and by doing so, evidenced their realization that reforms would come mainly

\textsuperscript{33}Commons and Associates, \textit{op. cit.}, II, p. 197.

\textsuperscript{34}The Sons of '76 were organized at Pittsburgh in May, 1874, and placed monetary reform as the main objective of its platform. \textit{Ibid.}, pp. 201-202.

\textsuperscript{35}Rayback, \textit{op. cit.}, p. 144.

\textsuperscript{36}\textit{Ibid.}
through political agitation and action. 37

Money was by no means overlooked in the Knights' platform. The fifteenth section of the preamble read as follows:

To prevail upon governments to establish a purely national circulating medium, based upon the faith and resources of the nation, and issued directly to the people, without the intervention of any system of banking corporations, which money shall be a legal tender in payment of all debts, public and private. 38

It is to be noted that the delegates made no mention of the interconvertible bonds in that section. 39 The Knights' attitude toward the money question remained unchanged until 1884. Then, the Knights' preamble was slightly altered by the addition of "that the government shall not guarantee or recognize any private banks or create any banking corporations." 40

There were many factors which led to the rapid decline of the Knights. From a membership of 700,000 in 1886, its

37 Powderly, op. cit., p. 131.
38 Powderly, Ibid., pp. 128-130, reproduces verbatim the preamble adopted at Reading, January 3, 1878.
39 Ibid., p. 203.
40 Ibid.
number dwindled to 100,000 by 1890. Failure was due to the interrelated effects of irresponsibility on the part of the membership, fumbling leadership, poorly organized and unsuccessful strikes, the dissipation of energy and funds in cooperative ventures which collapsed, and the attempt to draw the unskilled, industrial workers into a single, unified labor organization which caused the withdrawal of support by the national trade unions.

At the Knights' convention in December, 1889, in St. Louis, an agreement was reached with the National Farmers' Alliance and Industrial Union which united their demands. It included the abolition of national banks and the issue of legal tender treasury notes in lieu of national bank notes, regulating the amount needed on a per capita basis as the business of the country increased. They further advocated the free and unlimited coinage of silver.

Although the Knights were still active in the 1890's, its membership continued to decline and its industrial

41 Commons and Associates, op. cit., II, p. 482.
42 Dulles, op. cit., p. 148.
43 Powderly, op. cit., pp. 342-343, gives the full agreement.
strength was a matter of the past. The Knights made a final step away from the wage-earners' movement when a report was made by the Grand Master Workman to the General Assembly of 1894:

The Order of the Knights of Labor is not so much intended to adjust the relationship between the employer and employee as to adjust natural resources and productive facilities to the common interest of the whole people . . . It is not founded on the question of adjusting wages, but on the question of abolishing the wage-system and the establishment of a cooperative industrial system. When its real mission is accomplished, poverty will be reduced to a minimum and the land dotted over with peaceful, happy homes . . . 44

Brief Historical Setting for the Silver Movement

Before a study of labor's attitude toward the silver question can be made, it is first necessary to review the history of the silver movement. The last three decades of the nineteenth century, particularly the years after 1890, witnessed political fervor over the money issue.

The focal point for silver agitation was the Coinage Act of 1873 which failed to mention the minting of the

standard silver dollar. The Act provided for only subsidiary silver coins and a trade dollar which was to be used in dealing with the Orient. 45

The silver dollar was actually a coin little known to Americans. Since the world market price of silver had been higher than the mint price, the silver dollar had not been in circulation since 1836. The Coinage Act of 1873 gave legal recognition to the fact, and silver spokesmen in Congress did not oppose the legislation. 46 However, as the price of silver began to decline, 47 the silver supporters began to feel that it was a conspiracy on the part of Eastern bankers and legislators to demonetize silver without the general knowledge of the public. So determined was

46 Friedman and Schwartz, op. cit., p. 114.
47 David R. Dewey in Financial History of the United States (New York: Longmans, Green and Co., 1903), p. 406, gives the market price of silver from 1840 to 1895. "The reasons for the price decline seem clear; on the supply side, rich new mines were opened in the American West, and there was a world wide increase in productivity; on the demand side, a number of European countries shifted from the bimetallic to a gold standard and sharply reduced their monetary use of silver." Friedman and Schwartz, loc. cit. For a detailed discussion, also see Laughlin, op. cit., pp. 161-175.
their effort to discredit the act that the episode was labeled the "Crime of 1873." 48

The silver producers demanded that the only remedy to the Crime of '73 was the free and unlimited coinage of silver. Debtor farmers in the Middle West and South joined silver producers because they felt free silver would increase the money supply and thereby lower the real burden of their debt. Greenbackers joined the silver proponents for they felt that issuing silver dollars was just as effective as issuing more greenbacks. 49

The forty-fourth Congress (1875-1877) did not enact any silver legislation although the House passed a free-coinage bill proposed by Representative Richard P. Bland of Missouri. Later, the Senate amended the House bill and, when the Bland-Allison Act passed in February, 1878, it was for silver purchase instead of free coinage. The purchases under the Bland-Allison Act absorbed over sixty percent of American silver production; yet, it was not


49 Friedman and Schwartz, op. cit., p. 115.
sufficient to counteract the world forces which tended to
lower the price of silver.50

Free silver forces were dissatisfied with the legisla-
tion because it did not provide for unlimited coinage.
From that time forward, agitation for free silver was
carried on with religious zeal, and the theme of "The
Crime of 1873" was resounded in the pro-silver speeches.51

In 1890, the high tariff advocates agreed to support
a silver coinage bill in exchange for silver support on the
tariff,52 and the result was the Sherman Silver Purchase Act.
The measure provided for the purchase of all the American
output of silver, but did not admit unlimited coinage.53

In 1893, the United States was experiencing a business
depression. Congress attributed the money panic to the

50The Senate Bill provided that the Government should
purchase and coin into dollars not less than $2,000,000 and
not more than $4,000,000 worth of silver each month. The
silver so purchased was to be coined into silver dollars
which were full legal tender. Dickson H. Leavens, Silver
Money (Bloomington, Indiana: Principia Press, Inc., 1939),
pp. 38, 39.

51Friedman and Schwartz, op. cit., p. 116.

52Noyes, op. cit., pp. 147-149.

53The bill authorized the Secretary of the Treasury to
purchase 4,500,000 ounces of silver bullion each month and
to issue in payment thereof treasury notes of full legal
Silver Purchase Act of 1890 and had the purchase clause repealed. Although opinions may differ as to the causes of the panic, the act was undoubtedly an important factor.  

Such men as William Jennings Bryan were vigorously opposed to the repeal. Later, Bryan acquired the Democratic nomination for president on a free-silver plank. In the political campaign of 1896, Bryan was opposed by the Republican nominee, William McKinley, who accepted a platform favoring the gold standard. Even though the Republicans were victorious, legislation did not immediately follow to end the money controversy, for free silver advocates still had a majority in Congress. During the next four years, the increased prosperity followed by new gold discoveries served as a prelude to gold legislation.

The gold standard was triumphant in 1900 with the passage of the Gold Standard Act. The gold dollar was declared the standard of value with the following provision:

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It shall be the duty of the Secretary of the Treasury to set apart in the Treasury a reserve fund of $150,000,000 in gold coin and bullion, which shall be used for such redemption purposes only.56

Even though the legislation passed, it was only a compromise, for the silver advocates in the Senate continued to push for their cause. In the presidential election of that year, the money controversy was again of prime importance, but with Bryan's second defeat, the silver issue on the national scene was closed.57

American Federation of Labor and the Silver Movement

The demand for a federation of trades and labor unions resulted from the fact that the Knights of Labor did not meet the needs of those workers who were interested in craft rather than labor unionism. The Knights stressed a more general "uplift program," while the craft groups felt that concern should be directed strictly to economic problems. Centralized and autocratic in character, the Knights' organization could not satisfy the demand for national

56Noyes, op. cit., p. 254.

57Dewey, op. cit., p. 469.
federation along craft lines, which would preserve trade autonomy and at the same time combine the forces of the craft groups. 58

Therefore, in 1881, a convention was called in Pittsburgh to form a federation of trade unions. One hundred and seven delegates attended, of whom forty-eight represented neighboring Knights of Labor Assemblies in Pennsylvania, the others representing craft unions from more distant places. The name adopted at the convention was the Federation of Organized Trade and Labor Unions of the United States and Canada. 59 This new federation adopted almost in its entirety the program, including the political platform, of the Knights of Labor. Greenbackism alone was the only major plank of the Knights which was omitted. 60 When the next convention was held the following year, the political plank was repealed and a manifesto,


59 Foner, op. cit., p. 519.

60 Carroll, op. cit., p. 30.
which discontinued political action, was issued. 61

In 1886, the federation was completely reorganized and the name, "American Federation of Labor," substituted. 62 Their stand on political action remained the same. The Federation recommended that its members cast their votes, independent of party, for the candidate who was most likely to promote their interest. 63

This was not the case, however, in 1893, when the American Federation of Labor by implication endorsed a political party. 64 The panic and resulting depression had created unrest among the laboring class. When the Annual Federation convention was held at Chicago, Illinois in December of that year, there was a discussion on the monetary situation. It was felt that the repeal of the "Sherman Bill" had failed to improve the financial or commercial condition of the country, and had actually

62 Carroll, op. cit., p. 28, points out that it was not until several years after 1886 that the American Federation of Labor decided to trace its origin back to 1881.
63 Aldrich, loc. cit.
64 Ibid.
intensified the distress. One delegate voiced the opinion that the resolutions adopted at the Bimetallic Convention, held in Chicago in August, 1893, expressed the sentiments of the masses of the people. A motion was made that the American Federation of Labor should endorse the silver convention's resolution and recommend to Congress the passage of a free coinage silver bill at the ratio of 16 ounces of silver to 1 ounce of gold. This would be a means of relieving the monetary stringency and returning the nation to prosperity. The resolution was adopted by the convention.

The Federation had been officially represented at the American Bimetallic League Convention in Chicago during the summer, although there had been no previous endorsement of

65 The Bimetallic Convention was held by the American Bimetallic League, an independent silver organization established in St. Louis in November, 1889. Jones, op. cit., p. 19.

66 American Federation of Labor, Proceedings, 1893, p. 60. The Congressional Record carried petitions advocating free and unlimited coinage of silver which had been submitted by the following labor unions: Brotherhood of Painters of America, No. 72, Pittsburgh, Pennsylvania; Trow Moulders' Union No. 247, Cleveland, Ohio; Tailors Local Union, Ottumwa, Iowa, and the Window Glass Workers Assembly No. 300, Pittsburgh, Pennsylvania. U.S., Congressional Record, 53rd Cong., 1st sess., 1893, XXV, Parts I and II, pp. 1907, 1368-1370.
bimetallism.\textsuperscript{67} The convention was called in an effort to stir public opinion against the repeal of the Sherman Silver Purchase Act.\textsuperscript{68} Samuel Gompers, president of the American Federation of Labor, agitated on behalf of free silver in cooperation with the Bimetallic League. At the annual Federation convention in 1894, Gompers in his report stated:

In compliance with the resolution favoring the remonetization of silver at a ratio of 16 to 1 . . . a large number of circulars were distributed throughout the country on the subject, and a better appreciation of the matter is now had by members of the respective organizations, as well as our national legislators . . .\textsuperscript{69}

The convention once more adopted the policy of favoring the free coinage of silver,\textsuperscript{70} although all the national unions were not in agreement. The typographical union dissented. Also, John McBride, president of the United Mine Workers, was elected Federation president over Samuel Gompers.\textsuperscript{71}

\begin{itemize}
\item \textsuperscript{67}Commons and Associates, \textit{op. cit.}, II, p. 510.
\item \textsuperscript{68}Jones, \textit{op. cit.}, p. 23.
\item \textsuperscript{69}American Federation of Labor, \textit{Proceedings}, 1894, p. 13.
\item \textsuperscript{70}\textit{Ibid.}, p. 29.
\item \textsuperscript{71}Commons and Associates, \textit{op. cit.}, p. 513.
\end{itemize}
Under McBride's editorship of the *American Federationist* in 1895, numerous editorials and articles appeared urging "free silver." One writer pointed out that the eastern press, with few exceptions, favored the single gold standard while the west and south favored bimetallic currency. The argument was made that the east was a creditor to the south and west. In order to secure money to develop their resources, the south and west were forced to turn to eastern financiers. He further stated that the solution wanted by the south and west was a return to the same conditions under which their debts were contracted prior to 1873. In the writer's logic, the following argument supported his position:

The favorite argument of the gold standard men is that the silver dollar is only worth 57 cents, but they cannot deny that an ounce of silver will buy as much now as it did in 1873, for with silver in 1873 worth $1.32 per ounce, it would buy one bushel of wheat valued at that time at about $1.30 per bushel, and in 1895, with silver worth 60 cents an ounce, we can still buy a bushel of wheat, valued now at about 60 cents. This proves that silver, measured by all other staples, has not declined, but that the purchasing power of gold has doubled.

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72 Frank L. Hoenes, "The Free Coinage of Silver at a Ratio of 16 to 1," *American Federationist*, April, 1895, p. 22.

73 Ibid.
Another article condemned President Grover Cleveland, a gold standard man, and closed with "bimetallism is in the air and is bound to come." 74

In addition to the American Federationist, many other publications no doubt attempted to influence the workers for free coinage. One of the most famous was William H. Harvey's Coin's Financial School published in June, 1894. 75

In his book, Harvey used the device of placing an adolescent by the name of Coin upon the platform of the lecture hall of the Chicago Art Institute. Eventually, Chicago's distinguished bankers, businessmen, and scholars were drawn to the Institute to hear the cogency of his arguments. Coin would engage many of them in debate, force them to admit errors in fact and logic, and win them over to the free silver side. 76 These lectures had never occurred,

74 American Federation of Labor, Editorial, American Federationist, May, 1895, p. 31.


76 Coin answered a question supposedly asked by J. R. Sovereign, Master Workman of the Knights of Labor, on money based on labor. See Harvey, ed., op. cit., pp. 170-172.
of course, but many people believed they had. Since Harvey's book had become a national best seller\textsuperscript{77} in 1895, he published a new one, \textit{Coin's Financial School Up to Date},\textsuperscript{78} which contained a new series of imaginary debates.

The Populists circulated among many of the workers an abstract of organized labor petition\textsuperscript{79} sent to Congress. Not only did the petition demand a return to the free and unlimited coinage of both gold and silver at 16 to 1 and condemn interest bearing bonds, but also, it expressed organized labor's attitude toward the demonetization of silver in 1873:

Again, is it not obvious to every one that the striking down of one-half the world's volume of money makes the remaining half a comparatively easy matter for capitalists to control and manipulate, and that toilers, to obtain money

\textsuperscript{77}See Jones, \textit{op. cit.}, pp. 32-33 for a detailed discussion.

\textsuperscript{78}William H. Harvey, \textit{Coin's Financial School Up to Date} (Chicago: Coin Publishing Company, 1895).

\textsuperscript{79}Some of the signers of the petition were: J. R. Sovereign (Knights of Labor), Samuel Gompers (American Federation of Labor), P. J. McGuire (United Brotherhood of Carpenters and Joiners of America), Frank P. Sargent (Brotherhood of Locomotive Firemen), and John McBride (United Mine Workers of America). William J. Bryan, \textit{The First Battle, A Story of the Campaign of 1896} (Chicago: W. B. Conkey Company, 1896), p. 167.
for the purchase of their food supplies, are placed entirely at the mercy of the foreign and American money-sharks, who, by contracting the currency, can force a panic or famine in money at their supreme will?

Would they be guilty of such a crime? We only say in reply, look at our present helpless condition. Does it not seem to you, in the light of the fact here given, that, where in the midst of plenty there is wide-spread suffering and unhappiness, there is considerable meat in the refrain from Wall Street: "Dig on, ye toilers, dig; the legislative button that we press will do the rest." These publications along with numerous other articles and speeches on the free silver issue aroused even greater sentiment. This, coupled with the economic depression of the nineties, set the stage for William Jennings Bryan's rise to fame.

William Jennings Bryan and The American Federation of Labor

As the publicity of the financial debates intensified in 1895, Bryan, with his eloquence and personable manner, became a leading figure in the Democratic Party. He wanted to unite all those who believed in free silver—Independents, Populists, Republicans, and Democrats under one banner and

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80Ibid., pp. 166-167.
if at all possible, under the Democratic Party.81

In the presidential campaign of 1896, the money question became a paramount issue. The Democratic Convention nominated Bryan upon the silver platform, after hearing his preliminary oration which ended with the following sentence:

Having behind us the producing masses of this nation and the world, supported by the commercial interests, the laboring interest, and the toilers everywhere, we will answer their demand for a gold standard by saying to them: You shall not press down upon the brow of labor this crown of thorns, you shall not crucify mankind upon a cross of gold.82

Samuel Gompers, President of the American Federation of Labor, stated:

Bryan spoke the language of humanity and he appeared as the proclaimed savior of the common people who would break the power of the gold standard scepter of Wall Street.83

The American Federation of Labor in 1895, reaffirmed its position on "free silver," with the qualification that it did "not in any degree endorse any political party that may have made free coinage a partisan political question."84

81Jones, op. cit., p. 70.
This produced a storm from the Bryanites because labor failed to endorse the Democratic Party and a protest from the Republicans who interpreted the resolution as favorable to Bryan. It is quite evident that some labor groups were for Bryan as indicated by an editorial in The Electrical Worker:

The Workingmen's Bryan Club which is a non-partisan organization, has now a membership of over 2,000 composed of nearly as many Republicans as Democrats . . . In addition to this central club, ward clubs have been organized in all the wards in the city, so that the number of St. Louis Workingmen who have enrolled their names in the Bryan clubs already number over 2,500, and hundreds are joining each meeting night.

The editorial further stated that 35,000 people had appeared to hear Bryan speak at a mass meeting of the Workingmen of St. Louis.

Also, of interest to laborers was an address circulated by the Central Bryan Club which encouraged the workers to join their organization. Their address first attacked Mark Gompers, loc. cit.

The Electrical Worker was the official journal of the National Brotherhood of Electrical Workers of America, an affiliate of the American Federation of Labor.

National Brotherhood of Electrical Workers of America, The Electrical Worker, October, 1896, p. 5.
Hanna,88 by pointing out his unfavorable interference with labor's efforts, but the financial question remained the most significant topic of the circular. It appealed to the workers that "a vote for silver is a vote against foreign bankers and Wall Street skylocks."89

Despite such efforts as the Bryan Club's, skepticism prevailed among the workers. The press secretary of a local union in San Francisco commented in The Electrical Worker:

"Sixteen to One and Bryan" is the watchword with a great many of the boys. They seem to think there is a scarcity, and I believe they would like to have some, thinking, perhaps, Mr. Bryan would, by his election show them an easier road to prosperity than by climbing poles. There are also a few of us who think McKinley and sound money, with protection, will give us a chance to climb poles and earn good hard 100-cent dollars . . . .90

Employers, in many instances, attempted to influence and educate their workers in McKinley's behalf by posting placards in the workshops, distributing pamphlets among

88Jones, op. cit., p. 289, points out that Marcus A. Hanna, campaign manager and influential associate of McKinley, was more sympathetic toward labor, organized and unorganized, than most industrialists.

89National Brotherhood of Electrical Workers of America, The Electrical Worker, loc. cit.

90Ibid., p. 8.
the laborers, hiring shopforemen who were well informed on the money question, acquiring speakers to talk to the men during their lunch hour, slipping leaflets into pay envelopes, developing sound money clubs among the workingmen, and other such actions.\textsuperscript{91}

The presidential election of McKinley proved that labor in general had not responded to the Democratic appeal and organized labor was divided among itself. James R. Sovereign, head of the Knights of Labor, joined the Populists who endorsed Bryan while Terence V. Powderly, ex-president of the Knights, campaigned for the Republicans.\textsuperscript{92} The American Federation of Labor was noncommittal to a party and Gompers, president of the Federation, stated:

\begin{quote}
I was for free silver, not the Democratic Party. If the Democratic Party favored free silver, well and good, for legislation is altogether too frequently enacted by partisan sponsorship.\textsuperscript{93}
\end{quote}

At the 1897 Federation convention, W. D. Mahon of the Street Railway Employers' Association, charged that action should be taken against President Gompers for collusion  

\textsuperscript{91}Jones, \textit{op. cit.}, p. 334.
\textsuperscript{92}\textit{Tbid.}, pp. 75, 317.
\textsuperscript{93}Gompers, \textit{op. cit.}, p. 87.
with the Democratic National Committee. After an executive session, the following resolution was adopted: "Resolved, that we endorse the President's position, dismiss the charges and exonerate him from blame." Bimetallism was last mentioned at the American Federation of Labor Convention in 1898 when an adopted resolution read as follows: "Bimetallism is so strongly entrenched in the labor movement that it is not necessary at this time to debate the question." 

**National Banking System**

Another aspect of the financial question which aroused labor's interest during the 1890's was the national banking system, which was established under the National Bank Act of 1864. This act was "to provide for a national currency, secured by a pledge of United States bonds, and provide for circulation and redemption thereof." A national bank

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could be established by five or more associates with no less than $50,000. In order to issue notes, each national bank was required to deposit with the Treasury, United States bonds equal in amount to one third of the capital stock; the bank was then entitled to receive circulating notes equal in amount to ninety per cent of the current market value of the bonds. The bank association could then issue the notes which would circulate—in payment of taxes, lands, salaries, debts, and other demands within the United States.  

The American Federation of Labor clearly stated their negative attitude toward the System at their convention in 1894 with the adoption of Plank Twelve:

The abolition of the monopoly privilege of issuing money, and substituting thereof a system of direct issuance to and by the people.  

The American Federation of Labor did not point out the method by which this should have been accomplished; however, several writers took it upon themselves to give their recommendations.

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97 Ibid., pp. 349, 350, 354, 356, 357.

98 American Federation of Labor, Proceedings, 1894, p. 50.
One method of fulfilling plank twelve was offered by J. T. Small, a correspondent for the *American Federationist*, who suggested the use of a mutual banking system. Small explained that a money free from interest, if at all possible, was wanted by the people. Under the National Bank Act, notes were primarily circulated first through loans to businessmen at a rate of interest varying from six to twelve per cent. Small's plan was based on the formation of mutual banks by the workers themselves. Their property would be pledged as security for their own note issue. Thus, the worker could derive the same benefits, minus the excess interest charge, rather than deal with a national bank for a loan. He urged the workingmen to consider his idea. 99

But Stephen T. Byington had an entirely different approach to the "issue of money directly by the people." He felt that money issuance was a monopoly in the hands of Congress and their favorites—National Banks. It was suggested by Byington that any individual wishing to make a gold or silver coin or issue paper money of any sort, could

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do so without the approval of the government. He believed that people would learn through experience which was of value and which was not, and eventually uniformity would be reached to which all would agree.\textsuperscript{100}

John McBride, editor of the \textit{American Federationist} in 1895, asserted that the strength of the national banks consisted chiefly of confidence on the part of depositors, rather than upon their ability to pay dollar for dollar. He maintained that if all depositors surrendered their certificates of deposit, and demanded their money, every national bank in the country would be forced to close its doors. This system of confidence and credit, he felt, was anything but creditable to the government and to the people. In conclusion, he stated:

\begin{quote}
We must take from speculators, bankers and brokers the power to control our medium of exchange before interest can be reduced to a minimum, usury be wiped out, and business done upon a cash rather than a credit basis.\textsuperscript{101}
\end{quote}

\textsuperscript{100} Stephen T. Byington, "To Abolish Money Monopoly," \textit{American Federationist}, October, 1895, pp. 106-107.

\textsuperscript{101} American Federation of Labor, Editorial, "The Kind of Money Needed," \textit{American Federationist}, August, 1895, pp. 84, 85.
The national banking system and gold standard again captured the attention of the American Federation of Labor when the Gage Bill was presented to Congress in December of 1897. Two resolutions pertaining to this bill were adopted at the Nashville Convention because the Federation feared adverse effects if the bill passed. The resolutions stated that this bill would firmly entrench the gold standard on the American Economy and would fasten the national banking system on the people. The Federation felt that the bill was simply an undisguised effort to retire greenback and other government paper money by substituting national bank notes in their stead.

In reaction to the American Federation of Labor's financial resolutions, Secretary of the Treasury Gage wrote a letter to President Gompers defending his bill. He

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102 The bill, H.R. 5181, read as follows: "To provide for the refunding of the National debt, for establishing a redemption fund, and a division of issue and redemption in the Treasury of the United States and to modify existing laws respecting National Banks, and for other purposes." U.S., Congressional Record, 55th Cong., 2nd Sess., XXXI, Part 1, p. 234.

103 The bill was sponsored by the Secretary of the Treasury, Lyman J. Gage. American Federation of Labor, Proceedings, 1897, p. 113.
mentioned that if the gold standard was inimical to the interest of the laboring classes, then it was inimical to all classes. He did not believe that the exploitation of one class by another, either through false weights, partial laws, or a bad monetary system, could be made to work for the permanent benefit of the exploiting class. Gage had also taken personal offense by the passing of the resolutions and further stated:

... that the permanence of the gold standard (for which I argue) operates in this evil direction, then your resolutions of condemnation are well founded, and I am justly charged, either with an ignorance which constitutes me a foolish advisor, or with a perversity of motive which makes me an evil advisor... 104

In defense of his position, Gage admonished Gompers and said that if either Gompers or any of his associates could prove that the views expressed in the bill were not in the best interest of the American monetary system, then he would abandon his efforts. 105

104 Letter from Lyman J. Gage, Secretary of the Treasury, to Samuel Gompers, President of the American Federation of Labor, as cited in American Federationist, January, 1896, p. 254.

105 Ibid., p. 260.
Gompers immediately wrote a letter of rebuttal to Gage in which he reaffirmed the Federation's stand on the Gage Bill. He pointed out that resolutions were made to voice the opinion of a group and therefore offered no arguments. Hence, the Federation was simply utilizing its right to express an opinion, as Gage had done by suggesting the bill. Gompers discussed at some length the effects a gold standard would have on the laboring class and concluded this portion of his defense with the following statement:

You must abandon the advocacy of gold monometalism unless you can show that the demonitization of silver and the doubling of the demand for gold resultant therefrom, has not caused gold to grow dearer and prices lower to the great injury of all producers of wealth. You should at least show that the perpetuation of the gold standard will not result in making money dearer and human flesh cheaper.106

Gompers questioned Gage quite extensively on the feasibility of the national bank note substitution, and stressed that "it will make the banks the masters, the many the slaves, and would enrich the few and impoverish the multitude."107


107 Ibid., p. 262.
Apparently, Gage never replied to Gompers' letter although he was offered an opportunity. The bill brought about a lengthy discussion in the Banking and Currency Committee of Congress, but was not passed.

Summary

Organized labor during the latter part of the nineteenth century responded to the needs of its members with programs for monetary reform. Especially during hard times, a sufficient supply of money was not available to the working class and the interest rates on bank loans further burdened the laborers. In their despair, the union members turned to their leaders to resolve their problems. Monetary reform was the solution.

The National Labor Union, Industrial Congress and Industrial Brotherhood, and Knights of Labor advocated the abolishment of the national banking system and the issue of paper money by the government directly to the people. Political action was stressed by various leaders as a means of achieving labor's goals, and also, a number of unionists joined the Greenback Labor Party. Some labor leaders felt that if money reform transpired, then cooperatives would be the answer to return labor to its rightful
place in society.

Of special significance during this period was the formation of the American Federation of Labor which was destined to become a strong representative of the working class as well as their guide in many important issues. The Federation, too, urged the abolition of the national banking system, but wanted money to be issued by the people, not by the government. The American Federation of Labor, as well as the Knights of Labor, recognized that the free and unlimited coinage of silver was a means by which the worker could secure additional money, and therefore, participated in the silver movement.
CHAPTER III

SIGNIFICANT CHANGES IN
THE BANKING SYSTEM 1900-1928

From the time of the passage of the National Banking Act in 1864, certain inherent weaknesses in the Act were brought before the public. Little attention was given to these defects until the 1890's which marked the beginning of the banking reform movement.¹

Organized labor had been opposed to the System from its beginning and offered its own solutions to the banking problems, as was shown in Chapter II. In 1906, the American Federation of Labor at the Minneapolis convention slightly changed its attitude and stated in its Declaration of Principles:

We favor a system of finance whereby money shall be issued exclusively by the government, with such regulations and restrictions as will protect it

from manipulation by the banking interest for their own private gain.\textsuperscript{2}

This differed from their 1894 statement which specified "issuance to and by the people,"\textsuperscript{3} not by the government.

There is no doubt that organized labor had justifiable complaints about the system because one of the basic defects was the inelasticity of the currency. This did not mean that the currency could not be increased, but that it could not be expanded and contracted in accordance with the increase and decrease in the demand for it.\textsuperscript{4}

In addition to the currency problem, the system lacked an open market committee for commercial paper, an effective means of clearing and collection of checks, a provision for the organization of American banking institutions in foreign countries to stimulate foreign trade and an overall cohesiveness and coordination of commercial bank policies. Also, the actions of the Independent Treasury System, under which the government acted as a partial custodian of its

\textsuperscript{2}American Federation of Labor, \textit{Proceedings}, 1906, p. 239.

\textsuperscript{3}Supra, Chapter II, p. 39.

own funds, resulted in irregular withdrawals of money from bank reserves and from circulation. This was detrimental to general business conditions and, in turn, to labor. 5

Further, the reserve arrangement 6 of the system worked ineffectively and led to pyramiding of reserves. For example, country banks would mail their checks to reserve agents for collection and upon mailing, the checks would be counted as legal reserve. The reserve city banks would do likewise in sending the same checks to the central reserve banks. Some checks, therefore, were counted twice and the legal reserves were inaccurate. 7

Through the pyramiding of reserves, the greatest concentration of funds was in New York City. The New York banks, governed by the profit motive, primarily made call loans, many of which were used in the securities market. This entire procedure became quite unsatisfactory during


6 National banks were required to keep a legal minimum reserve against their deposits. The amount required depended upon the bank's classification as: (1) central reserve city banks, (2) reserve city banks, or (3) country banks. Clark, op. cit., p. 4.

7 Ibid., p. 5.
periods of credit stringency when the call of these loans had an unbalancing influence on the money market and stock exchange transactions. The effect was felt throughout the nation and resulted in financial panics.\textsuperscript{8}

The Panic of 1907 definitely emerged from inadequacies in the banking system. By the latter part of that summer, it was apparent that the money market was faltering. Securities were overvalued by conservative standards, and building construction was beginning to slacken. In mid-October, the panic actually began with runs on some banks and trust companies.\textsuperscript{9} Many banks, like depositors, sought to turn their assets into cash, and thus, loans decreased and the call-money rate greatly increased. The banks tried to lessen the shortage of currency induced by the private hoarding of cash. They introduced, on a large scale, clearinghouse certificates and the Treasury tried to stem the panic by pouring money into the banks. With this

\textsuperscript{8}Ibid., pp. 6-12.

additional amount of currency in circulation, the Panic was halted.\(^1^0\)

The financial conditions of 1907 were reflected in the November convention of the American Federation of Labor. A delegate from the International Photo-Engravers' Union of North America, Louis A. Schwarz, blamed the unscrupulous banking methods of the large financial centers of the country for the financial panic which seriously affected the interests of the laboring class. Business and trade were demoralized and the demand for labor was reduced. Schwarz then offered the following resolution:

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\ldots \text{that this convention go on record, being the voice of organized labor, as being unanimously in favor of any efficient methods that may be employed, to place the currency of the United States upon a more elastic and safe basis to prevent the possibility of the scarcity of currency, and that this convention, representing the working people of the United States, demand of the people's representatives in Congress, that immediate steps be taken toward this end.}\(^1^1\)
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It was further resolved that organized labor was opposed to the hoarding of currency, and advocated the restoration


\(^1^1\)American Federation of Labor, Proceedings, 1907, p. 239.
of all savings to the different channels that served to keep the currency of the United States in healthy circulation. The resolution was considered, but it was felt by the Executive Council that the matter had already been covered by the Declaration of Principles adopted at the previous convention.12

Immediately following the Panic of 1907, Congress took steps toward correcting the weaknesses in the American Banking System by passing the Aldrich-Vreeland Act in May of 1908.13 The Act was an emergency measure to prevent a shortage of currency and to establish a National Monetary Commission, composed of senators and representatives, to make a thorough study of the necessary and desirable changes in the money and banking system. The Act was to expire on June 30, 1914.14

While the Monetary Commission made their study, organized labor continued to urge a system of finance whereby

12Ibid.


14Studenski and Krooss, op. cit., p. 254.
money would be issued by the government. In 1912, John H. Collins, a delegate of the Central Labor Union to the American Federation of Labor Convention, acknowledged that the President of the United States was going to submit to the governors of the states a proposition for the creation of additional banks for the benefit of farmers. He urged the convention to support the proposition with certain conditions; primarily, that if any system for more adequate money and banking facilities were to be created, then wage earners, as well as farmers, should be able to obtain credit at cost. Collins further resolved:

... that we reiterate labor's long continued demand for a reform in banking and currency that will stop the abuses that yield monopolistic profits to large institutions and combinations ...

He stressed that the voice of the representatives of organized labor had as much right to be heard on the monetary problem as that of representatives of bankers and businessmen. However, the Committee on Resolutions amended the proposal to include only the support of the President's

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proposition with the primary condition recommended by Collins. The resolution was then adopted by the Convention.\textsuperscript{17}

Federal Reserve System as Solution

The passage of the Federal Reserve Act in December, 1913,\textsuperscript{18} brought to a close over twenty-five years of effort for banking reform. The Act had been founded on principles and practices which were calculated to remove the defects of the National Banking System. Before the final passage, conflict had developed between those who favored the Aldrich Bill (the National Monetary Association plan) and those who favored the Owen-Glass Bill (Federal Reserve plan). The Aldrich plan, supported by many bankers and large businessmen, provided for one central bank. The Federal Reserve plan authorized a central banking system consisting in part of regional reserve banks. The Aldrich plan was rejected primarily because it was believed that it meant too great a

\textsuperscript{17}\textit{Ibid.}, p. 378.

\textsuperscript{18}For details on legislative history, see Laughlin, \textit{The Federal Reserve Act, Its Origins and Problems}, \textit{op. cit.}, pp. 161-190.
centralization of power in the hands of the "financial interests" of Wall Street. ¹⁹

Organized labor apparently did not support either the Aldrich plan or the Federal Reserve Act.²⁰ Labor leaders did not take part in the formation of the Federal Reserve System and labor literature does not reveal any particular interest toward these two plans.

The American Federation of Labor was pragmatic and realized that since the Act had passed, they would support amendments beneficial to the laboring class. Such as the case in 1914 when Senator Wesley L. Jones of Washington introduced a bill, S. 6460, to amend the Federal Reserve System. The amendment would establish a system through which loans, not exceeding $5,000, four per cent interest, and twenty years' duration, would be made to any one person. The purpose of the loan was for acquiring or improving rural


or city property. Senator Jones, in introducing the bill, stated:

... there are a great many of our people who are really in a need of assistance who are not in a position to get their claims presented to Congress. This bill is intended to furnish relief to deserving people who cannot avail themselves of the provisions of the banking laws where security is required and a short time given and a high rate of interest exacted, but who will be able to secure the government from losses ... 21

It was his intention that the bill would not take the place of rural credit but would supplement those measures. In opposition to the bill, Senator McCumber from North Dakota stated that it was paternalistic and socialistic, and it would give that appearance to the average reader. The bill was referred to the Banking and Currency Committee but was not acted upon. 22

Organized labor was not discouraged and continued to push for amendments which they felt would be in their favor. All the while, they maintained a stand for a system of

21 American Federation of Labor, "Uncle Sam to Loan Money?" Weekly Newsletter, September 12, 1914.

finance whereby money would be issued exclusively by the government. 23

Following World War I, organized labor's interest in financial matters became more acute. At a trade union conference held in Washington, D.C., in December, 1919, a proclamation was issued entitled Labor, Its Grievances, Protests, and Demands. 24 One grievance section dealt with credit and its control by private financiers. Organized labor felt that credit was inherently social and the "lifeblood of modern business," but the manner in which it was administered burdened industry rather than served it. Through credit, unearned incomes of financiers were enhanced at the expense of earned incomes of the workers. Therefore, they urged:

... the organization and use of credit to serve production needs and not to increase the incomes


and holdings of financiers. Control over credit should be taken from financiers and should be vested in a public agency, able to administer this power as a public trust in the interest of all the people.\textsuperscript{25}

A statement issued by the Comptroller of the Currency John Skelton Williams in 1920 was, to organized labor, an endorsement of their charge that the control of credit by bankers corrupted the spirit and purpose of industry. Williams condemned the unjustifiable interest rates by New York bankers and admitted that industry was hampered by such charges.\textsuperscript{26} Williams further proclaimed that New York bankers were borrowing money from the Federal Reserve at four and one-half per cent to six per cent and loaning it as high as thirty per cent.\textsuperscript{27}

In support of Williams' condemnation of the exorbitant interest rates, the American Federation of Labor convention in 1921 demanded prompt enactment by Congress of legislation to limit the spread between the rate at which member banks of the Federal Reserve System secured money and the rate

\textsuperscript{25}\textit{Ibid.}

\textsuperscript{26}\textit{American Federation of Labor, "Labor's Political Program Includes Finances," \textit{Weekly Newsletter}, October 23, 1920.}

\textsuperscript{27}\textit{American Federation of Labor, "Bankers Lecture Workers While Trusts Close Mill," \textit{Weekly Newsletter}, October 30, 1920.}
they were permitted to charge. A maximum spread of one and one-half per cent was recommended and legislation was demanded to prohibit members of the Federal Reserve from lending money for speculation. 28

Due to a severe but short-lived downswing of the business cycle in 1920 and 1921, a number of articles centering around the money topic appeared in American Federation of Labor publications, 29 and organized labor became quite incensed when charges were made by Federal Reserve bankers and their supporters that high wages were largely responsible for this downturn. The Federal Reserve had recommended that wages of workers should be reduced to increase business activity. 30


29 Such titles appeared in the American Federation of Labor, Weekly Newsletter: "Wall Street Control Seems Grim Reality," (October 23, 1920), "Tamed Gold Standard is Wobbly Old Basis," (August 6, 1921), "Bankers Must Let Loose," (July 2, 1921), "Bankers Are Blamed," (July 23, 1921), and "Bankers on Strike," (September 3, 1921). Also, a meeting of trade union leaders in the Executive Council Chamber of the American Federation of Labor, February, 1921, pledged themselves to obtain the public support and recognition of the administration of credit as a public trust in the interest of all the people. American Federation of Labor, Weekly Newsletter, Special Edition, April 9, 1921.

One journalist for the American Federation of Labor noted that during 1921, the New York Federal Reserve Bank had accumulated extremely high profits and had raised salaries of its officials—an occurrence that had caused discussion in the United States Senate. Senator Lee S. Overman of North Carolina stated that the Federal Reserve Bank of New York had spent seventeen million dollars in the erection of one of the finest bank buildings in the world and had hired men from surrounding banks at quadrupled and quintupled salaries. He explained that the Federal Reserve System was intended to be operated on a non-profit basis, but the law had been amended so Federal Reserve Banks could retain one hundred per cent surplus. Since profits were so large, the senator said, the Federal Reserve bankers "are wasting it by increasing salaries over seven million since 1919 and by erecting these extravagant buildings."32

A defense of salaries paid to Federal Reserve Bank officials was made by H. Parker Willis, an employee of the

31 Ibid.

Federal Reserve Board. He stated that a comparison could not be made between the Federal Reserve salaries and those of other government officials whose salaries were based largely on custom and tradition. A reporter for the American Federation of Labor was amused at such a defense because "trade unionists are called upon to present their living costs and bare necessities to men who insist that 'there are no classes in this country.'"\textsuperscript{33}

Alarmed by these attacks on the Federal Reserve System and banking institutions in general, its defenders introduced in Congress in 1922, H. R. 11217:

To make punishable by law the offense of spoken, written or printed derogatory statements or suggestions affecting banks.\textsuperscript{34}

The Executive Council of the American Federation of Labor took a firm stand of opposition to this bill. They felt that such legislation was an attempt to protect the privileged few from criticism of their acts and to limit free speech and press. The Council noted that if the bill passed, it would be considered a misdemeanor to denounce the increased

\textsuperscript{33}American Federation of Labor, "Bankers Employee Defends Big Salary," \textit{Weekly Newsletter}, April 22, 1922.

salaries paid by the Federal Reserve Bank of New York. Also if any Congressman advocated a measure for the protection of the people from illegal banking acts, he could be fined $5,000, imprisoned for five years, or both. To organized labor's satisfaction, the bill did not pass.

While the bankers insisted on wage reductions to offset cyclical downturns, trade union delegates at the 1921 convention of the American Federation of Labor had their own solutions. E. H. Fitzgerald and A. C. Hay of the Brotherhood of Railway Clerks demanded that a movement be instituted to enforce labor's legal rights to legal tender money, and to refuse the acceptance of Federal Reserve notes, National Bank notes and bank checks. No doubt Fitzgerald and Hay wanted to accept "hard money"—gold and silver coins. Other portions of the resolution offered alternatives to Congress. One requested the repeal of all banking acts and the withdrawal of legal protection to bankers. Another urged the governmental establishment of banks and the liquidation of government bonds into legal

35 American Federation of Labor, Proceedings, 1922, pp. 107, 339.
tender money. Because of the complicated nature of the Hay-Fitzgerald resolution and the near adjournment of the convention, the Resolution Committee referred it to the Executive Council for further study.36

At the next convention, in 1922, the Executive Council reported that it had made a thorough investigation into the subject of currency, credit, and banking, as had been suggested by previous convention resolutions. The use of savings and funds of the workers deposited in banks, the methods and use of credit, and the practicability of stabilizing the purchasing power of money were the main issues under consideration. The investigation was made on the assumption that the workers' savings were being used by the banking institutions to discredit, crush, and destroy trade unions and to favor the employer.37

The Executive Council inquired into the extent to which bankers controlled industrial enterprises and commercial activities. It was found that although the banking system


in the United States dominated industry and commerce in the sense that industrialists and merchants needed loans by banks, the exact form of domination could not be ascertained. It was agreed that bankers were in a position to exert great influence over the business policies of concerns which required large amounts of capital and were not financially strong. Also, there were instances in which bankers were on boards of industrial enterprises and industrialists were on boards of banks. These were considered unfair practices because of the effect on banking opportunities. Therefore, the Council concluded that an effort should be made to secure a complete division between the financial and the industrial and commercial enterprises. Since the problem was too complex, the Council requested an authorization to give the subject additional consideration before offering a definite plan of action.  

Special attention was given to the control and influence of banks over the industrial relations policies that might be enforced upon employers in their dealings with wage earners. It was disclosed that bankers, generally speaking,  

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38 Ibid.
were opposed to the trade union movement and they often tried to compel employers to assume an attitude toward trade unions which would weaken, if not destroy, the organization. Nevertheless, the Executive Council did admit that bankers could also be influenced by manufacturers, merchants, and trade associations.\textsuperscript{39}

Several proposals had been offered to the Council as means of improving the financial situation. It was suggested that the government undertake the establishment of banks to compete with the private ones, but the Council had not proceeded far enough in their investigation to make an official statement along these lines. Other proposals considered were to liberalize the postal savings bank system\textsuperscript{40} and to encourage the establishment of trade union banks.\textsuperscript{41} The Council felt that organized labor's strongest weapon in dealing with the control by bankers was the savings deposits of union members and their friends. The boycott method could be used against those bankers whose

\textsuperscript{39}\textit{Ibid.}, p. 89.

\textsuperscript{40}\textit{Supra}, Chapter III, p. 68.

\textsuperscript{41}\textit{Supra}, Chapter III, p. 74.
aims and policies were detrimental to the labor cause.\textsuperscript{42}

Also, the Executive Council had made an inquiry into the practicability of stabilizing the purchasing power of the monetary unit. They had given consideration to the plans of Professors Fisher of Yale, Sprague of Harvard, and Cassel of Sweden.\textsuperscript{43} No official recommendation was made and the Council concluded:

Every influence and interest in our national life should rise above selfishness to a spirit of promoting the future welfare of all and to that end should cooperate with the national government in finding a proper solution to this most urgent need of our time—a more stable medium of exchange.\textsuperscript{44}

The American Federation of Labor showed its cooperation in achieving this goal when it participated in the hearings on Stabilization held by the Committee on Banking and Currency. Congressman James Strong of Kansas defended the following bill, H. R. 11806:

\begin{itemize}
  \item \textsuperscript{42}American Federation of Labor, \textit{Proceedings}, \textit{op. cit.}, pp. 90–91.
  \item \textsuperscript{44}American Federation of Labor, \textit{Proceedings}, \textit{loc. cit.} 
\end{itemize}
A bill to amend the act approved December 23, 1913, known as the Federal Reserve Act; to define certain policies toward which the power of the Federal Reserve System shall be directed; to further promote the maintenance of a stable gold standard; to promote the stability of commerce, industry, agriculture and employment; to assist in realizing a more stable purchasing power of the dollar, and for other purposes.  

Mr. W. C. Hushing, Legislative Representative of the American Federation of Labor, testified that his organization was interested in that portion of the bill which dealt with stabilizing the purchasing power of the dollar. But there was some doubt in his mind whether the bill would accomplish that purpose. He hastily added, however, that the bill was a start in the right direction. Mr. Strong explained that it was improbable, if not impossible, to have absolute stabilization. However, the purpose of the bill was to use the Federal Reserve's money and credit policies in such a way as to reduce the fluctuations to a minimum. Mr. Hushing admitted that he was not an economist, but to him, the bill seemed to be a practical way to begin and he

agreed that the American Federation of Labor would endorse the bill. But the Strong Bill was not reported out of the Banking and Currency Committee.

Organized labor was demonstrating a more mature effort by having a representative at the hearing, and by so doing, was expanding into the area of banking and currency. It was quite evident from Mr. Hushing's testimony that the Federation was in need of trained economic advisors who could more ably understand and present organized labor's viewpoint.

Postal Savings Banks

As early as 1891, postal savings banks had received attention at the American Federation of Labor Convention when a delegate offered a resolution for the establishment of these banks by the government. The resolutions committee, however, felt that it was an inopportune time for such legislation because of other pressing trade union matters.

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46 Ibid., pp. 409-410.

In September of 1895, an editorial in the American Federationist proclaimed that the postal savings banks "would be the safest and best form of banking for the people." It was explained that such a system was quite successful in Great Britain and was in practical operation in Canada. The editor encouraged postal savings because he believed the fairly high rate of interest paid by, and the absolute safety of, the system would make it an ideal depository for wage earners' savings. Furthermore, it would encourage thrift among wage earners, as well as lessen the power of the capitalists.\textsuperscript{48} This editorial apparently reflected the feeling of the majority of the Federation for the Convention in December of that year by resolution officially urged the establishment of a Postal Savings System.\textsuperscript{49}

At the 1897 convention, Millard Lloyd, a delegate from the Illinois State Federation of Labor submitted a more detailed resolution on the establishment of postal savings banks. He wanted these banks to be independent of all

\textsuperscript{48}American Federation of Labor, Editorial, "Postal Savings Banks," American Federationist, September, 1895, p. 125.

\textsuperscript{49}American Federation of Labor, Proceedings, 1895, p. 68.
banking systems then in operation in the United States.\textsuperscript{50} The resolution was adopted, but it was clarified by another delegate who recommended that it be understood that the American Federation of Labor was not in favor of national banks as depositories of postal savings.\textsuperscript{51}

The following year, the Executive Council reported that no progress had been made in the establishment of this system, but the promoters had agreed to the Federation's amendment to exclude national banks as depositories.\textsuperscript{52} It was not until the Panic of 1907 that consideration was again given by the Federation Conventions to the matter of a postal savings system. The delegates of the American Federation of Musicians felt that such a financial state would not occur in nations where postal savings banks were established. Whether or not this was a correct assumption, they felt the savings of the people would be assured and a simple demand for their deposits would be honored. Therefore, it was again resolved that the American Federation of Labor pursue a course of pushing for the establishment

\textsuperscript{50}American Federation of Labor, \textit{Proceedings}, 1897, p. 34.

\textsuperscript{51}Ibid., p. 74.

of postal savings banks, and this demand continued through 1909.53

This objective of organized labor became a reality when in June, 1910, the Federal Government established the Postal Savings System. The Act provided that from the postal savings fund, five per cent was to be deposited with the Treasury of the United States and thirty per cent could be invested in United States bonds.54 Organized labor, however, was not in favor of that portion of the legislation55 which provided that the remainder of the funds could be deposited with national or state banks if secured by public obligations. The Act did not provide for loaning of funds, and in 1912, the American Federation of Labor adopted a resolution encouraging loans to the laboring people for residential improvement purposes.56 Along these same lines, the Federation Convention of 1913 adopted a resolution favoring an amendment which would


54Studenski and Krooss, op. cit., p. 248.

55Supra, Chapter II, p. 39.

enable school district trustees to take their school
district bonds to the Federal trustees of the postal savings
fund and borrow money without the intervention of a third
party. This effort represented a combination of interests
which linked their concern for the educational welfare of
their children—with their own monetary aims.

In 1912, an editorial in the *Weekly Newsletter* proclaimed the instant popularity of the postal savings
system. But, in reality, it was not the immediate success
its sponsors had visioned. At the 1913 Federation Con-
vention, Thomas Wright of the Brotherhood of Painters,
Decorators and Paperhangers of America, recommended that
Congress alter the postal banks by removing all maximum
limitations of deposits, eliminating the provision of
redepositing savings in private banks, and establishing
checking account facilities. Thus, the postal savings banks

57 American Federation of Labor, *Proceedings*, 1913, p. 276. The Convention Proceedings of 1916 mentioned that organized labor was unable to secure passage of this legis-

58 American Federation of Labor, Editorial, "Postal

would be in competition with the private banks. After much discussion, it was recommended that this proposal be referred to the Executive Council and not adopted at that time because of the pending legislation in Congress, the Federal Reserve Bill. The Resolution Committee felt that Wright's idea might be misconstrued or limit the Council. Yet, there is no evidence of American Federation of Labor participation in the hearings on the Federal Reserve Bill.

But organized labor continued to maintain a position advocating increases in the amount of deposits in the postal savings banks. When deposit limitations were increased from $500 to $1,000 in 1916, it felt that definite progress had been made.

Proposals for change were not mentioned again until the downturn of the business cycle in 1920-21. The following year, the Executive Council reported that a recommendation had been made to enlarge the facilities and to increase the amount of and the interest on deposits. The recommendation

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60 American Federation of Labor, Proceedings, 1913, pp. 276-277.

was issued in opposition to private bankers, who they felt were partially responsible for the unstable financial conditions. From that time, their interest in Congressional legislation to amend the postal savings system declined. Organized labor began to look for other solutions to their money and banking problems.

Labor Banks

Although several writers have given consideration to the area of labor banking, it would be negligent to omit it from this study. At the time some union delegates pushed for postal savings and government ownership of banks, others wanted to place the wage earners' savings in labor's own financial institutions. This was another reform measure proposed to bypass the private bankers and the high interest rates to workers. The American Federation of Labor

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Conventions from 1904 to 1919 spasmodically considered resolutions urging labor banking, but all proposals were rejected by the conservative leaders of the Federation.

In analyzing the attitude of the American Federation of Labor toward labor banking, it must be understood that the two national unions which were most active in this area, the Brotherhood of Locomotive Engineers and the Amalgamated Clothing Workers of America, were outside the Federation. It has been generally accepted that the first labor bank opened in this country was the Mount Vernon Savings Bank in May, 1920. This bank was sponsored by the National officers of the International Association of

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65 Ibid., p. 131.
Machinists, an affiliate of the American Federation of Labor. 66

In 1920, the Machinists delegates submitted a resolution at the Federation convention for approval of labor banks, credit unions, and cooperative banking. Action was taken by the Federation to approve the cooperative movement through the authorization of a Bureau on Cooperative Societies under Federation control. 67 Neither at this convention nor the following one did labor banking receive

66 In 1918, the Central Labor Council of Seattle, Washington, was making plans for a banking institution which would be known as the Trades Union Savings and Loan Association. Its board of directors was to be composed of each of the unions holding stock. The institution was started in March, 1919, and had deposits of $61,147. It was noted that a large part of the banks' assets were in Liberty bonds and that the state auditor credited it as 17th in reference to savings and assets. By June of that year, the bank appeared to a reporter to be making favorable progress among the local trade unionists, and the deposits passed $80,000. However, it is doubtful that this institution accepted demand deposits and for this reason was probably excluded from labor bank listings. American Federation of Labor, Weekly Newsletter, December 28, 1918, "Union Savings Bank," May 17, 1919; "Savings Bank Grows," June 7, 1919.

approval, and all resolutions were defeated without debate.68

The Executive Council did not feel it was in a position to take a stand on this matter and no doubt the conservative attitude of Gompers had an important influence on this decision. The Executive Council in 1922, when considering labor banks, stated that few trade unions were so organized as to permit them to enter into the banking business. Because of the need of funds to be used in defense of strikes or lockouts and for the payment of other benefits, the Council believed it unwise for the unions to convert their funds into working capital of a bank, which, if incorporated, could be sued and the funds seized. The Executive Council concluded with this statement:

While we believe trade union banks are possible, we believe that such ventures should be considered with caution and should be approached with extreme care.69

The death of Gompers in 1924, and the election of William Green to succeed him as president of the American Federation of Labor did not cause any marked changes in

69 Ibid., pp. 90-91.
the attitude of the Federation. The Executive Council reports continued to maintain an air of conservatism and in 1929 stated:

A bank is one of the most sensitive of economic agencies. Unions engaging in banking enterprises should assure themselves by every precaution possible for the competency and dependability of their technical advisors. They should avail themselves of all the supervision and counsel obtainable through state banking authorities and the federal reserve system. Such precautions meet with corresponding reward in public confidence and the safety of the bank itself. A number of labor banks are developing sound and wise policies and are a credit to our labor movement. Labor banking, however, is as yet in the experimental stage and should be accordingly safeguarded, and we urge greatest caution upon all those connected with them. Our action is based upon our realization of the close connection between these banks and the labor movement.70

That same year, on the fifth anniversary of the Federation Bank and Trust Company of New York, President Green wrote to Peter J. Bradley, President of the Bank:

I am proud of your achievement. The work which you have done shows that labor and labor's representatives are competent to manage and control their own financial institutions.71

70American Federation of Labor, Proceedings, 1928, p. 74.

Yet, in general, labor banking was only a short lived venture which proved to be unsuccessful. The most rapid expansion came between 1922 and 1924 when there was an increase in the number of banks from 7 to 25, and reached a peak in 1926 with 36. Thereafter, a decline set in with only seven in operation in 1932.72

Labor banking was encouraged by professional promoters who gathered interest among local labor leaders. Under a disguise of offering assistance, some of these promoters sold to labor groups banks of questionable financial soundness. These unsound purchases eventually contributed to some bank failures. Other causes of failure varied from lack of support to incompetent management.73 Many of the union groups were moving into an area where they lacked practical experience. Some of the union officials were exerting more efforts in the financial arena than around the bargaining table. Too, there is no doubt that the depression starting in 1929 contributed to the liquidation of many of the banks.


73Commons and Associates, op. cit., IV, p. 576.
The notable feature of the movement is that organized labor did recognize that they were in an unfavorable position in dealing with the private bankers. Thus, it tried to solve this problem by establishing its own financial institutions.

Summary.

In the first quarter of the twentieth century, the most significant change in the banking system of the United States occurred with the passage of the Federal Reserve Act in 1913. Organized labor did not participate directly in the hearings pertaining to the establishment of the Federal Reserve, but it recognized the complexity of the monetary issues. It lacked a comprehensive understanding of the monetary legislation and realized the need for expert advice.

The influence of Samuel Gompers' conservatism was exemplified by the American Federation of Labor's rejection of radical monetary proposals. It did, however, encourage the establishment of a postal savings system and strongly urged that labor banks be undertaken with caution.

The interest exhibited by organized labor during this period was a prelude to increased participation in government hearings and to a greater movement into lobbying for those monetary proposals which it supported.
CHAPTER IV

REORGANIZATION AND REFORM DURING
THE GREAT DEPRESSION

For over thirty years, numerous economists and historians have delved into complicated and lengthy studies of the causes and effects of the Great Depression—a depression that was not just a unique feature to the United States economy but was worldwide in scope. Concentration in this chapter will be on organized labor, which as a portion of the masses affected by this financial crisis, expressed its reactions toward banking and monetary reform measures and offered its own solutions.


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In the early part of 1929, organized labor became quite alarmed over the phenomenal rise in stock prices. An American Federation of Labor correspondent reported that the Federal Reserve System, which was intended to guard the nation's credit and stop money stringencies, had been attacked by Dr. H. Parker Willis, a professor of Banking at Columbia University. "For long years past," the professor stated, "the Federal Reserve has been wasting its resources and following unsound banking principles in several distinct directions." He requested that the Federal Reserve cease aiding Wall Street and stop "bootlegging its accommodations to the stock market." The correspondent noted, with a tone of sarcasm, that this was a diplomatic manner of suggesting that the bankers cease using the people's money to gamble on Wall Street.²

The Federal Reserve did take action in February, 1929, when it warned member banks to cease using funds for speculative purposes. The American Federation of Labor felt that this notice showed how government officials could change front, for in 1928, Governor Young of the Federal

Reserve Board had stated that loans to brokers were "a legitimate credit function."³

Also, the Federation was inclined to agree with a statement by Paul M. Warburg, "a noted financier, and substantial citizen," that the Federal Reserve by March of 1929 had lost control of the money market to the speculators of Wall Street. When the crash came in October, there is no doubt that organized labor held the Federal Reserve partially responsible.⁴

Even with the collapse of the stock market, the Federation, as the general public, could not foresee that an unusually severe depression was developing. In the early months of 1930, there was a slight recovery associated with an increase in automobile production and improvements in nonresidential construction. Yet, the decline in production and prices by the mid-1930's, along with the stock market fiasco, had created a downward revision in both short-term and long-term expectations. In the early months of 1931, the American economy again seemed to be staging


a recovery but the international financial structure collapsed completely, deepening the depression in the United States.

During this period, the Federation was informed that, because of a decline in prices, some banks would not extend credit to businessmen until workers' wages were reduced. The argument given by bankers was that a decline in the costs of living meant that a wage cut would not lower standards of living. The Federation contended that the maintenance of wage rates was a dynamic factor in sustaining economic growth and in supporting confidence. It was up to the American bankers "to get money out of the banks and into circulation" through loans to business. To organized labor, the bankers could perform their functions more wisely if they had regular and intimate contacts with production technicians and representatives of wage earners. The bankers had to take into account the welfare of the worker as well as all other economic groups and organized labor was looking to them to help stabilize the income of the wage earners.5

5American Federation of Labor, Proceedings, 1931, pp. 87-88.
But the workers were presented a pessimistic view by the Federation's *Monthly Survey of Business*:

Business here has been passing through a mild panic. The situation abroad, railroad difficulties, wage cuts and unemployment all have contributed to destroy confidence. Fear creates dangerous situations, threatening crisis. Many people, frightened for the safety of their funds, have withdrawn their money from banks; bank runs have forced the banks to get ready cash by selling securities for any price they would bring. Not only has this caused heavy losses because security prices are very low; the dumping of securities on the market has driven prices even lower, and the bankers' difficulties have prevented the granting of credit to business undertakings.6

Banking Legislation

Despite the general feeling of despair, the American Federation of Labor assured its members that there were signs of increasing confidence in the economy among bankers and businessmen. President Hoover, in September, 1931, had proposed a plan to the Federal Reserve Advisory Council that the banks form a pool which would create a fund to supply ready cash to weaker banks through loans on bank assets.

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National Credit Corporation

The National Credit Corporation was chartered on October 13, 1931, and capital was raised by having the banks subscribe two per cent of their net deposits. Weak banks could secure ready cash from the Corporation for assets which were sound but could not be given as security for loans from the Federal Reserve Banks. The Federation noted that this plan was designed to stop runs on the banks, halt the stock market decline, and make it easier for banks to grant credit for business endeavors.7

In April, 1932, the National Credit Corporation came under critical review of a Federation writer. In his estimation, it first prevented a number of unnecessary bank failures, but in the final analysis was not competent to handle the situation and failed to re-establish confidence. As a private organization, it was not ready to take the necessary risks, and only $155,000,000 was loaned to 575 banks.8 William Green, president of the American Federation of Labor, stated:

7Ibid.

In the failure of the National Credit Corporation we have seen the failure of even collective action of private banks to meet the urgent need so that a government agency, the Reconstruction Finance Corporation, was established to conserve the intrinsic values in investments.9

Reconstruction Finance Corporation

An air of optimism was prevalent among organized labor leaders when President Hoover's annual budget message of December, 1931, recommended the establishment of the Reconstruction Finance Corporation. In Hoover's opinion, this corporation "would not overlap those [functions] of the National Credit Corporation."10 Its purpose was to meet the emergency credit strains by granting loans to banks, insurance companies, railroads, and farmers, thereby releasing frozen credit for its normal use in trade. On January 22, 1931, the bill was signed and the United States Treasury subscribed to $500 million in capital stock. The Corporation had the power to make loans up to two billion dollars. The American Federation of Labor gave full approval of this emergency measure and stated:


10 Studenski and Kross, op. cit., p. 372.
We may reasonably expect that it will reduce bank failures, help to restore confidence and return money and credit to productive channels of trade. If it accomplishes these ends, it will do more to restore business than any other move possible at this time.11

In February, 1932, organized labor congratulated Congress on their good teamwork in carrying forward the President's reconstruction program, especially the establishment of the Reconstruction Finance Corporation. The Federation's Monthly Survey of Business mentioned that besides checking bank failures, the various financial bills proposed and those already passed by Congress were intended to help solve three other pressing financial problems: hoarding, inadequate loans to business, and the declining yield in the bond market.12

Yet, the Research Department of the American Federation of Labor felt that while Congress's measures prepared the way for business recovery, it would only come about when buying power was restored to the people.13 In the


13Ibid.
following month, they reported that business confidence was gaining. This was largely due to the Reconstruction Finance Corporation, which had prevented a large number of bank failures. Also, hoarders began to return their money to the banks. Other gains in the fields of finance included an increase in bond prices and loans to railroads.14

However, by January of 1933, it was quite evident to the Federation that the Reconstruction Finance Corporation had not fulfilled the needs of the laborers. Even though it had helped to forestall bank failures, credit had not been extended by the banks to business. Instead, loans were called, plants were forced to close, men were laid off and unemployment increased. In addition, the suggestion by organized labor for increased buying power was not heeded and wages were still being cut.15

To further complicate the depression was the banking crisis in the early part of 1933. The American Federation of Labor realized that the banks were caught "in a closing vice" and that the banking difficulties were too widespread


to be met by the Reconstruction Finance Corporation.\textsuperscript{16}

The Hoover administration, in organized labor's opinion, had based its policy on the theory that deflation could be cushioned by loans from this Corporation and once confidence was restored, business would of itself be strong enough to move the economy forward. Congress had not made the fundamental adjustment to make this program effective. Only stronger Federal action could check the forces of deflation and turn business upward.\textsuperscript{17}

The Reconstruction Finance Corporation's lending powers were to expire in January, 1933, but they were extended from time to time by Presidential order and by subsequent amendments. In 1934, Representative McLeod of Michigan introduced a bill, H.R. 8479, authorizing this Corporation to purchase all remaining assets of closed banks that were members of the Federal Reserve System.\textsuperscript{18}

At the hearings, representatives of the American Federation of Labor urged that closed non-member state banks

\textsuperscript{17}Ibid.

also be included. The McLeod Bill was amended by the Committee on Banking and Currency to include all banks, and the bill, S. 1175, passed in the summer of 1935.

No doubt organized labor wanted to insure that its members who had deposits in closed state banks would have their losses restored. This was another indication of the increased interest and participation of the American Federation of Labor in the area of banking legislation.

Home Loan Bank System

During the Hoover administration, attempts were made in other ways to protect capital institutions and prevent further deflation. The Home Loan Discount Bank Bill was supported by organized labor in January, 1932, as a constructive measure to improve the confidence of the people. The Bill was passed in July, 1932, and the

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system was started with a capital of $125 million provided by the Reconstruction Finance Corporation. Twelve banks were established with authority to rediscount first mortgages for lending institutions, such as savings banks, building and loan associations, and insurance companies. Yet, the American Federation of Labor was somewhat apprehensive about the Home Loan Banks' permanence and wondered if these Banks, like other programs, would not just perpetuate wrong principles and mistakes.

Despite the Federation's doubts, it agreed that the system would offer the working man an opportunity to borrow money to prevent foreclosures and would later promote home building. But the fears of the Federation proved to be well based for it soon became apparent that the Home Loan Banks could not offer much relief to the distressed home owner, and by March, 1933, only $9 million of rediscounts were outstanding.

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22 American Federation of Labor, Monthly Survey of Business, August 24, 1932.

23 Studenski and Kross, op. cit., p. 373.
Glass-Steagall Act

In the early thirties, the banking authorities were faced with a problem when attempts were made to expand the currency. Under the Federal Reserve Act, Federal Reserve notes had to be backed by at least 40 per cent in gold with the remainder secured by commercial paper. Due to the decline in business activity which resulted in a decrease in the supply of commercial paper, notes had to be backed increasingly by gold. Thus, there was a serious threat to the expansion of the currency. To meet this danger, and also to make possible emergency loans from Federal Reserve banks, the Glass-Steagall bill was proposed.

The American Federation of Labor assured its members that Congress was trying every means to restore confidence and "return money to business" when they stated:

On February 15, another measure, the Glass Steagall bill, to open new reservoirs of credit, was passed by the House. It liberalizes Federal Reserve restrictions so that the Reserve banks may lend funds to their member banks on any sound security, such as good bonds or mortgages so that money may be more readily available. The passage of this bill will free some $2,500,000 more credit. These measures are carefully safeguarded against dangers of unsound inflation.24

When the Glass-Steagall bill passed in February, 1932, the provisions included an expiration date of March, 1933, which was extended from time to time thereafter.25

An article in the American Federationist helped to explain to the worker the basic provisions of this Act. Besides mentioning that member banks could borrow from any Federal Reserve Bank even if they did not have the security which had been previously required, the article also mentioned that gold reserves would be freed. The Glass-Steagall Act permitted the Reserve Banks to use, instead of commercial paper, United States bonds, for the sixty per cent reserve against the paper money in circulation. Thus, the worker was reassured that when foreign countries required large payments in gold from the United States, the Federal Reserve Banks would not be under a severe strain. Therefore, there was no immediate cause to fear normal gold withdrawals.26

With these various emergency measures being passed for banking relief, it was the opinion of a Federation writer that:


26American Federation of Labor, "What the Banks Owe for Government Help," American Federationist, April, 1932, pp. 446-447.
If the banks now fail to carry out the government's purpose by adopting a courageous credit policy and considering the needs of the community when loans are asked, they are repudiating their obligations to the country. Millions who are suffering from unemployment and depression will hold them responsible.27

Goldsborough Bill

Various members of the seventy-second Congress began to introduce inflationary bills when they realized that the Federal Reserve was not succeeding in bringing prosperity to the country. In the spring of 1932, one group proposed the Goldsborough Bill, which contended that the Federal Reserve Board and the Federal Reserve banks were charged with the duty of taking all available steps of reflating wholesale commodity prices "to the level existing before the existing deflation," and stabilizing prices at that level. Also, this bill would have broadened the Federal Reserve's open-market operations and authorized the Board to raise or lower the official price of gold.28

27Ibid., p. 448.

W. C. Hushing, the legislative representative of the American Federation of Labor, participated in this hearing—as he had on the Strong Bill (1928)—and said that his organization was in favor of the provisions for stabilization of the price level. In his testimony, Mr. Hushing stated:

You understand, of course, we are not financiers, and it would be foolish for us to come to the Committee on Banking and Currency and endeavor to tell you how this thing should be brought about, but we are in favor of the principles involved here, and we come here and indorse it, stand behind it heartily, and leave it to you gentlemen to figure out the details as to how it shall be made effective.

The American Federation of Labor passed over such "old standbys" as free silver and greenbacks to support the Goldsborough Bill. This decision could have been based on Irving Fisher's support of this Bill for the Federation had previously considered his plan on stabilization.

Even though the farmers, organized labor, Congress and a good deal of public sentiment were for the measure, it

29 Ibid., pp. 323-329.
30 Ibid., p. 325. It is doubtful that organized labor would have favored changes in the official price of gold.
31 Ibid., p. 333.
32 Supra., Chapter IV, p. 95.
did not pass. Some New York banks, most of the Federal
Reserve authorities, and the Secretary of the Treasury
were able to prevent its enactment. 33

Banking Collapse of 1933

When the collapse of the banking system came in the
early months of 1933, it became clear that certain basic
weaknesses of it had to be corrected by national legis­
lation. To the Federation, one fault of the system was
the lack of unification. William Green had stressed the
point in an editorial when he said:

Federal banking has steadily raised standards, but
banks that did not wish to conform gave up Federal
for state charters. Obviously, the first step
toward raising the general banking practices is to
establish the authority of the Federal government—
then unified authority will close the escapes that
have enabled banks to evade higher standards. 34

Organized labor relied to a great extent on the
banking experts and concurred with their proposal that
all the banks should become members of the Federal Reserve

33 Irving Fisher, Stable Money, (New York: Adelphi Co.,
1934), pp. 203-207.

34 American Federation of Labor, Editorial, "A Unified
System in order to achieve effective unification.\textsuperscript{35} It was apparent that the economic situation had brought about a moderation in the attitude of the American Federation of Labor toward the Federal Reserve and a better understanding of its purpose.

Of particular importance to the Federation was the safety of the deposits of its members. In addition to a Federal guarantee of bank deposits, they were concerned with the problem of banks' risking the depositors' money through investment companies. Many of these companies had bought speculative securities which had become worthless.\textsuperscript{36} Organized labor felt that a separation of security affiliates from the commercial banks was a necessity. At a banquet held by the Central Labor Union of Wilkes-Barre, Pennsylvania, the President of the Federation had stressed the growing demand for increasing government control over banking. He mentioned that the people wanted their funds to be placed in banks for safe keeping and convenient use.

\textsuperscript{35}American Federation of Labor, "Back of the Bank Crisis," \textit{American Federationist}, April, 1933, p. 357.

\textsuperscript{36}\textit{Ibid.}, p. 358.
and not to be used for speculation.\textsuperscript{37}

Also under consideration by the Federation was the idea of branch banking, and William Green stated in May, 1932:

Before and during this depression the small unit state chartered bank had been a special banking risk. To meet the problems of the small banks, a system of branch banks is proposed. Branch banks are advocated by the Federal Reserve System to meet the needs of the rural communities adequately and at the same time give them the stability and services available in the business center.\textsuperscript{38}

Federation publications in 1933 continued to stress the importance of branch banking and the basic contention that small banks would not fail if they were branches of strong city banks and had access to reserves in time of need. However, the Federation believed that the final outcome rested with Congress and its resourcefulness in passing legislation which would make the necessary reforms in the banking system.\textsuperscript{39}

\textsuperscript{37} American Federation of Labor, \textit{Weekly News Service}, March 18, 1933.

\textsuperscript{38} American Federation of Labor, Editorial, "A Unified Banking System," \textit{American Federationist}, \textit{loc. cit.}

Banking Act of 1933

It was not until the Roosevelt administration that legislation for basic reforms in the banking system were enacted. William Green had pledged the complete cooperation and support of the American Federation of Labor to President Roosevelt and stated:

The responsibilities growing out of this terrible experience caused by the failure of the banks to function rest heavily upon the President of the United States. All classes of people are looking to him for leadership and constructive advice.40

With Roosevelt's approval, Senator Glass was able to procure the enactment of the Banking Act in June, 1933.41 It was designed to strengthen the commercial banks, weaken the connection between speculation and banking, and give added powers to the Federal Reserve. Even though organized labor did not participate in the hearings, they were in general agreement with the basic provisions of the Act.


41Clark, op. cit., p. 276.
Federal Deposit Insurance Corporation

The provision of the Banking Act which attracted the greatest attention from the American Federation of Labor was the creation of the Federal Deposit Insurance Corporation. This corporation could lend upon or acquire assets of closed member banks and would insure deposits of all member banks and approved non-member banks.

Organized labor had worked long and hard for the enactment of this protective legislation. As early as 1932, the idea had been implanted for Federation support when the Weekly News Service had brought to the members' attention a bill proposed by Henry Steagall for bank

42 The provision for insuring bank deposits was not supported by President Roosevelt. See: Arthur M. Schlesinger, Jr., The Coming of the New Deal (Boston: Houghton Miffen, 1959), p. 433.

43 The insurance which became effective January 1, 1934, was limited to $2,500 in the case of any depositor, and each member of the fund was to contribute to it an amount equal to one half of one per cent of the total amount of deposits certified by the bank. Rudolph L. Weissman, The New Federal Reserve System (New York: Harper and Brothers Publishers, 1936), p. 68.
deposit guarantees for members of the Federal Reserve System. 44

At the November Convention of the American Federation of Labor, a delegate of the Ohio State Federation of Labor offered a resolution which requested the Executive Council to give its immediate attention to the subject of improving the banking laws of the United States so as to give to depositors in banks a greater security from losses. A similar resolution for deposit protection was introduced by delegate James O'Connell of the Metal Trades Department of the American Federation of Labor. Both resolutions were referred to the Executive Council for its careful attention and action. The Resolutions Committee reported that the prime purpose of banks was to provide a place for safe keeping of deposits. "Every protection to prevent

44 American Federation of Labor, Weekly News Service, March 12, 1932. The bill by Representative Henry B. Steagall was passed by the House but was killed in the Senate because of intense opposition by Senator Carter Glass, a member of the Senate Banking and Currency Committee. Senator Glass favored merely a liquidating corporation to advance to depositors in failed banks the estimated amount of their recovery. In 1933, Steagall and Glass agreed to combine the two proposals and incorporate them in the Banking Act of 1933. Friedman and Schwartz, op. cit., p. 434.
depositors from loss should be provided," the Committee asserted, "and the bank system and practices should be remodeled to provide such protection." 45

The Federation President took a positive stand on this issue in March, 1933 when he said:

The demand of Labor . . . is that the law-making bodies of our Nation and those in control of our Government take such steps as may be necessary to control the banking institutions of the Nation, to accord protection to the savings of the masses of the people and to prevent the dissipation of their deposits after they have placed them in the banks of the country in all good faith and confidence. 46

The guarantee of bank deposits was the object of a resolution at the October convention of the American Federation of Labor. John M. O'Hanion of the New York State Federation of Labor requested that the Executive Council draft and present to Congress appropriate legislation to provide for the security of depositors in banks or support any Federal legislation which had that object for its purpose. The Committee on Legislation endorsed the resolution and called attention to the Report of the Executive


Council which referred to the law creating the Federal Deposit Insurance Corporation.\(^{47}\)

In January of 1934, the American Federation of Labor maintained that the Federal Deposit Insurance Corporation would do much to restore faith in the banking institutions and that they had supported the insurance law in all its legislative stages. Yet, it was still being vigorously opposed by the organized workers who were trying to weaken the law. The workingman was assured that the Federation's efforts would be mobilized to retain the measure as a necessary law to protect depositors from both dishonest and inefficient bankers.\(^{48}\)

Portions of a report by Senator Arthur H. Vandenberg of Michigan on the Federal Deposit Insurance Corporation were reproduced by the *Weekly News Service* in June as evidence of the effectiveness of deposit insurance. The Senator had vigorously criticized the reactionaries who had assailed this corporation and had stated:

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In the entire history of the Republic there has been no other six-months period when only two banks closed. It is an amazing proof of the restoration of public confidence in our banks protected by the F.D.I.C. This Corporation is the main steel beam supporting the recovery structure. The public is convinced it has come to stay and must not be ripped out. 49

The Executive Council reported in October that Congress had amended Section 12B of the Federal Reserve Act so as to extend for one year the temporary plan for deposit insurance. It had also increased the maximum amount guaranteed by the Corporation from $2,500 to $5,000 per depositor. The Executive Council felt that this law proved a contention always held by the American Federation of Labor that the guaranteeing of deposits would give people more confidence in financial institutions. It was also pleasing to them to add that the efforts to repeal the law were not effective because public sentiment had been too strong. The Resolutions Committee gave full approval to this section of the Executive Council's report. 50


50 American Federation of Labor, Proceedings, 1934, pp. 82, 550.
The Federal Deposit Insurance Corporation by mid-1936 had paid off 93 per cent of the insured deposits of the fifty-eight member banks that had failed since 1933, and an American Federation of Labor editor felt it instructive to bring these facts to the attention of his fellow members. Under the old system, the small depositors in many instances would have received but a very small portion of their savings, and then only after a long delay accompanying receiverships. The editor reiterated that under the insurance system, the Federal Government guaranteed that the depositor would get his deposit back promptly. Despite the constructive social results of safeguarding the savings of small depositors, it was regrettable to organized labor that the bankers in the United States were still objecting and using their influence against the insured deposit system. The bankers' continued objections were of little significance, for the system became a permanent one in roughly its present form under the provisions of Title One of the Banking Act of 1935.

Banking Act of 1935

The Banking Act of 1933 was an improvement in banking, but it fell short of reform measures suggested by many of the financial experts. For example, the Act had failed to require all banks to become members of the Federal Reserve and did nothing positive to encourage branch banking. These were reform measures which had been supported to a large extent by organized labor. 52

The real effort to extend centralized control over banking came in early 1935 with the introduction of the Eccles Bill. 53 The main objective of this bill was to facilitate monetary management. The inflationists objected to the bill because price stabilization was not the primary goal and they, along with organized labor, supported the unsuccessful Goldsborough amendment. 54

52 Supra, Chapter IV, p. 100.

53 Studenski and Kroos, op. cit., pp. 396-397. The American Federation of Labor had favored a program in 1933 advocated by Marriner S. Eccles, then a banker of Ogden, Utah, before the Senate Finance Committee. In organized labor's interpretation, Mr. Eccles had urged a policy calling for "a more equitable distribution of wealth production through a unification of banking system under the supervision of the Federal Reserve Bank." American Federation of Labor, Weekly News Service, March 4, 1933.

54 Supra, Chapter IV, p. 95.
With the help of Senator Glass, the Eccles Bill was modified substantially before it was passed as the Banking Act of 1935. No official position by organized labor toward the Act is revealed in their publications or proceedings. From their previous attitudes, one would have to agree that they were in accord with the greater centralized control over banking which was provided by the Act. However, as far as each and every provision was concerned, no valid assessment can be made as to organized labor's position.

Labor's Proposals For Reform

Beginning in the early part of the depression, union members felt it imperative that they respond to the need for financial reform and offered their own proposals at the American Federation of Labor Conventions. It was the expressed hope of each delegate who enthusiastically offered a proposal that his would be the one which would be accepted and submitted to a Congressman for legislative action.

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The Federation realized that education and proper information imparted to the workingman were the keys to a better understanding of the banking institutions and the Federal Reserve System. William Green expressed such hopes in an editorial in April, 1932:

Wage earners need to understand our financial institutions in order to formulate effective policies. The cooperation of a number of authorities in the financial field has been solicited for the preparation of a series of articles for the use of our trade-union readers. We met uniformly helpful cooperation except from the bankers invited to contribute to better understanding of this field.\(^6\)

The Federation affiliates throughout the country, in response to the financial situation and no doubt influenced by the various articles in Federation publications, brought several money and banking propositions before the 1932 convention. Four resolutions in different forms and with

varying ideas for solutions to the problem were considered. The first was presented by the Amalgamated Association of Iron, Steel and Tin Workers who urged the assembly to go on record as favoring the government ownership of all banking institutions.\(^{57}\) The second was offered by the American Federation of Teachers, who in a more lengthy resolution, urged not only the enlargement of the postal savings system, but also recommended that the Federation inaugurate a nationwide campaign to expose the bankers' undermining American education and constructive local government activity. It also felt it was only through government control of banking and credit that private profiteering could be terminated.\(^{58}\) The Ohio State Federation of Labor through delegate Thomas J. Donnelly voiced its desire that the Executive Council give immediate attention to legislation for regulation of savings banks and building and loan associations.\(^{59}\) The fourth resolution was offered by the Metal Trades Department, (James O'Connell, spokesman). It believed the Executive Council should be


instructed to give its careful consideration to any Federal and State legislation affecting and regulating banking. The four resolutions were referred to the Resolutions Committee who in turn suggested that the Convention submit them to the Executive Council with instructions to give careful attention to banks and banking and take whatever action necessary to correct the abuses of the financial system. This report was unanimously adopted.

Education before action was the intention of John P. Frey, Secretary-Treasurer of the Federation's Metal Trades Department, when he published a lengthy article entitled "Bankers' Domination." He explained that one reason collective bargaining had not made greater progress in industry was the opposition of the bankers to an industrial condition which would enable organized labor to have a

60 Ibid., p. 377. See also, American Federation of Labor, Weekly News Service, December 10, 1932.


voice in the industrial program. But the dominant position which the bankers occupied over the control of credit placed them in a position whereby they could prevail upon the captains of industry to meet with the representatives of labor around the conference table instead of in the legislative chambers. This situation was an ideal, not a reality, and Frey charged:

Upon the bankers, more than any other group, rests the responsibility for many of the intolerable industrial and economic conditions which are shaking our national structure to the very center. Some of these industrial conditions as they affect wage-earners, are so unjustified and so intolerable that they create social and political situations much more dangerous to our American civilization than all of the propaganda carried on by communists and others whose aim is to overthrow American institutions and supplant human liberty and freedom of action by dictatorship, and all that this involves.63

Frey concluded that a remedy could only come about after a thorough understanding by the workers of the dominant position held by bankers. This would be brought about by the presentation of facts which in turn would invoke further study, and only then could corrective action be taken.64

63 American Federation of Labor, John P. Frey, op. cit., p. 144.
64 Ibid.
Some bankers in late 1933 realized that if banking did not reform itself, then the Government would nationalize the banks. Henry Bruere, president of a New York savings bank, was apprehensive about the nonchalant manner in which most bankers were facing the financial situation and commented:

I believe it is true that we must now, as practical men, recognize that we are going in the next months, in the next few years, to be compelled to test what we do in banking, what we do in business by its effect on the total economic situation, upon the common good.65

Such testimony gave the American Federation of Labor assurance that some bankers were learning that if their financial institutions were not put in order to serve the nation honestly and well, a nationalized banking system would evolve.66

Even when the Annalist, a journal of finance, commerce and economics, admitted that "banks were permitted and even encouraged to publish bank statements which did not reflect

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66Ibid.
true conditions," a Federation editor was not so much lamented by this as anxious that the bankers take immediate action to correct past mistakes and begin anew.67

In October of that year, the American Federation of Teachers again urged the nationalization of the banks and a withdrawal of the controls on postal savings banks, so that these banks could perform the duties of a commercial bank. The Resolutions Committee, after studying the teachers' proposal, was in accord with the thought of further liberalizing the postal savings banks, but as for the proposal to nationalize the banks, they were of the opinion that grave constitutional and fiscal questions were involved. No commitment could be made until after a most careful study of the complexities involved, and this would have to be undertaken by the Executive Council.68

Three similar resolutions were proposed at the 1934 convention to provide for nationalization of banks, a greater measure of security for the depositor, as well as lower rates of interest. Although the Resolutions Committee


68American Federation of Labor, Proceedings, 1933, pp. 171-172, 431-432.
felt the purpose commendable, they believed that the guarantee of deposits and the Home Owners Loan Corporation would achieve such ends. The Committee regarded the question of Government ownership of less importance than a more rigid control of the banking system, and therefore recommended that the resolutions not be acted upon by the convention. At the following convention, the Amalgamated Association of Iron, Steel and Tin Workers was the only group who requested convention approval of government ownership of banks. However, the American Federation of Labor nonconcurred with this resolution.

In summary, the American Federation of Labor, like the general public during the early Thirties, developed a greater understanding and awareness of the need for a strong, sound banking system. The Federation turned to financial experts for articles to appear in its publications.

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69 The three resolutions for nationalization of the banks were proposed by the Amalgamated Association of Iron, Steel and Tin Workers, the American Federation of Teachers, and the Washington State Federation of Labor. American Federation of Labor, *Proceedings*, 1934, pp. 181, 207, 208, 273, 254-255.

and felt that such proper information would enlighten the workers. Generally, organized labor leaders rejected the socialistic approach to banking and reaffirmed Gompers' basic philosophy of working within the capitalistic framework. They were in general agreement with those measures which sought to strengthen, centralize, and regulate the banks and bring all such institutions under the control of the Federal Reserve System.

Monetary Reform

In 1931-32, organized labor began to show growing concern over the gold crisis and decline in international prices. The American Federation of Labor Monthly Survey of Business reported in mid-1932:

The gold standard is supposed to maintain a balance in national currency and international trade. It gives the world an international money system, founded on stable values. Each country defines by law the weight of gold which constitutes its financial unit . . . But, when unduly large amounts of gold are accumulated in some countries and others have not an adequate supply to clear trade balances and meet obligations, the system breaks down.

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This imbalance had caused the abandonment of the gold standard by Great Britain in September, 1931, and some twenty-five countries had followed her lead within a year.

To organized labor, the gold crisis had two serious effects. First, those countries which had abandoned the gold standard experienced a depreciation in their currencies on the world market which resulted in falling prices of goods and services. Since the United States sold on the world market, the Federation believed United States prices would follow world price trends, and her economy would be driven into further depression.

Secondly, those nations still on the gold exchange standard which held their reserves in investments in the United States had withdrawn them when the panic followed Britain's gold suspension. The American Federation of Labor Research Department maintained that the consequent disorganization of world currencies and prices was one of the most serious depression problems the United States had to meet. It was throwing men out of work and costing the country millions of dollars in weekly income losses. How could the United States adjust payments so that its best interest would be served? This question was the one that the Research Department felt must be answered and the
answer could come through cooperation at the conference table between nations.\(^7\)

While plans were being made in the spring of 1933 for an International Monetary Conference to be held that summer in London, Congress was being pressured to inflate the currency. In the opinion of a writer for the Federation, deflation had gone far enough and rising prices would unquestionably stimulate business and move the economy out of the depression. Yet, he felt that issuing more money in proportion to the United States gold stock was objectionable. The major obstacle was public psychology for people feared any monetary change and distrusted money not firmly tied to gold. If enough money was issued without gold backing, inflation would soon get out of control and new money would become worthless. The writer pointed out that even if the currency was carefully managed, there was no proof either that currency inflation could be kept in control once started or that it would raise prices in the first place. In reality there were more dollars outstanding in 1933 then in 1929, but they were being hoarded. What

was needed, he concluded, was not more dollars but more buying power in the hands of those who needed food, clothing and shelter. This could be achieved by putting the unemployed to work producing and exchanging goods.\footnote{American Federation of Labor, "Why the Crisis," \textit{American Federationist}, March, 1933, pp. 279-290.}

But the first step in the President's currency reform program was the separation of the dollar from gold. On April 20, 1933, by Executive order, the United States was taken off the gold standard which prohibited the export of gold coin, bullion, or certificates except under license issued by the Secretary of the Treasury.\footnote{This action freed the Roosevelt administration's hands for the purpose of (1) raising domestic prices; (2) facilitating domestic credit expansion; (3) dealing with foreign countries at the forthcoming London Economic Conference; (4) preventing any congressional action that might take the initiative as to reflation out of the President's hands. Fisher, \textit{op. cit.}, p. 347.}

With this suspension, the American Federation of Labor brought before the workers several measures which had been suggested by financial experts. First, the United States could reduce the gold value of the dollar and raise prices. This would put the United States currency on a par with that of other nations and stop the price decline. Yet,
this would not provide for a stable price level in the future, which the American Federation of Labor advocated.

The second proposal was to link the United States currency to a combination of gold and silver, "symmetalism." This would do away with the scarcity of the metal base gold but again would not stabilize prices in the future as the Federation desired.

To fix a gold value for our currency and then to let the dollar be managed to prevent too great a rise or decline was the third measure proposed. The American Federation of Labor felt that this measure did have the advantage of keeping prices adjusted in international markets as well as at home. It noted at the end of April, 1933, that no attempt was being made to "manage" the currency.

The final proposal was to reduce the gold value of the dollar and adjust to the price level which would be stabilized permanently. The American Federation of Labor favored price stability but remained skeptical of devaluation of the dollar. But regardless of which measure was

76"Symmetalism" is the term applied to a currency payable in a combination of gold plus silver; "bimetalism" is a currency payable in either gold or silver. The Federation felt that bimetalism could not be safely administered except under an international agreement covering all important nations.
chosen, the Federation felt that cooperation on the part of the Federal Reserve was a necessity. 77

World Economic Conference

On June 12, 1933, the World Economic Conference was opened in London with discussion centering on the establishment of a satisfactory international monetary system. The American Federation of Labor pointed out to its members that America's wage earners should be concerned with the matter. It was explained that the United States currency was related to that of every other nation. If there were no orderly established relationship, business was crippled and the workers lost their jobs and incomes. It was realized by the Federation that no international conference could hope to achieve an international gold standard as had been the case in the past. Therefore, several measures of interest to organized labor were being considered. Sir Basil Blackett, director of the Bank of England, had proposed a system of planned money. Each nation would

keep the purchasing power of its currency stable according to its home prices and maintain a constant price level. The nations of the world would agree to cooperate in doing this, each in its own domain. Since home prices of the great commercial nations were determined by world prices, this would automatically keep an approximate stability between the different national currencies. If changes in living costs could be eliminated, then this proposal would be of immense benefit to wage earners.

Another plan, by John Maynard Keynes, to overcome the shortage of gold reserves was noted by the American Federation of Labor. Keynes' proposal was that instead of transferring gold between nations, an international authority should issue gold notes. These gold notes could be used for international payments and would be obtained in exchange for the gold bonds of any government.78

The Federation President, William Green summarized for the workers in an editorial the basic objectives of the London Economic Conference and stressed the overall

importance of the outcome to organized labor. However, the Conference was unsuccessful because a broad agreement among the nations on economic policy could not be reached. The United States was experimenting with economic nationalism and its delegates were unprepared to discuss currency stabilization. In the six weeks of existence, the only accomplishment of the conference was an agreement among the principle silver-producing nations not to dump the metal on the market.

Gold Reserve Act of 1934

The Roosevelt administration decided to raise the general price level in the latter part of 1933 by devaluing the gold dollar. The theoretical basis for the Gold Purchase Program was the quantity theory of money. If the price of gold was increased, the gold supply and the amount of money in circulation would be expanded. It would be more profitable to mine gold and more currency could be


issued against a given quantity of gold. 81

The American Federation of Labor Convention in October, 1933, had considered the question of currency inflation. The Resolutions Committee expressed the conviction that currency inflation could least of all benefit the wage earners, but would reflect upon them the greatest possible harm. It was declared:

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\ldots \text{we must, under no circumstances, permit our government to saddle this additional and unbearable burden upon our wage earners and salaried employees under any fiscal policy or any arrangement or procedure that will lessen the exchange value of the monetary standard used to fix wages.} \quad 82
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The Executive Council was directed to resort to every possible and practicable means at its command to prevent

81 Studenski and Kross, op. cit., p. 389.

82 American Federation of Labor, Proceedings, 1933, p. 433. Matthew Woll, a member of the Executive Council of the American Federation of Labor, stated: "\ldots labor is at a loss to understand the difference between inflation and reflation. To labor, the immediate, if not as well the ultimate, effects are the same and the appeal that reflation is not inflation because it is a process of enhancing immediate values by monetary legerdemain up to a given point and not beyond is merely an apology, with more confusion, and without adequate explanation," Matthew Woll, Labor, Industry and Government (New York: D. Appleton-Century Company, Inc., 1935), p. 237.
currency inflation. 83

Despite the objections of organized labor, starting on October 25 at a price of $31.35 an ounce (slightly higher than the London free-gold market), the price of gold was gradually raised to $35.00 an ounce by December. 84 At that time, the Monthly Survey of Business reported:

Tampering with the currency is a very serious matter, for the buying power of a dollar is of the greatest concern to every American citizen. Since we left the gold standard in April, declines in the dollar's value and demands for inflation have caused alarm in the business world and acted as a brake on recovery. Banks, business concerns, men and women with savings—all have hesitated to place their money in investments because as long as the dollar declines, dollars they lend now are worth more than the dollars they will get back in the future. Credit for business undertakings has been hard to get; investments fled to government bonds for security. 85

83 American Federation of Labor, Proceedings, 1933, loc. cit. The Federation was also afraid that the Roosevelt administration might issue paper money without gold backing. The effect of fiat money inflation would be to take from the workers any income gains they had acquired and put increased wealth and power in the hands of rich property owners. American Federation of Labor, "Inflation," Monthly Survey of Business, June, 1934. See also, U.S., Congressional Record, 73rd Cong., 2nd Sess., 1934, pp. 426-427 where Senator Vandenberg entered, for the record, an article expressing the attitude of the American Federation of Labor in respect to inflation and fiat money.

84 Studenski and Kroos, loc. cit.

85 American Federation of Labor, Monthly Survey of Business, December, 1933.
By January, 1934, it was apparent that the devaluation of gold had not increased the general price level. Therefore, that same month, Congress stabilized the dollar by passing the Gold Reserve Act.

The Act placed the United States on a gold-bullion standard internationally and on an irredeemable paper standard domestically. The Federal Reserve banks were required to deliver their gold to the Treasury in exchange for gold certificates. All monetary gold was to be converted into gold bullion, and minting of gold coins was prohibited except for accounts of foreign countries. To supplement the measure, President Roosevelt fixed the price of gold at $35.00 per ounce. 86

While there was no definite statement by the American Federation of Labor as to its attitude toward the Gold Reserve Act, Matthew Woll, a member of the Federation Executive Council, gives insight into organized labor's opinion:

While American Labor is opposed to currency inflation, it must be understood that we are equally opposed to a return of the old system of control of our deposit currency for purposes either of inflation

or deflation by our banks and bankers, national or international... Our course must be to stabilize our currency as soon as possible, and without restricting the control over the volume of currency already exercised by our government through the Federal Reserve Board and the buying and selling of government securities. The nation should guarantee, and our people must be guaranteed, against the issuance of any unsecured paper money and be assured the continuance of the present of currency controlled by a Federal Reserve Board upon which private business is fully represented but which is ultimately under control of the government. 87

Tripartite Accord

From the time of the passage of the Gold Reserve Act until the latter part of 1936, organized labor's interest in monetary legislation declined. Shortly after France abandoned the gold standard and devalued the franc in September, 1936, the Tripartite Accord was negotiated between Great Britain, France, and the United States. Each country undertook to keep its currency as stable as possible in terms of the other two currencies. This was to be accomplished through a stabilization fund in each country, and exchange of currency for gold between them would be made only through the stabilization funds.

87Woll, op. cit., pp. 248-249.
The American Federation of Labor was gratified that the exchange of currencies had been placed under government control because it would be impossible for speculators to manipulate exchange rates by moving large funds from one country to another. Also, the Tripartite Agreement would mean greater growth in international trade which in turn would provide more work for wage earners in all countries.88

The agreement lasted until 1939 at which time the United States almost had a corner on the world's gold supply. The agreement did represent a step in the direction of international monetary cooperation which organized labor favored.

Summary

The Great Depression had a lasting impact on the attitude of organized labor toward monetary legislation. Not since the days of William Jennings Bryan and free silver had the American Federation of Labor given such attention to the question of monetary reform.

For the first time, organized labor demonstrated an interest in international monetary matters and supported

the World Economic Conference and the Tripartite Accord. It was apprehensive about leaving the gold standard and the devaluing of the dollar and supported those legislative measures which urged price stabilization. This was a notable change in organized labor's attitude from its support of the free coinage of silver in the 1890's.

It realized more than ever before the need for a sound monetary system. Even though organized labor lacked a sophisticated analysis of the monetary situation and understood little of money expansion and the level of unemployment, it was gradually maturing in its thinking and its approach to the basic issues. The money and banking crisis during the Great Depression brought to organized labor an awareness of the need for an even greater participation in the area of money and banking legislation.
CHAPTER V
ORGANIZED LABOR'S VIEWS TOWARD
MONETARY POLICY, 1914-1965

Since the establishment of the Federal Reserve System
in 1913, the actions undertaken by its Board to regulate
the supply of money and credit have been termed monetary
policy. The fundamental importance of the effects which
control over money and credit would have on industry, the
worker, and the union was recognized by organized labor as
early as the Civil War. But before any appraisal by organ­
ized labor could be made with a critical eye and a mature
outlook, it first had to develop a basic understanding of the
Federal Reserve's actions. It is the purpose of this chapter
to give a historical account of the development of organ­
ized labor's attitude toward monetary policy.¹

¹The data on monetary policy presented in this chapter
were gathered from the following publications and for fur­
ther details, see: Harold L. Reed, Federal Reserve Policy,
S. E. Harris, Twenty Years of Federal Reserve Policy
(Cambridge: Harvard University Press, 1933), I and II; E. A.
Goldenweiser, American Monetary Policy (New York: McGraw­
Hill Book Company, Inc., 1951); David P. Eastburn, The
Federal Reserve on Record (Philadelphia: Federal Reserve
During the early formative years of the Federal Reserve System, from 1914 until the United States entered World War I, easy money conditions prevailed. These conditions were a product of a great release of reserves to the banks under the Federal Reserve Act and of European gold imports. Organized labor had little reason to voice any criticism of these Federal Reserve actions, but their publications give no insight into the matter.

When the United States entered World War I, the objectives of the Federal Reserve System were enlarged to include aid in financing the government. When the War ended, the Reserve banks continued to subordinate themselves to the Treasury and maintained low discount rates (four per cent in New York) in order not to interfere with the sale of Victory notes. Since an inflation was developing, the Federal Reserve authorities were anxious to tighten credit conditions, but it was not until late in 1919 that discount rates were raised.

At a trade union conference held in Washington, D.C. in December, 1919, organized labor urged that the control over credit be taken from the financiers and placed under the authority of a public agency, which would use this power
in the public's interest. This type of affirmation on the part of organized labor was indicative of its lack of thorough knowledge of the responsibilities and actions of the Federal Reserve authorities.

During the period of business contraction in 1920-21, the American Federation of Labor held the bankers more responsible than the Federal Reserve authorities for the tight monetary conditions.

However, after the recession, an investigation of the Federal Reserve System's action was undertaken. The American Federation of Labor, Weekly Newsletter reported in March, 1923:

On motion of Senator Gooding, the Senate has asked the President to investigate the charge that a secret meeting of the Secretary of the Treasury and 55 federal reserve bank officials in this city [Washington], on May 18, 1920, it was agreed to curtail credit, increase interest . . . These decisions brought on the deflation movement that stopped business, closed factories, wrecked farmers and turned 5,000,000 workers on the streets.

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2 Supra, Chapter III, p. 58.
3 Supra, Chapter III, p. 59.
This investigation was again the topic of an article which appeared in the *Weekly Newsletter* in August, and the Federation reaffirmed its opposition to the private control of credit. Despite the general feeling by the public and organized labor against the Federal Reserve authorities' actions, it was the conclusion of the Congressional investigating committee that the Federal Reserve System was not responsible for the deflation.

Since the American Federation of Labor was not an authority on Federal Reserve policy, it relied on individuals in the financial field for appraisal. In December, 1924, M. J. Murphy, vice president of the Federation Bank of New York and former member of the Federal Reserve Board, declared:

> The time has arrived when the nation's gold reserve and currency issuing power should be administered in the interest of the nation, and to unify and stabilize our banking system. If we applied scientific credit control in the early parts of 1919, we might have saved much of the disasters culminated in 1920 and 1921.

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The Federal Reserve authorities maintained an easy
money policy in the years 1925 and 1926. There were signs
of growing speculative activity in the stock market, rising
prices of stock, and increased use of credit to finance
stock market activity. This speculation in the stock
market again received critical attention from the Feder­
ation in 1926 when it was reported:

When the federal reserve bank system was installed
several years ago, the public assumed that this
marked the end of higher interest on money and
stock manipulation. Now it is acknowledged that
speculators have no trouble securing funds and the
biggest stock market ever known has been going on
for a year. Under the law member banks cannot
pass up to the reserve banks loans secured by stocks
and bonds, but they can turn in paper having its
origin in commercial transactions and lend the
proceedings in the stock markets.8

Because stock market speculation had reached pre­
carious new heights in 1929, the Federal Reserve Board
tried a policy of "moral suasion" to meet the situation.
On February 7, 1929, a public statement was issued by the
Board that member banks should not use discount facilities
at its Federal Reserve Bank for the purpose of making
speculative loans. Chart I shows the changes taking place

8American Federation of Labor, "Federal Bank System
Has Many Loopholes," Weekly Newsletter, January 2, 1926.
in stock prices and discount rates from 1924 through 1929.

The American Federation of Labor informed the workers that the Federal Reserve Board had warned against the speculative wave that was sweeping the nation. Yet, if interest rates were tightened to check further speculation, the Federation felt that legitimate business activities would be hampered and concluded: "This situation illustrates how the welfare of the workers is inseparably linked with every social activity."\(^9\)

In May, 1929, William Green, Federation president, proclaimed:

During the past six years, there has been unprecedented sustained business progress, and commercial credit is essential to its continuance. The Federal Reserve Board raised the rate of discount, which effectually checked stock speculation for the time. This Board is charged with responsibility of seeing to it the reserve banks manage credit so as to accommodate business and commerce.\(^10\)

The policy of "moral suasion" was abandoned in the summer of 1929 because the increase in broker's loans was not from the account of banks and was thus beyond direct


Chart 1. Stock Prices and Discount Rate, 1924-1929

control by the Federal Reserve System. The Board tried a new technique which it hoped would exert pressure on the speculative situation and would not harm business. In August, the discount rate of the New York Bank was raised from 5 to 6 per cent. At the same time, the Bank's buying rate for bankers' acceptances was reduced from 5-1/4 to 5-1/8 per cent.

Basically, the American Federation of Labor approved the new technique of the Board. It was explained in the *Monthly Survey of Business* that one factor which led to business uncertainty was the high interest rates on money for short-term loans. Businessmen would need money for fall production and the Federal Reserve Board was relieving the situation somewhat by reducing the rates on loans for business purposes.\(^\text{11}\)

Yet, there were some labor leaders who did not understand the new technique of the Federal Reserve Board. One such leader was William J. McForley\(^\text{12}\) who, in the early part


\(^{12}\)Mr. McForley was president of the International Union of Wood, Wire and Metal Lathers, and past president of the Building Trades Department of the American Federation of Labor.
of October, 1929, attacked the tight money policy of the Board:

If the Federal Reserve Board would only forget Wall Street and see to it that legitimate business gets what it is entitled to--money at reasonable rates--we would all be better off, for if history means anything, excesses in Wall Street will bring their own penalties and correctives. 13

With the collapse of the stock market in the last week of October, the Federal Reserve Board reversed its policy. Discount rates were reduced and purchases were made in the open market to provide reserves for New York banks.

The Federation tried to alleviate the fears of its members by asserting that since business was on a sound basis, the stock market crash would not have a serious depressing effect upon it. The wage earners' buying power was higher than usual and goods had been moving from producer to consumer at a satisfactory rate. 14

However, by December, the Federation had some doubts about business activity because stocks had continued to decline. It pointed out that the lowest point had been


14 American Federation of Labor, Monthly Survey of Business, November 1, 1929.
reached on November 13 when stock prices averaged 48 per cent below the peak of September 3, 1929. Losses in the stock market had affected every group in society, even the wage earners, and had caused cancellation of orders for automobiles, radios, and other consumer items. The Federation feared that production would be curtailed which would cause additional layoffs and unemployment. Yet, the Federation did see one beneficial effect of the liquidation of stocks—the decline of money rates—which would be a most important factor in favor of business improvement.15

The price level and business activity started on a downward course in the fall of 1929 and continued into 1930. Meanwhile, the Federal Reserve Board maintained its policy of easy money by gradually reducing the discount rate at all Reserve banks and by purchasing securities on the open market.

The Federation's support of the policy of the Board was expressed in the Monthly Survey of Business:

On February 6, the Federal Reserve Banks of New York and four other cities reduced rediscount rates and a

15American Federation of Labor, Monthly Survey of Business, December 1, 1929.
movement for easier money also took place abroad. Rates for commercial and business loans came down immediately, following the lead of the Reserve Banks. This will stimulate business improvement, help the price situation, and hasten progress in building.  

In July, 1930, the Federation noted that the lowest discount rate in history had been reached when the Reserve Bank of New York reduced its discount rate to 2-1/2 per cent. The Federation added: "This move to make money easier than ever is a most constructive force, though it will be several months before its influence is fully felt."

However, the easy money policy was not succeeding in expanding the use of credit. In January, 1932, a lengthy article in a Federation publication painted a rather grim picture of the financial problems facing the American worker:

Bond prices are now below the long term value of many securities; if banks are forced to sell before prices recover, there will be many unnecessary losses and failures. Businessmen cannot get the credit they need because of the frozen condition of bank funds. Railroads need credit to meet their obligations; insurance companies also are suffering from the drop in bond prices; farmers need


credit for spring plantings. Business is checkmated by the credit deadlock.\textsuperscript{18}

In mid-1932, the Federation emphasized the fact that the depression would be ended when people had jobs and their demand for goods put new life into industry. Organized labor offered two main methods of increasing employment. First, it was recommended that federal credit be used for construction of public works, and secondly that "credit be issued to private business" in order that production could be started.\textsuperscript{19}

The Federation felt that the Federal Government had to find some way "to get credit reserves passed on through commercial banks to business" or "to loan it direct."\textsuperscript{20} Organized labor's concern stemmed from the fact that bank loans had decreased sharply during the first six months of 1932 as is shown in Chart 2.

By July, 1932, the Federation was of the opinion that tension over the financial situation was easing. The drain

\textsuperscript{18} American Federation of Labor, "Frozen Credit," Monthly Survey of Business, January 20, 1932.


\textsuperscript{20} Ibid. See also, American Federation of Labor, Editorial, "Federal Credit," American Federationist, June, 1932.
MILLIONS OF DOLLARS

Chart 2. Bank Loans, 1932

of gold to Europe had ceased, hoarding had declined, and banks had reduced their debts to the Federal Reserve. The worker was informed by the Federation that the Federal Reserve was continuing to pour credit into the banks with the hope that the banks would gradually begin "passing it on to business."  

Yet, in the fall of 1932, the Monthly Survey of Business reported that even though there was a business revival, it was in the form of replacement of depleted inventories. However, reserves of buying power were not adequate to maintain economic activity. Therefore, the Federation concluded that in order to stimulate buying power, wages had to be increased as hours were reduced; then, business would seek more credit from banks.  

But the banking situation by 1933 had become more acute and bank failures mounted steadily. Federal Reserve actions were restricted by the limitations on the eligibility of the paper that could be discounted and by the rigid  

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collateral requirements for Federal Reserve notes. Although legal provisions in both cases had been relaxed in 1932, the relaxation was not liberal enough to arrest the course of the deflation. The Federation acknowledged that the Federal Reserve was working within its boundaries in an attempt to give assistance during the banking crisis.23

During this same period of financial chaos, an editorial in the American Federationist explained to the worker the operations of the Federal Reserve in regard to monetary policy. In the article, the Federation President, William Green, defined the basic operations of the System and concluded:

> We should frankly face the fact that our monetary policies are controlled and take steps to have this managed for the best interest of all instead of for the privileged few. The Federal Reserve Board should be safeguarded not only against partisan politics but against private banking interests.24

The Federal Reserve policy from 1933 to 1936 was one of continuous easing of credit. Interest rates on all classes of money went down with a much sharper decline in

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short-term than in long-term rates. Mortgage rates changed very little so that the gap between short- and long-term rates widened sharply.

During this period, organized labor generally favored the easy monetary policy of the Federal Reserve Board, but the question of rates on mortgages was brought before the 1935 American Federation of Labor Convention. A delegate of the California State Federation of Labor contended that homeowners and small industries were paying interest rates 100 per cent greater than farm mortgages. He offered a resolution which condemned the practice of charging excessive rates of interest and he wanted the Legislative Committee of the American Federation of Labor to memorialize Congress to introduce the necessary legislation to control the profit in money. His resolution was referred to the Executive Council.25

In the fall of 1935, business was more active and prices were rising. There was an increasing volume of trading on the margin account and stock prices were vigorously advancing which alarmed organized labor. The

Federation was fearful that this situation might lead to another stock market boom and collapse. It maintained that since the Federal Reserve banks had stocks of gold that were twice as great as in 1929, a large expansion of credit could take place. Even though new legislative measures had been established to control credit and finance, the Federation was worried that these measures would not be adequate.²⁶

In February and April, 1936, the Federal Reserve Board, responding to the increase in stock prices, made slight increases in the margin requirements on stock-exchange loans. Because of continued gold imports during 1936 and 1937 which added to the excess reserves of the member banks, the Federal Reserve Board believed that a readjustment of reserve requirements was desirable. The Board did not want to modify its policy of easy money but felt that it would be better prepared to take preventive action if an undesirable credit expansion occurred. From organized labor's previous attitude of fear that an uncontrolled credit expansion would cause another stock

market crisis, it can be concluded that it was in favor of the Board's actions. Chart 3 shows the increase in stock prices from 1933 through 1936.

During the mid-thirties, the American Federation of Labor was faced not only with economic problems caused by the depression, but also with problems of an internal nature. From the 1933 convention through the 1935 convention, an increasing number of resolutions on industrial unionism was introduced. At each of these three conventions, the Resolutions Committee rejected all of the industrial union resolutions and reaffirmed craft unionism. Shortly after the 1935 convention, eight national union leaders, led by John L. Lewis of the United Mine Workers, organized the Committee for Industrial Organization. The purpose of this Committee was to organize the unorganized workers in the mass production industries into industrial unions and to bring them into the American Federation of Labor. The Federation Executive Council attempted to persuade the Committee to disband and when it refused, the Committee was expelled from the American Federation of Labor by the 1937 Convention. The Committee for Industrial Organization then became the Congress of Industrial Organizations and
Chart 3. Stock Prices, 1933-1936

Index of Common Stocks (1926 = 100)

began to organize the mass production workers in steel, automobile, and other industries.27

J. Raymond Walsh, a professor at Harvard University, when writing about the Congress of Industrial Organizations in 1937, proclaimed:

\[\ldots\] It is a shock to discover that the labor movement still retains so few economists, statisticians, and lawyers. What the C.I.O. needs is a research organization, with regional offices and staffs to assemble and analyze regularly the relevant facts about the companies and industries with which it deals, to explore the industrial make-up of the country, the conditions of the working class, the nature of the secular influences that are molding their lives.28

Because of the Congress of Industrial Organizations' preoccupation with organizing the mass production industries and the need for research expansion during its early formative years, it indicated little interest in monetary policy. Therefore, it is difficult to make an assessment of the views of the Congress of Industrial Organizations.

While the conflict between the American Federation of Labor and the Committee of Industrial Organizations was

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occurring in 1937, a downturn in business was in progress.

The Federal Reserve in the fall of 1937 lowered the discount rate and bought securities in anticipation of the seasonal demand for currency while the Secretary of the Treasury released sterilized gold. To further help arrest the decline in business, reserve requirements were slightly lowered in the spring of 1938. The Federation approved of these monetary actions and the *Monthly Survey of Business* reported:

Measures to increase bank credit, which include the reduction of reserve requirements for banks, and the deposit in Federal Reserve Banks of $1,400,000,000 of the treasury's inactive gold reserves; these together will increase the bank credit base available for loans by over $1,500,000,000; and in addition, the relaxation of bank examiners' regulation will make it easier for small businesses to get credit. These moves cannot but have far reaching effects in stimulating business.29

The Federation was discouraged when the easy money policy of the Federal Reserve was not highly successful in stimulating business activity. During 1939 and 1940, excess reserves of member banks increased steadily while their indebtedness to the Reserve banks decreased.

With the entry of the United States into World War II, the debt program of the Treasury became the principal source of policy for the Federal Reserve System. During the active war, inflationary pressures were left to the agencies of direct economic controls, such as the War Labor Board, the Office of Price Administration, the War Production Board, and to the selective instruments of control at the disposal of the monetary authorities.

In this period, there was no serious criticism of Federal Reserve policy, but instead, the leaders of the American Federation of Labor and the Congress of Industrial Organizations continuously attacked the War Labor Board's views on wage stabilization. Phillip Murray, head of the Congress of Industrial Organizations, told the Senate Banking and Currency Committee in 1941 that wage control was not necessary to control inflation. He expressed the "firm and unqualified opposition of the Congress of Industrial Organizations to the inclusion of wage control in the price control bill."  

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The Congress of Industrial Organizations in the latter part of 1943 maintained that every effort had to be made to stabilize prices, control living costs, and thus enable the government to keep faith with its citizens. Yet, it was the contention of the Congress of Industrial Organizations that "money could be inflationary only if spent, but not if saved." Therefore, the arguments against wage increases on the grounds contributing to inflation were "irrelevant, incompetent and immaterial."  

1946 - 1965

When World War II ended, the United States economy was faced with a great volume of money and liquid assets along with an accumulated demand for goods. This situation presented a perfect background for inflation, but even in 1947 the Federal Reserve was still acting with great moderation. By the middle of the year, the Federal Reserve Board and the Treasury agreed upon a policy of permitting short-term yields to rise, yet long-term rates continued to be "pegged."

32 Congress of Industrial Organizations, The Economic Outlook, November, 1943.
By January, 1949, the American Federation of Labor was becoming alarmed over the inflationary tendency of the economy. It was looking to the Federal Reserve System for a solution when it stated:

The powers of the Federal Reserve System should be used to prevent inflation and to provide no more than a reasonable and normal growth in the nation's money supply. If there is a conflict between this policy of preventing inflation and the Federal Reserve System's present policy of supporting the market for U. S. Government obligations at par, it should now use its powers to prevent inflation. This should be done with wisdom and discretion; adjustments should be adequate, but should not be made so abruptly as to cause violent changes in prices of government obligations. The added cost to taxpayers of increased carrying charges on the federal debt would be infinitesimal compared to the losses they bear from continued price rises.

In February, the Federation noted that Secretary of the Treasury, John W. Snyder, had announced that a new security loan campaign "to promote savings and fight inflation" would be initiated. Under the new plan, the

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American Federation of Labor, "Attack the Root Cause of Inflation," Labor's Monthly Survey, January, 1948, pp. 1-5. The Federation did note that on December 24, 1947, the Federal Reserve "repegged" the price at which it bought long-term government bonds at 100.25 per cent of par instead of 100 per cent and on January 9, 1948, it had raised the discount rate from 1 per cent to 1-1/4 per cent. These actions were steps toward higher interest rates and would tend to make commercial banks more cautious in expanding credit.
sale of series E savings bonds would be emphasized. The American Federation of Labor had consistently supported the government in all of its programs to promote thrift among the workers. The 66th annual convention of the American Federation of Labor adopted a report endorsing the continuation on a voluntary basis of the Treasury Department's payroll savings plan for the purchase of United States savings bonds. William Green, head of the American Federation of Labor, urged the workers to support the new security loan campaign.  

While the Federation encouraged its members to purchase savings bonds, it challenged charges that high wages were the prime cause of inflation. Boris Shiskin, American Federation of Labor economist, in June, 1948, said that the excessive volume of money in circulation was to blame for soaring prices. He called for Congressional action to curb inflation and "to balance out our economy at a high level of production." However, in Shiskin's opinion:

35 American Federation of Labor, Weekly News Service, June 1, 1948.
To cut back the money supply alone would mean an economic balance at a lower rate in production of goods which would be consumed only by those fortunate enough to have adequate purchasing power.36

The Federation further asserted that the Treasury had encouraged easy money and easy credit by refusing to increase the interest rate on its short-term certificates. To the Federation, this action was contrary to the advice of Federal Reserve officials and would increase the workers' cost of living through higher prices.37

The Federation's Weekly News Service in August reported that the 80th Congress had adjourned with very little accomplished. Much to the Federation's disappointment, no

36American Federation of Labor, "Inflation Curbs Urged for Balanced Economy," Weekly News Service, June 15, 1948. See also: American Federation of Labor, Weekly News Service, June 18, 1948, in which Federation President Green enumerated proposals submitted to the Republican Convention to curb inflation. The Federation recommended a four-point program: (1) That committees of businessmen, labor, agricultural and other groups be called by the Council of Economic Advisers to develop a joint program to check inflation. (2) That the voluntary allocation program for scarce materials operating under the U.S. Department of Commerce be strengthened. (3) That monetary and fiscal policies to check abnormal increase in money supply and bank credit be followed. (4) That a vigorous program to sell U.S. savings bonds to American consumers be conducted.

action was taken on President Truman's sweeping anti-inflation program and a limited substitute was passed. The substitute was a credit control bill which restored wartime consumer buying regulations on a temporary basis and granted the Federal Reserve Board authority to increase the reserve requirements on member banks.38

Even after reserve requirements were raised that fall, a downward trend in economic activity was becoming increasingly apparent, and by 1949, it became more pronounced. Prices declined, business loans were being liquidated, production activity decreased, and unemployment increased. Federal Reserve policy was adjusted to counteract the recession. Margin requirements on security loans were reduced, consumer credit regulation was relaxed even before it expired on June 30, 1949, and reserve requirements were continuously reduced.

In the fall of 1949, the American Federation of Labor and the Congress of Industrial Organizations participated in the hearings held by the Joint Committee on the Economic

38American Federation of Labor, "Congress Votes Limited Credit Curbs, Housing Aid as Special Session Ends," Weekly News Service, August 10, 1948.
Report on Monetary, Credit and Fiscal Policies. Everett M. Kassalow and Stanley H. Ruttenberg were representatives for the Congress of Industrial Organizations and presented a statement on behalf of Emil Rieve, their vice president. The statement expressed the appreciation of the organization for the opportunity to testify, "if even only to present general views on fiscal and monetary policy" and explained:

Our own consideration of the Employment Act and the policies which can bring about its successful operation have convinced us that there is no more important single area for bold Government action than in the fields of credit, fiscal and monetary policy.

In the area of monetary policy, the Congress of Industrial Organizations felt that the failure of Congress to renew the Federal Reserve Board's power over consumer credit in June, 1949, was an appalling mistake. This was the Federal Reserve Board's power that had "justified its existence" and that power should be available for use when

39 The Joint Committee on the Economic Report was created under the Employment Act of 1946.

40 Mr. Kassalow was Executive Secretary, CIO Full Employment Committee and Mr. Ruttenberg was Director of Education and Research.

necessary. Senator Paul H. Douglas, chairman of the sub-committee, commented that the continuance of the regulations on consumer credit was attacked by some on the grounds that it would be unfair to unduly restrict the ability of low income groups to command durable consumer goods. Stanley Ruttenberg said that those individuals who had opposed the extension of consumer credit were the ones who allowed the low income people "to become so indebted that they can't get out of it."42

Similar to the Congress of Industrial Organizations' views, the American Federation of Labor felt that the power to control the volume of consumer credit should be restored to the System as a permanent feature. In addition, it believed that the authority of the Federal Reserve System to modify the required reserve ratios should be increased so that the System could impose additional reserve requirements when desired. The Federation also suggested that the Government's lending operations be coordinated with general monetary, credit and fiscal policy, insofar as this was not incompatible with the major purpose for which the loan powers were set up. For example, it was apparent to the

42 Ibid., p. 302.
Federation that good public policy required the expansion of loans for housing even during the period of post-war inflation. 43

Although the testimony by the two organized labor groups was similar at this hearing, their appraisals of the post-war inflation were somewhat different. While the Federation had supported tighter monetary controls, an article in the Congress of Industrial Organizations' Economic Outlook told the workers:

After both World War I and World War II the bankers sought to do away with the addition to the money and credit supply created by the bonds. In both cases they used the excuse of needing to fight inflation. Inflation, however, was primarily a wartime problem—and it had been handled fairly effectively in World War II . . . What the bankers were after . . . [was] a deflation that would put the country through the wringer and at the same time restore a condition of scarcity in the money market which increases the economic power of the bankers. 44

By 1950, the economy was showing signs of a recovery from the 1949 inventory adjustment. Employment and industrial production were advancing, prices were rising,

43 Ibid., pp. 548-552.
banks were resuming the expansion of loans, and total spending was increasing. When the Korean War started in June, a wave of precautionary buying helped to accelerate prices and to stimulate a growth of bank credit.

In the latter part of that year, the Federation claimed that the United States government was responsible for keeping the nation's money sound and preventing depreciation of its value. Inflation had to be prevented but the Federation did not want it merely postponed by wage-price controls as it had been in World War II.

The Federation suggested that the United States government borrow from individuals by selling savings bonds instead of borrowing from the banks for the latter method was inflationary. Also, it supported the Federal Reserve Board's task of curbing consumer credit and bank credit and stated that the credit controls on housing, automobiles, furniture, and appliances had already proven effective in taking pressure off prices of these items.  

45 American Federation of Labor, "Money Must be Kept Sound As Uncle Sam Pays for Defense," Labor's Monthly Survey, November-December, 1950, p. 6. On September 18, 1950, the Federal Reserve Board issued Regulation W imposing controls on installment credit. On October 12, the Board issued Regulation X imposing selective controls on credit for the construction, purchasing, and financing of new houses. These regulations were issued in accordance with authority contained in the Defense Production Act of 1950.
During the inflationary period in 1950, the Federal Reserve Board was handicapped because of its support of the long-term government bond market. The Reserve authorities, wanting to raise the long-term United States government bond yield, ran into direct opposition from the Treasury. This dispute between the two agencies ended with a joint agreement known as the "Accord" on March 4, 1951. The effect of the "Accord" was the restoration of independence to the Federal Reserve for the pursuit of flexible monetary policies.

The Federation approved of the Federal Reserve-Treasury "Accord" because it felt that the rapid rise in loans to business had been a root cause of inflation and it was pleased to see that the credit inflation was being checked in two ways. First, the Treasury no longer insisted that the Federal Reserve buy all government bonds at par value, and thus the banks would hesitate to sell government bonds for loan purposes. Secondly, the banks were cooperating in the Voluntary Credit Restraint Program\footnote{The Voluntary Credit Restraint Program of March, 1951, was established under the Defense Production Act.} to cut down on
loans to buy stocks of goods beyond reasonable amounts and loans for non-defense plant expansion. 47

The Congress of Industrial Organizations' views of the Federal Reserve's monetary policy during 1951-52 were basically different from those of the American Federation of Labor. In the report, "Federal Reserve Policy and the Control of Inflation In a War or Defense Emergency," the Congress of Industrial Organizations stated:

Our own studies of the recent emergency inflation lead us to believe that the Federal Reserve policies for which so much is claimed have been founded on false premises. Moreover, they proved to be ineffective and inequitable when put into actual operation during the past two years. 48

In analyzing the monetary policies of the Federal Reserve System since the "Accord" in early 1951, the Congress of Industrial Organizations first considered the use of the discount rate. It stated that an increase in


discount rates ordinarily led to a rise in the interest rates which member banks charged on business loans, and this was supposed to cut down the number of borrowers. Thus the inflationary pressure in the economy would be eased. Yet, to the Congress of Industrial Organizations, slight, even moderate, increases in the interest rate would not curtail business speculation. At the Hearing on Monetary Policy and the Management of the Public Debt, Nathaniel Goldfinger had stated:

I do not believe that a relatively small change in interest rates will materially affect inflationary pressures one way or another . . . A large change in interest rates, it appears to me, would be undesirable in view of its effect on the public debt. Furthermore, I question whether even a large rise in interest rates, 3 to 5 per cent, for example, would have any material effect on personal savings and business investment under the economic conditions of the past 6 years . . . Devices other than interest rate changes will have to be developed if Government policy is to affect personal savings and business investment as means of influencing the course of our national economy.

\[49\] Ibid., p. 794.

Also, the Congress of Industrial Organizations stated that its statistical estimations disclosed no visible effectiveness of the Board's actions as far as the money supply was concerned, but the interest rates on commercial and individual loans, as well as government securities, had risen significantly since the "Accord." The result was a substantial increase in the profits of many banks. The Congress of Industrial Organizations pointed out that as the interest rates on the Government debt climbed, the cost of servicing the Federal debt rose, thereby increasing the burden on the average taxpayer of the United States.

In addition, the Voluntary Credit Restraint Program was attacked by the Congress of Industrial Organizations. When the government was telling management and labor what wages they could or could not pay and the manufacturers what prices they could charge, the Federal Reserve Board asked the bankers to devise their own rules of anti-inflation conduct. The Congress of Industrial Organizations asked: "Can anyone conceive of the Federal Government's anti-inflation program including the delegation to unions of the control over wages, or to business the control over prices?"
The Congress of Industrial Organizations challenged the anti-inflationary views of those advocates who wanted the Federal Reserve Board to withdraw its support from new government issues and "actively unload important parts of its holdings of government securities." The Congress of Industrial Organizations believed a real "dumping operation" by the Board would lead to panic and extreme deflation, unemployment, and economic collapse. It cited the periods 1920-21 and 1929 as cases where the Board's deflationary policies had helped precipitate severe business panics. However, the milder actions during 1951-1952 had no effect in limiting the expansion of bank credit.

Yet, the Congress of Industrial Organizations stressed that the inadequacies of the Federal Reserve Board policies should not be overlooked in formulating future emergency anti-inflation programs. It suggested that if there were to be adequate and equitable curtailment of business loans by the banks, this should be done by direct methods. The President of the United States possessed the power to limit the volume of credit which could be issued by the banks. The Congress of Industrial Organizations did admit that sound monetary and credit policies, directed at curtailing
nonessential business activity or speculation could also serve the same objective.\textsuperscript{51}

The American Federation of Labor's attitude toward monetary policy during the period 1953–54 was summarized at the 1954 convention:

Consider the big downslide of 1953-1954. In the first part of 1953, price inflation of the Korean mobilization period had fully run its course. It was no longer a problem. Yet, the incoming Administration acted as if inflation were a major menace. It set in motion strong deflationary policies. These were in hand with the newly proclaimed overriding objectives of the government "economy drive" and to balancing the budget.

The Treasury raised interest rates, setting off a general rise in interest charges on all forms of borrowing. The era of "hard money" and "dear dollar" was proclaimed. Most important of all, the country, in throes of a full-scale, long-term defense mobilization, was suddenly confronted with a curtailment of defense spending. With the Communist menace nowhere diminished, despite the Korean truce, the announced "transition from war to peace" not only came as a shock, but also changed business and public expectations to a sudden reduction in the defense effort, defense production and defense outlays.\textsuperscript{52}

\footnotesize{\textsuperscript{51}U. S., Congress, \textit{Hearings, Standby Economic Controls}, \textit{op. cit.}, pp. 795-796.}

\footnotesize{\textsuperscript{52}American Federation of Labor, \textit{Proceedings}, 1954, p. 260. The Congress of Industrial Organizations was in general agreement with the American Federation of Labor on the "hard money" policy of the Eisenhower administration. See, Congress of Industrial Organizations, "Higher Interest Rates Help Banks--Hit You," \textit{Economic Outlook}, May, 1953.}
The report further explained that the "hard money" policies had served to slow down the economy. By the second half of 1953, Federal Reserve policies experienced a far reaching shift to ease bank credit, to stimulate borrowing, and to arrest the deflationary trend.

The Executive Council contended that although the monetary "stabilizers" had contributed to the checking of the recession, they had failed to reverse it. At best, they proved effective only as props to stabilize the economy at the lower level it had reached. Thus the Council concluded:

... it is the widening disparity between the buying power of consumers and the rapidly increasing productive power of industry that presents the central problem of the American economy. Return to full prosperity depends on the solution of this problem.53

Much to the relief of organized labor, recovery from the recession began in the third quarter of 1954. Throughout 1955, there was a sharp increase in consumers' purchases of durable commodities and inventory accumulation on the part of business. Also, business investment in new plants and equipment was increasing at a rapid pace which created

pressure upon resources and on the available supply of loanable funds. The Federal Reserve Board, fearing inflationary developments, attempted to tighten the supply of money and made it increasingly expensive to borrow funds.

At the annual convention of the Congress of Industrial Organizations in December, 1955, Walter P. Reuther, President, reported:

It was relatively easy credit terms for the purchase of goods and services—and the easing of mortgage terms in 1954 for the purchase of homes—that helped to spark the upward surge of consumer spending and home construction in the past year.\(^{54}\)

Yet, Reuther felt that the Eisenhower Administration apparently saw the rise in consumer debt as dangerous and believed that it should be halted. He contended that the effect of the Administration's general "hard money" policy would be to increase profits for banks and other lenders and tend to depress economic activity. It was therefore the contention of the Congress of Industrial Organizations that, for continued economic growth, the Administration's general "hard money" policy had to be reversed.\(^{55}\)


\(^{55}\)Ibid., pp. 121, 125.
The annual convention of the Congress of Industrial Organizations in December, 1955, was to be its last, for during that year an agreement was signed to merge the American Federation of Labor and the Congress of Industrial Organizations. They joined names as well and the organization became popularly known as the AFL-CIO. These differences which had existed in their attitudes toward monetary policy were linked in the merger and in the formation of one research department which was composed of economists from both organizations.

Throughout 1956, the underlying policy of the Federal Reserve System continued to be "restraining inflationary developments in the interest of sustainable economic growth." Discount rates were increased to enforce open market operations by making borrowing unattractive to member banks except in emergencies.

The newly formed AFL-CIO, like the previous separate organizations, attacked the hard money policy of the

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56 The merger agreement and the "Implementation Agreement" were signed on November 30, 1955, under which the transfer of property was arranged and the rights of the unions and members in the merger were formally recognized. Taft, op. cit., p. 660.

57 Supra, Chapter V, pp. 161-162.
Eisenhower administration. The AFL-CIO Industrial Union Department in the fall of 1956 told the workers that the cost of money was to go higher because the bankers had "teamed up with" the Administration in raising interest rates. The "prime" interest rate which was charged to the big corporations had been raised by the First National Bank of Boston followed by the New York Banks. To the AFL-CIO, this action by the First National Bank of Boston appeared to be a signal to the Federal Reserve Board to also increase the discount rates.58

The AFL-CIO also argued that the hard money policies had destroyed the New Deal mortgage protection. For the first time since the twenties, conventional mortgages were accounting for a large share of home financing instead of the Veterans' Administration and Federal Housing Administration loans. The AFL-CIO was disturbed because the conventional mortgages did not carry government guarantees. Therefore, because of the risk and the high interest rates, the workers were being driven out of the housing markets.59

58 AFL-CIO, IUD Bulletin, September, 1956, p. 8. Discount rates were raised late in August, 1956, to 3 per cent at the ten Reserve Banks with rates of 2-3/4 per cent.

Nat Goldfinger, AFL-CIO economist, believed:

The Eisenhower Administration ... has failed to give leadership in the most important aspect of economic policy—that of increasing the living standards of the low income groups and of increasing cultural, educational, welfare and social opportunities.60

He attributed the general prosperity under President Eisenhower to the policies instituted by the Roosevelt and Truman Administration.61

The Economic Policy Committee of the AFL-CIO, in its review of 1956 reported that the tight money policy had failed to stem the investment boom of the large corporations. Instead, the high interest rates had retarded the growth in certain sectors of the economy, such as home building, and had increased the profits of such institutions as banks and insurance companies.62

This Committee in January, 1957, stated:

Current monetary policy needs to be re-examined. The causes and effects of a tight money market are different when seen through the eyes of

61 Ibid.
someone other than a specialist in monetary policy.\textsuperscript{63}

The AFL-CIO Executive Council declared that "important types of borrowers have suffered" from the tight monetary policy. Farmers, city and state governments, and small businesses found it increasingly difficult to borrow funds for necessary improvements and repairs or continuation of successful activity.\textsuperscript{64} The Council recommended a three point program to combat the inflation failures:

1. Pursue policies designed to accomplish a steady, balanced rate of growth in the national economy.
2. Relax the present "tight money" policy.
3. Take specific steps to alleviate the hardships caused by tight money.\textsuperscript{65}

\textsuperscript{63} AFL-CIO, "A New Look at Monetary Policy," \textit{Economic Trends and Outlook}, January, 1957. Other criticisms of monetary policy by the Committee were: "The pattern of discount rates chasing U.S. Treasury bill rates created inflation and confusion in the short-term securities market. Instead of a Federal Reserve effort to keep the interest rate on Treasury short-term bills low, so that the discount rate would be low, it followed the backward pattern of letting Treasury rates go where they would by not interfering too much and then raising discount rates to meet the new heights of Treasury rates. Through a 'hands off' policy, the Federal Open Market Committee did not support the price of Treasury long-term bonds . . . The result: Treasury attempts to move the Federal debt into long-term issues and out of the bank structure were not successful." AFL-CIO, \textit{Economic Trends and Outlook}, March, 1959, p. 3.


The Council further suggested that the government provided for federal aid to education, an expanded public housing program as well as one for middle-income housing, and the establishment of a governmental corporation for low interest rate loans for specific necessary social programs.\textsuperscript{66}

The Industrial Union Department's Executive Board in March requested that the Eisenhower Administration and the Federal Reserve Board reverse "present unjustified hard money policies" and warned that there were "signs of slowing down" in the rate of economic expansion. The \textit{IUD Bulletin}, during most months in 1957, featured articles attacking the tight monetary program.\textsuperscript{67}

\textbf{Wages and Prices and the American Economy} was the topic of a statement issued by the AFL-CIO Executive Council in August. The Council argued that a dangerous and paradoxical

\textsuperscript{66}Ibid.

situation confronted the American economy. Since the end of 1956, industrial production had been going down. At the same time, prices had continued to move up despite a decline in aggregate demand and the rapid rise in the production facilities of the nation. The Council did not feel that this paradox could be explained as a "cost-push" inflation and stated:

...it is hard to see how "cost-push" can be the cause when, according to official Government reports, labor costs remained practically unchanged in the past five years in spite of rising wages and improving fringe benefits.68

Organized labor felt that their criticism of the Federal Reserve's tight monetary policy was well founded for by the late fall of 1957, there was evidence of an economic recession. With recognition of declines in economic activity, the Federal Reserve officials moved to lessen the degree of restraint in November and December, 1957, by reducing discount rates.

The Industrial Union Department of the AFL-CIO used the expression "too little and too late" in February, 1958.

to sum up the reaction to easier credit by the Federal Reserve Board. It explained that the Board "grudgingly" acknowledged the recessionary trend in the economy, and cut margin requirements on stock purchases from 70 to 50 per cent, followed by a cut in the discount rate. Even with easier money, the Department believed all indications pointed to a further slide in the economy.69

Several months later, the Department used the following adage as an explanation of the situation in which the nation found itself regarding monetary policy:

You can step on the brakes and stop a fast moving car but you can't get it started again merely by lifting your foot from the brake pedal.70

It pointed out that the Federal Reserve had again reduced the discount rate by one-half of one per cent, and also had lowered the reserve requirements. The Department believed that, theoretically, these actions would make credit more readily available, but until purchasing power balanced with productive capacity, it was doubtful that easier money would serve as an economic stimulant. Only then would


monetary policy be of help in encouraging economic growth.71

By the end of the third quarter of 1958, economic activity was again advancing with gains recorded in personal consumption expenditures, residential construction, and government purchases. The AFL-CIO noted in October and November that the Federal Reserve Board had raised discount rates and was taking certain other credit restricting steps. Organized labor believed that the Treasury and Federal Reserve officials apparently had not "learned their lesson" and their actions would bring on a further recession.72

During this period, Everett M. Kassalow, Director of Research for the AFL-CIO's Industrial Union Department stated:

We are presently operating under several handicaps in the monetary and credit field, so far as our objectives of sustained, stable economic growth is concerned. For example, the basic legislation in the monetary and credit area was laid down before the passage of our modern system of social--and economic--reform legislation which culminated in the Employment Act of 1946.73

71Ibid.
In his opinion regarding the broad realm of credit policy, the strain on the Federal Reserve Board could be reduced by the judicious use of other Federal credit instruments. He felt that there was a tendency on the part of the public and probably of some Board officials to arrogate too much power and responsibility to the Board.\textsuperscript{74}

In 1959 as the economy recovered from the 1957-1958 recession, organized labor continued to attack the tight money policy of the Federal Reserve System.\textsuperscript{75} Chart 4

\textsuperscript{74} Ibid.

shows the changes in discount rates from 1954 through 1959
and the increase in long-term United States government bond yields.

In December, 1959, the AFL-CIO Economic Policy Committee stressed that the nation had to have enough money and credit to carry on the business of a growing population. Even though the Federal Reserve spokesmen constantly reassured the nation that the Board was trying to provide enough money, the controversial question to the Committee was "How much was enough?" It felt that "financial intermediaries," "velocity," and other economic factors had not made enough difference to keep the majority of Americans from the effects of tight money. It concluded that for a nation emerging from the 1958 recession, a rapid increase in money and credit would not be "undue." 76

The AFL-CIO predicted in January, 1960, that still higher interest rates and scarce money lay immediately ahead as the result of Administration and Federal Reserve policies of deliberate credit restraint. It was apparent to organized labor that "the Federal Reserve feared

Chart 4. Discount Rate and Yield on Long-Term U.S. Treasury Bonds, 1954 - 1959

prosperity even more than recession, and that monetary policy was being tailored accordingly." It was the hope of the AFL-CIO that tight money would be injected into the election campaign of that year. However, it felt this was doubtful because the subject was so complex and it was difficult to draw public attention to the issue; despite tight money, the current boom would probably continue through that year.77

By the late spring of 1960, the economy was showing signs of a recession. The AFL-CIO could not understand why the Federal Reserve continued to keep the discount rate at a high level. It contended that tight money was hurting the small businessman, home buyers, consumers and workers and was a factor in the continued high rate of unemployment.78

The AFL-CIO was pleased to see that by July the Federal Reserve had finally eased the credit restraint by lowering the discount rates. However, it noted that interest


rates had not started down and there was little indication of any significant change in the near future.79

That fall, organized labor proclaimed that there was little doubt that the nation was being plagued by a third Republican recession. Although the AFL-CIO knew that tight money was not the only reason for the decline in economic activity, it held the Federal Reserve—with the encouragement of the Administration—primarily responsible. Therefore, organized labor demanded:

There is a need to reverse present policies now and to take counter-action. This would be too much to expect of the Eisenhower Administration or of Mr. Nixon, neither of whom has expressed concern over entry into a new recession with nearly six per cent of Americans already jobless.80

From its standpoint, the best action to take against recession was the presidential election of Senator John F. Kennedy.81

At that time, the monetary authorities were becoming increasingly concerned over the balance-of-payments deficit.


81Ibid.
The AFL-CIO in November, 1960, noted that the discount rate had been cut to three per cent by the Federal Reserve but felt that it was unlikely to go lower unless there was a deepening of the recession. It told the workers that the major reason given by the Federal Reserve for not lowering interest rates was the gold outflow from the United States.\(^82\)

The AFL-CIO felt that the incoming Kennedy Administration had inherited a related set of economic problems—a recession and a "flight from the dollar."\(^83\)

In 1961, the balance-of-payments problem received greater attention from the AFL-CIO.\(^84\) It was pleased to see that the Kennedy program was trying to lower long-term interest rates by having the Federal Reserve maintain the


Federal securities market on more than a "bills only" basis. However, by late spring, it was disappointing to organized labor that the Administration's efforts to reduce the long-term interest rates were "generally unsuccessful." Yet, it optimistically noted that the United States' balance of payments position had improved, and the gold outflow had almost diminished. It strongly believed that since the gold outflow was almost halted, the excuse for both high short-term and long-term rates was no longer valid and it recommended:

A vigorous approach to monetary policy would utilize all the tools of the Federal Reserve Board. This would include a further cut in the discount rate which still stands at three per cent and which holds up the price of money. It would also require far more than token purchases on long-term bonds.

This basic attitude by organized labor continued throughout the remainder of 1961.

By January, 1962, the AFL-CIO was pleased to see that an economic upturn was being forecast by most economists.


Yet, it feared that higher interest rates authorized by the Federal Reserve officials for savings deposits in commercial banks would be detrimental to the economy. The AFL-CIO considered that this action would more than likely push up savings and loan associations' interest on deposits, and in turn would result in higher rates on mortgages. The AFL-CIO predicted that a slackening of housing construction would follow, adding to any general fall in economic activity which might occur after mid-year. It was critical of a speech by Federal Reserve Board Chairman, William McChesney Martin, in which he stated that the Board would not interfere with any higher interest rates "resulting from the interaction of supply and demand."  

In its spring meeting in Washington, D.C., organized labor's view was summarized by the AFL-CIO Executive Council which stated that the upturn from the recession "had been less than expected last January." The Council added that these economic developments had "unfortunately" borne out

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87 On January 1, 1962, Federal Reserve banks were allowed to raise interest rates on any savings deposit from 3 to 3-1/2 per cent and to 4 per cent on those left in the bank for one year or more.

warnings of the AFL-CIO and it called for a Federal Reserve policy designed to maintain low interest rates on long-term loans and to insure continued ease in the money market.  

During this period, Stanley Ruttenberg, economist for the AFL-CIO, requested, among other things, that an anti-recessionary tax cut be effected. In his testimony before the Joint Economic Committee, he stated:

I must express concern over rumors, and I guess it is more than rumor, that the Federal Reserve Board will seek to offset a tax cut, if one comes, by a tighter money policy. Action of this kind would simply destroy the beneficial efforts of the tax reductions. While it is important to take monetary measures to help ease the balance-of-payments problem, they must be selective and constructive in nature. A general effort to tighten the availability of funds and thus raise interest rates across the board now to meet the payments problem just cannot be tolerated at a time when the American economy needs credit ease and lower borrowing costs in order to overcome stagnation. Policies to meet the international monetary problem can and must be

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shaped that do not undermine the achievement of what must be our number one objective—the restoration of recovery. 90

The economy had changed little by November, 1962. The AFL-CIO reported to the workers that the Federal Reserve had responded to the demands for easier money by adjusting only to meet the seasonal needs of the member banks. 91

In the early part of 1963, organized labor maintained that more than ever before the economy needed expansionary fiscal and monetary policies which would reduce unemployment below the five per cent level. 92 Chart 5 shows the rising trend of unemployment and interest rates which concerned organized labor. The AFL-CIO Executive Council warned that "job-creating efforts can be nullified by a tightening of the money supply and an increase in interest rates," and again urged Congress to reject proposals that would increase long-term interest rates. 93 But the Council


Chart 5. Unemployment Rate and Yield on Long-Term U. S. Treasury Bonds, 1954 - 1963

PER CENT

Unemployment Rate

Long-term U. S. Treasury Bonds

regretfully stated in August:

In mid-1963 . . . signs of an increased payments deficit and pressures from Western European central bankers lead the Administration to impose monetary restraints on the domestic economy. The money supply was tightened, interest rates were raised and the discount rate, which the Federal Reserve System charges on loans to commercial banks, was increased from 3% to 3-1/2%. This restrictive policy will have little, if any, impact on the payments deficit, but it places a damper on the faltering advance of the economy, at a time of high unemployment and large amounts of idle plants and machines.94

The Federal Reserve Board’s action of raising the discount rate was called "outrageous" by AFL-CIO president, George Meany, and he urged an immediate "meaningful" tax cut to offset the "ill-considered" action. The AFL-CIO was quite aware that the Federal Reserve had been trying to keep domestic capital at home and to attract foreign capital by "operation nudge." This had involved driving up the short-term interest rates and holding down the long-term rates.

Yet, organized labor was of the opinion that the constant upward movement of short-term rates would mean higher interest rates in general.\(^{95}\) The Industrial Union Department in December, 1963, denied the need to curb the United States economy because of the balance of payments and urged that direct controls be instigated over the flow of investments to foreign countries until effective international monetary reform was achieved.\(^{96}\)

Nathaniel Goldfinger, economist for the AFL-CIO, in March, 1964, commented:

In 1964, America once again faces a potential threat from the Federal Reserve—monetary policy may be used to negate the demand-generating and job-creating impact of the tax cut. Once again, the Nation's monetary policy may be tilting with the windmills of overall demand inflation or ineffectively responding to a balance-of-payments deficit, leaving persistent, high levels of unemployment in its wake.\(^{97}\)


When the Federal Reserve Board in November, 1964, raised the discount rate from 3-1/2 to 4 per cent, the AFL-CIO continued to view this with alarm. The Executive Council stated that it would have a curbing effect on parts of the economy, and would do very little to curtail any sudden short-term outflows of private capital. To the Council, the strength of the American dollar depended mainly on the strength and the prosperity of the American economy at home and it requested a reversal of the Board's actions.98

Organized labor's attitude toward monetary policy in 1965 was primarily a carry-over from the previous years' concern with the Federal Reserve Board's actions on the balance of payments issue.99 The AFL-CIO stressed the need for vigorous resistance against the campaign in favor of


tighter money and higher interest rates. Organized labor's awareness of the significance of monetary policy was quite clearly expressed by Nathaniel Goldfinger when he said:

The AFL-CIO has consistently viewed monetary policy as a subject of concern to every American. What the Federal Reserve System decides can affect job opportunities of men and women all over America. What the Federal Reserve decides affects the cost of money, of cars, of houses, of doing business, and the upward and downward trends of business cycles.

Summary

The publications of organized labor from 1914 to 1945 reveal an attitude toward monetary policy which was limited both in depth and scope. Economists and statisticians within the administrative structures were few in number, and the organizations found it necessary to turn to trained persons in the financial field for information and explanations.

100 AFL-CIO, Statement on the President's Economic Report, Presented on behalf of the American Federation of Labor and Congress of Industrial Organizations by Walter P. Reuther, Vice President, AFL-CIO; Chairman of the AFL-CIO Economic Policy Committee, and President, UAW, March 1, 1965. (In the files of the AFL-CIO).

Organized labor's general approach to monetary policy from 1914 through the 1920's was characterized by a lack of knowledge and spasmodic interest. It, however, disapproved of high interest rates, feared excessive stock speculation, eyed bankers with suspicion, and supported price stabilization as a monetary policy objective.

During the depression years of the 1930's, organized labor became increasingly aware of the influence which monetary policy had on the worker and on industry, and of the need for an expansion within its own research departments. Although at times advocating stronger governmental control, it favored the Federal Reserve's actions attempting to alleviate the critical economic situation.

The Second World War brought no basic changes in the attitude of organized labor to Federal Reserve policy. Its major criticisms were directed toward the War Labor Board.

Since World War II, organized labor has experienced a marked growth in its understanding of monetary policy. This maturing has been reflected in its publications and in its increased participation in government hearings. The junction of staffs and attitudes by the merger of the American Federation of Labor and the Congress of Industrial Organizations
in 1955 aided research development. The Employment Act of 1946 served as a stimulant to its interest in monetary policy and it advocated those policy measures which would fulfill the objectives of the Act.

From the end of World War II through the late 1940's, contradicting views toward Federal Reserve actions were expressed by the American Federation of Labor and the Congress of Industrial Organizations. The American Federation of Labor believed that the money supply had increased abnormally causing inflation and it wanted the Federal Reserve to follow a course of tighter money. The Congress of Industrial Organizations felt that the Federal Reserve was pursuing the correct policy by continuing to support the long-term government bond market. However, both organizations agreed that consumer credit controls should have been retained.

During the Korean War period, the American Federation of Labor felt the need for inflationary control and supported the Federal Reserve-Treasury "Accord." The Congress of Industrial Organizations maintained that the Federal Reserve policy in 1951-1952 was ineffective and urged direct monetary control in this type of emergency.
Organized labor vigorously attacked the Federal Reserve's hard money policies of the Eisenhower administration. It believed that the Federal Reserve was fighting a "phantom" inflation and was contributing to recessions in the economy.

During the 1960's, the American Federation of Labor and Congress of Industrial Organizations became increasingly concerned over the balance-of-payments problem. It concluded that the Federal Reserve's policy of "operation nudge" was not highly successful and suggested direct controls over foreign investments until effective international monetary reform could be achieved.
ORGANIZED LABOR'S VIEWS TOWARD INTERNATIONAL MONETARY REFORM AND THE FEDERAL RESERVE SYSTEM, 1943-1965

From 1943 through 1965, organized labor expressed definite attitudes toward the Bretton Woods Agreements and the Federal Reserve System. The purpose of this chapter is to present organized labor's views toward international monetary legislation and proposals for reform within the Federal Reserve System.

Bretton Woods International Monetary Agreements

International monetary affairs again captured the interest of organized labor in the early 1940's.¹ It was concerned that decisions of far-reaching importance in world affairs were being made without the participation of the organized labor movement.

¹Supra, Chapter IV, p. 127.
One such decision centered around international monetary stabilization which was being subjected to intense study by various nations. The Congress of Industrial Organizations felt that it was a question of great intricacy, difficult to understand and explain. However, it was a matter of profound importance to workers because the outcome could influence employment, incomes and the standard of living. To the Congress of Industrial Organizations, this field was unfortunately left to the expert who may or may not act in a way to serve the masses of the people.

The Congress of Industrial Organizations considered the gold standard no longer feasible because the United States held a large portion of the world's supply of gold, and there would be no practical means of redistribution to foreign countries. It noted the United States and Great Britain had suggested alternative proposals which were known respectively as the White and Keynes Plans after their authors. The organization explained in The Economic Outlook that each plan defined the value of the national currencies and provided that no country could take independent action to change the value of its currency without permission from the international monetary authority. If a country were to have temporary difficulty in its balance
of payments, the monetary authorities under each plan would provide credit support until the country's emergency situation was rectified. Thus, exchange rates could be saved from instability and the world kept from financial distress.

The Congress of Industrial Organizations contended that it was of utmost importance that the United States, in discussions on monetary stabilization, insist on either of the following:

(1) its freedom independently to fight depression and maintain and extend employment and social security, whenever the rest of the world refuses to come along, or (2) a definite understanding that the international monetary authority shall be committed, not simply to exchange stability, but preeminently to world conditions of full employment, rising standards of life, and enlarged social security.

It stressed that this subject demanded understanding and study by the labor movement.

In 1944, a plan, uniting the recommendations of Keynes and White, emerged at the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire, and attended by delegates from forty-four nations. At this meeting, provisions were made for an International

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2Congress of Industrial Organizations, "The Gold Standard is Gone for Good," The Economic Outlook, October, 1943.

3 Ibid.
Monetary Fund and an International Bank for Reconstruction and Development (World Bank). The International Monetary Fund had a basic two-fold purpose: first, to stabilize values of the currencies of member nations, and second, to provide credit for trade by making foreign exchange available to central banks or other government agencies. The United States' quota was $2.75 billion of the total $8.8 billion. The International Bank, with a proposed subscription of $9.1 billion had two primary functions:

1. To provide long-term credit for the reconstruction of war-stricken nations and the development of resources in those countries whose industrialization has been slow.

2. To provide, through credit, the foundation for a permanent expansion of world trade among nations by increasing productive capacity.

Of the total, the United States' quota was $3.175 billion, more than twice the amount of the next largest contributor.

During the hearings on the Bretton Woods Agreements Act, both the American Federation of Labor and Congress of Industrial Organizations were represented. William Green,

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4 Studenski and Kroos, op. cit., p. 462.

5 Ibid.

president of the Federation, recommended that Congress accept this agreement with clarification and safeguards. With the understanding that the Bretton Woods Agreements would not alone serve as a complete solution to post-war chaos in international trade, Green explained the Federation's reasons for supporting the agreements.

He stated that the policy followed between the wars of national self-interest in competitive currency depreciation fostered depressions, discriminatory control of foreign exchange, and other forms of economic warfare. This policy in some cases temporarily aided in solving domestic problems for individual countries but in the long run contracted international trade, lowered the standard of living in all countries, and strengthened trends toward isolationism. To Green, the Bretton Woods Agreements would provide a plan for the elimination of such practices and a gradual restoration of the orderly and stable exchange relationships essential to expanding international trade. He believed that it was advantageous to the workers that the currency of their country be stabilized, that inflation or deflation be avoided, and that their savings and their earnings not be destroyed by extreme fluctuations. He stressed that the American Federation of Labor's interest was not limited just
to the American workers, but he believed that it was both a matter of human decency and a matter of enlightened self-interest for the United States to share through the World Bank in restoring the pre-war economic status of allies.\textsuperscript{7}

The American Federation of Labor recommended that several changes be made in the Bretton Woods Agreements. Among these changes was that consultation with the International Labor Organizations\textsuperscript{8} be made a basic administrative procedure before deciding upon policies and use of funds. The Federation further suggested that contracts initiated under the reconstruction and development loans should include standard labor provisions recommended by the International Labor Organization.\textsuperscript{9}

At these hearings, the Congress of Industrial Organizations was represented by James B. Carey, Secretary-


\textsuperscript{8}The International Labor Organization was founded in 1919 as a result of the Paris Peace Conference. Even though Samuel Gompers headed the charter commission, American organized labor was not represented at the International Labor Office until the United States government accepted membership in 1934. Taft, \textit{op. cit.}, p. 596.

\textsuperscript{9}U.S., Congress, \textit{Hearings, Bretton Woods Agreements Act.}, \textit{op. cit.}, pp. 681-682.
Treasurer, who said that his organization stood firmly behind the Bretton Woods Agreements. He offered the endorsement of the Congress of Industrial Organizations to the Agreements and urged that it be adopted without amendments or changes. In supporting the International Monetary Fund, Mr. Carey stated:

For . . . reasons of economic and political security, of stabilized currencies, and a continued flow of foreign trade, and of a rising standard of living through the world, we in the C.I.O. endorse wholeheartedly the proposed International Monetary Fund as an integral part of any program for economic cooperation with the rest of the world.¹⁰

He explained that the Bank for Reconstruction and Development would not encroach upon private banking. Instead, it would stimulate greater activity on the part of private banking interests by guaranteeing loans and by supplying loans in instances where they could not be made through normal channels at reasonable rates. Mr. Carey concluded that "the fund and the bank are indispensable to the orderly development of an expanding United States economy in an expanding world."¹¹ In July, 1945, the bill to provide for

¹⁰Ibid., p. 1185.

¹¹Ibid., pp. 1186-1187.
the United States' participation in the International Monetary Fund and the International Bank for Reconstruction and Development became Public Law 171, but it did not include the provisions desired by the American Federation of Labor.  

In 1959, the AFL-CIO made a statement before the subcommittee on the International Monetary Fund and World Bank. Stanley H. Ruttenberg, then Director of Research for the AFL-CIO, offered the support of his organization to House Report 4452. This bill provided for an increase of $1.375 billion in the United States' quota in the International Monetary Fund and of $3.175 billion in the World Bank. He stated that the increased amount in the International Monetary Fund would be commensurate with the expanded volume of international trade, generally high prices of commodities, and the increased convertibility of currencies. The AFL-CIO believed that the World Bank had satisfactorily performed in aiding economic growth to foreign countries, and its funds should be expanded.

Although the AFL-CIO supported these agencies, it emphasized that they had relatively limited functions. The

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International Monetary Fund was not directly engaged in financing development projects and the World Bank's loans did not include "social capital" projects such as schools and hospitals. Yet, in the opinion of the AFL-CIO, projects of this type were vital not only to improve the living conditions of the underdeveloped countries, but also for economic growth. Therefore, it urged that other programs be instigated to assist economic development in the underdeveloped countries.\(^{13}\)

In 1965, the AFL-CIO supported a proposal to again increase the United States' quota in the International Monetary Fund along with increases for other members. The quota from other member nations would rise from a total of $16 billion to $21 billion, and the United States' quota would be increased from approximately $4.1 billion to $5.2 billion. Nathaniel Goldfinger, before the House Banking and Currency Committee, stated that the AFL-CIO was concerned

with this problem because the "economic health of the United States and foreign countries affects every American citizen." He contended that in the 1960's, the United States' balance of payments deficit had been used as an attempt to avoid necessary improvements in social legislation and, at times, to tighten money. Mr. Goldfinger concluded with the AFL-CIO Executive Council's statement made in February, 1965:

In the long run, a more effective international monetary mechanism is the basic solution to the payments problems of the United States and the world. The United States should continue to seek a mechanism that would provide an effective bank for the world's credit needs.14

In conclusion, the Bretton Woods Agreements Act of 1945 was supported by organized labor because it felt the outcome would have an important effect on income, employment and the standard of living. Although the Congress of

Industrial Organizations stood firmly behind the Agreements without amendments, the American Federation of Labor felt that a provision should be made for consultation with the International Labor Organization.

The AFL-CIO continues to defend the International Monetary Fund and World Bank. This interest by organized labor reflects an increased growth into the area of international monetary affairs and a basic feeling that it, too, should have a voice in these matters.

The Federal Reserve, A Public System

Since World War II, the AFL-CIO has offered various proposals for reform in the structure and composition of the Federal Reserve System. Also, it has been critical of the way the principal instruments of control have been used by the Federal Reserve authorities to implement its policy decisions and has suggested proposals for strengthening these instruments. Convention proceedings of organized labor, government hearings and reports, organized labor publications, and general statements have reflected its attitude toward desired reform within the System.

It is the basic belief of the AFL-CIO that the
provisions of the Employment Act of 1946\textsuperscript{15} should be applied to the Federal Reserve as well as to the rest of the government. In order to accomplish this objective, organized labor has suggested that the Federal Reserve has to be changed "to make it a truly public system and a regular part of the United States government."\textsuperscript{16} The AFL-CIO has given consideration to changes in the Board of Governors, the Federal Open Market Committee, the Advisory Council, and the Reserve Banks.

Board of Governors

The Board of Governors of the Federal Reserve System is composed of seven men, each of whom is appointed by the President of the United States, and these appointments are confirmed by the Senate. Each member serves a fourteen-year term and is ineligible for reappointment after serving a full term. One term expires on January 31 every two years. The Chairman and Vice-Chairman are designated from the Board members by the President. These offices are for four-year

\textsuperscript{15}The Act provided that the Federal Government should use all practical means to promote maximum employment, production and purchasing power.

renewable periods, and do not necessarily coincide with the President's term of office. The members of the Board represent the Federal Reserve Districts, but only one member from any one district can be appointed. In selecting members of the Board, consideration is given to financial, agricultural, industrial, and commercial interests as well as geographical divisions of the country.\(^\text{17}\) In the view of the AFL-CIO, the terms of office of the Board Chairman and Vice Chairman of the System should coincide with the terms of the office of the President of the United States, and these officers should serve "at the will of the President." This change, to the AFL-CIO, would bring about a closer harmony between the President and the chief officers of the government's monetary authority.

In addition, the AFL-CIO recommends that the terms of office of the members of the Board of Governors be reduced below the fourteen-year period. It wishes to retain the policy of overlapping terms of office but suggested expirations "every year or two."

The AFL-CIO feels that there should be on the Board of Governors a fair representation of the trade union movement, consumers, and small business interests. In addition, the number of members of the Board who would come from any one economic segment of society should be specifically and strictly limited. The organization believes that only through such a change in the governing body can the System become a truly public governmental institution, representative of the "experiences and thinking of the major economic groups in American society," rather than of a small minority (bankers). 18

Federal Open Market Committee

At a level of authority equivalent to the Board, the Federal Open Market Committee is composed of the seven members of the Board of Governors, plus five members from the twelve Reserve Bank presidents or vice presidents. The five members are elected annually by the Board of Directors

of the Reserve Banks. The Committee is charged with the responsibility of deciding the extent of the open market operations and the conditions under which the operations are to be undertaken.\textsuperscript{19}

The AFL-CIO, from 1958 to 1964, significantly changed its attitude toward the Open Market Committee. At the hearings on the Financial Institutions Act of 1957, the AFL-CIO maintained that a strict limitation should be placed on the number of members of the Federal Open Market Committee who came from any one economic segment of American life. It felt that the Committee was dominated by bankers and big businessmen and was not representative of the American people.\textsuperscript{20}

The Third Constitutional Convention of the AFL-CIO in 1959 adopted a resolution concerning the Open Market Committee. It recommended that the Committee should be made a public body, representative of the American people,

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\textsuperscript{19}Board of Governors, \textit{The Federal Reserve System}, \textit{op. cit.}, p. 76.
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or should be abolished and replaced by a more representative Board of Governors. 21

In 1964, the AFL-CIO advocated the abolition of this Committee and the transfer of its "current functions" to the Board of Governors. 22 No doubt organized labor wanted to centralize control within the Board of Governors (after its recommended changes had been made within the Board's structure) and to eliminate the influence of the five bankers.

Also, it is the contention of the AFL-CIO that the nineteen New York dealers in government securities "who acted on behalf of the Open Market Committee are a private monopoly." These dealers handle their transactions primarily with multimillionaires and big commercial banks and do not deal with the broad middle and upper-middle classes. The AFL-CIO feels:

... we should develop some other method, an alternative method, which would broaden the base of


operations of the Open Market Committee perhaps through the 12 district Reserve Banks. . . . that the purchases and sales of government securities should be broadened out at least to reach that part of the public which wishes to purchase government securities.24

It is organized labor's opinion that, although it does not have the solution to "this problem," it deserves careful examination.25

The Federal Advisory Council

The Council consists of one member from each Federal Reserve District who is selected annually by the Board of Directors of each Reserve Bank. The Council is required to meet four times a year, but may meet more often if it wishes or if the Board requests it to do so. It determines its own procedure and elects its own officers. The Council serves in an advisory capacity; it confers with the Board on business conditions and makes advisory recommendations regarding the affairs of the Federal Reserve System.26

23 If the Open Market Committee were abolished, the open market operations of the Board should be broadened.


25 Ibid., p. 1501.

The AFL-CIO feels that this is a "bankers' council" since its members have usually been prominent bankers who accepted the position on an honorary basis. Organized labor believes that the Council should be replaced by representatives of the trade union movement, consumers, small businesses, and farmers, but it has no further recommendations for change.27

The Federal Reserve Banks

The twelve Federal Reserve banks are "mixed institutions," i.e., public and private ownership. Although capital stock is subscribed by the member banks at the statutory rate of six per cent of each member bank's capital and surplus, only half of it had been paid in by 1964. The member banks' stock of the Federal Reserve cannot be transferred and is entitled to be retired only at par in the event of liquidation or dissolution.28

Nathaniel Goldfinger, AFL-CIO representative at the 1964 hearings on the Federal Reserve, extended AFL-CIO


support of House Report 3783. This bill would permit the
return of the $500 million Federal Reserve stock to the
6000 member banks. When questioned, he stated that he was
opposed to the "symbolism" involved in the stock ownership—
"the private ownership of a public system." He felt that
the Federal Reserve should be a truly public system without
"symbolic" private ownership.29

The Board of Directors of each reserve bank is composed
of nine men. Of the nine members, six of them, Class A
and B directors, are elected by the member commercial banks
of the district, and the three Class C directors, including
the Chairman and Deputy Chairman, are appointed by the
Federal Reserve Board. Class A directors are bankers
representing member banks of their district, while the
Class B directors must be actively engaged in commerce,
agriculture or industry. The general public is represented
by Class C directors; one must be a person of considerable
banking experience who serves as the Chairman.30

29U.S., Congress, Hearings, Federal Reserve System
After 50 Years, loc. cit.

30Board of Governors, The Federal Reserve System,
op. cit., pp. 69-72.
Despite the provision that Class B directors do not include bankers, and that the Class C directors represent the "general public," the AFL-CIO maintains that bankers dominated the Board of Directors and changes are necessary in its composition. It urges the inclusion of representatives from organized labor, small businesses, and consumers.\textsuperscript{31}

Member Banks of the Federal Reserve System

The membership of the Federal Reserve consists of national banks, whose affiliation is compulsory, and state chartered banks, whose membership is voluntary. However, the state chartered banks must meet the requirements of the Federal Reserve Board.\textsuperscript{32}

As early as 1933, organized labor supported financial experts who recommended that all banks in the United States become members of the Federal Reserve System.\textsuperscript{33} This same basic idea was advocated in 1964 by the AFL-CIO. Mr.

\textsuperscript{31}U.S., Congress, \textit{Hearings, Federal Reserve System After 50 Years}, \textit{op. cit.}, p. 1486.

\textsuperscript{32}Board of Governors, \textit{The Federal Reserve System}, \textit{op. cit.}, pp. 64-66.

\textsuperscript{33}\textit{Supra}, Chapter IV, p. 17.
Goldfinger, testifying for his organization, recommended that some method be devised to make it compulsory for all commercial banks to be members of the Federal Reserve. When he was questioned further, he admitted that perhaps Federal Reserve regulation over reserve creating power of the commercial banks would serve the same purpose as actual membership. He explained that his organization simply wished to extend the control of the authority of the Federal Reserve over all commercial banks. The AFL-CIO has, also, considered proposals pertaining to nonbank financial institutions.

Nonbank Financial Institutions

Nonbank financial institutions have increased in size and relative importance in the American economy. Organized labor sees these financial intermediaries as a potential offset to monetary policy because of the consequent rapid increase in the public's holding of liquid assets. Changes in the volume of these near money assets may have an

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important effect on the demand for money balances and hence on the velocity of money. For this reason, the AFL-CIO feels that the monetary authorities would have a better control over the level of the money supply if nonbank financial institutions were brought under the Federal Reserve System.35

Instruments of General Monetary Control

The power to buy and sell securities in the open market, the power to fix discount rates, and the power to alter the reserve requirements of the member banks within limits specified by Congress are the three major instruments of general Federal Reserve monetary control. The AFL-CIO believes that the Federal Reserve Board has failed to use with flexibility all three monetary instruments for regulation of the money supply to meet the needs of a growing economy.36


Open Market Operations

The Federal Reserve's purchases or sales of readily marketable asset claims in the open market is referred to as open market operations. Through these transactions, the Federal Reserve can effect the cost and availability of credit.

The AFL-CIO has indicated a realization of the importance of open market operations and its effect upon the money supply and the level of interest rates. However, it was opposed to the Federal Reserve's "bill's only" policy and believes that open market operations should be conducted in both the short- and long-term ends of the markets. 37 Stanley H. Ruttenberg, economist for the AFL-CIO, stated in 1961:

Monetary policy as a means of encouraging expansion is less effective than restrictive monetary policies because of the stickiness of long-term interest rates . . . However, if efforts were made directly at reducing the long-term interest rates, increased credit availability could be turned into a successful expansionary technique by making not only more credit available, but available at lower long-term interest rates. 38

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37 Ibid., p. 43. See also, AFL-CIO, Policy Resolutions, op. cit., p. 38.
38 The Report of the Commission on Money and Credit, op. cit., p. 64, n. 2.
Discount Rates

The discount rate is the publicly announced charge applied by the Federal Reserve Banks on discounts or advances to member banks. Every fourteen days, each Federal Reserve Bank must establish, as a matter of statutory requirement, its discount rate, subject to review and approval by the Board of Governors. Legally, the Board has the power not only to approve the rates established by each Reserve Bank but also it can take the initiative in their determination. In recent years, the tendency has been for the rates to reach uniformity after some temporary lags. Generally, changes in the discount rates are used to support the effectiveness of open market operations. These changes tend to follow movements in market rates. However, the relationship between the discount rate and the market rates varies. This could be contributed to the infrequent change in the discount rate as opposed to the continuously moving market rates. Often, the result of this differential may counter those effects of open market operations.39 In this regard, suppose the Federal Reserve were pursuing a

tight monetary policy. If market rates of interest increased faster than the discount rate, the commercial banks would tend to borrow reserves rather than to sell short-term securities.

Stanley Ruttenberg of the AFL-CIO supported a proposal which was a compromise between the "present" discretionary policy and a fully automatic rule. Under the compromise, changes in the discount rate would be tied to changes in the Treasury bill rate but the spread between the two rates would be changed periodically on a discretionary basis.

Mr. Ruttenberg would probably reject a fully automatic rule because of the danger of tying the discount rate to a single market rate. If that particular rate moved out of line with other short-term market rates, it also might pull the discount rate out of line. Yet, the compromise proposal would allow for discretion on the part of the monetary authority in making necessary adjustments. No doubt Mr. Ruttenberg felt that open market operations could be

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40 A fully automatic rule proposes that the discount rate should be determined automatically each week by the current rate on short-term Treasury bills.

41 Commission on Money and Credit, op. cit., pp. 66, n. 1.
strengthened without the counter effects of the fully
discretionary procedure. But, the proposal Mr. Ruttenberg
supported would actually give nothing which could not be
achieved under the fully discretionary system.

Reserve Requirements

Since 1933, the Federal Reserve has had the authority
to change the required reserve percentages in order to
achieve countercyclical adjustments in the reserve position
of member banks. Yet, since 1951, the Federal Reserve has
used this instrument in a countercyclical manner only during
recessions.  

The AFL-CIO has taken the position that reserve require­
ments should play as important a role in controlling infla-
tionary pressures, "if they exist," as the discount rate.

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42 Federal Reserve authority to vary the required reserve
percentages for commercial banks was first made available on
a temporary basis in the emergency banking legislation of
1933 and was made a permanent institution of reserve banking
by the Banking Act of 1935. Board of Governors, The Federal
Reserve System, op. cit., p. 51.

43 Ibid., p. 55.

44 AFL-CIO, "Monetary Policy for All Americans," op.
cit., p. 48; U.S., Congress, Hearings, Employment, Growth
and the Price Levels, op. cit., p. 3110.
Stanley Ruttenberg commented in 1961:

It is not a wise policy for the Federal Reserve Board to give up its use of reserve requirements . . . I agree that major reliance should be placed on open market operations, but it is also wise to retain, for countercyclical purposes, reserve requirements as well as the discount functions as a means of regulating the level of money supply.45

Also, secondary reserve requirements have been suggested by the AFL-CIO as an "additional and appropriate" instrument of monetary policy. Generally, "secondary reserves" are considered an analytical rather than a legal concept. There is no hard line of demarcation between earning assets held by a bank and secondary reserves. Yet, these reserves would be differentiated from other assets by a banker in that they are easily convertible into cash without a significant loss. A bank's balance sheet does not show secondary reserves as a separate category. No doubt organized labor would want legal specification of secondary reserves in coordination with the Federal Reserve Board's standby authority to impose these requirements. However, the AFL-CIO has not specified what it would consider to be actual secondary

45 Commission on Money and Credit, op. cit., p. 67, n. 1.
reserves. 46

In 1961, when the Commission on Money and Credit recommended that existing statutory reserve requirements against savings and time deposits be repealed, Stanley Ruttenberg did not agree. Not only did he feel that these requirements should be maintained, but also he proposed that the Federal Reserve Board develop techniques to apply a similar type of reserve requirement on competing nonbank financial intermediaries. 47 However, Mr. Ruttenberg did not justify his reasoning for reserve requirements on nonbank financial intermediaries.

Nor did Mr. Ruttenberg support the Commission's recommendation that the range of reserve requirements for demand deposits be set from eight to eighteen per cent. The Commission felt this would give the Federal Reserve Board power to meet the needs of growth emergencies. However, Mr. Ruttenberg simply contested the necessity of changing the range from the established range of seven to twenty-two per cent but did not defend his position. 48

46 Ibid., p. 68.
47 Ibid., p. 69.
48 Ibid., p. 71.
Selective Controls

Organized labor has generally held the position that more use should be made of selective monetary measures in order to strengthen monetary policy during an inflationary or over-investment boom situation. In 1964, the only selective control available to the Federal Reserve authorities was the power to alter margin requirements on credit granted by any lender—banks, brokers, and dealers—for the purpose of purchasing or carrying listed securities. Since the 1920's, organized labor has been concerned with stock market speculation and has supported governmental controls over stock market activity. Although organized labor publications give no insight into its attitude toward the margin required, no doubt it would prefer high margin requirements by the Federal Reserve. This would minimize the danger of excessive use of credit in financing stock market speculation and the reoccurrence of a speculative stock market boom, like the one in 1929.

Stanley Ruttenberg suggested to the Commission on Money and Credit that if margins were proper for the New York Stock Exchange, they were also proper in the Treasury securities market. He concluded that stand-by authority by the Federal Reserve to impose effective and flexible
margins on the secondary securities market would be helpful in preventing speculation and manipulation.\textsuperscript{49}

Organized labor maintains that an effective stabilization effort requires that there be stand-by authority to use selective controls over consumer credit and mortgage lending.\textsuperscript{50} However, it feels that these instruments should be supplemented by selective controls over loans for inventories as well as plant and equipment expenditures.

Stanley H. Ruttenberg pointed out that if one examines the business cycle of the post World War II period, the most volatile sectors in the economy have been inventories and plant and equipment. To him, the absence of selective credit controls over these areas "dooms monetary policy in a complex economy to excessive general restraint during inflationary situations."\textsuperscript{51}

Nathaniel Goldfinger has said:

\ldots it is often more effective to treat the specific causes of inflation directly at their sources, rather than indirectly, because monetary policy is so imprecise in its effects.\textsuperscript{52}

\begin{itemize}
\item \textsuperscript{49}Commission on Money and Credit, \textit{op. cit.}, p. 117, n. 1.
\item \textsuperscript{50}U.S., Congress, \textit{Hearings, Employment, Growth, and Price Levels}, \textit{loc. cit.}
\item \textsuperscript{51}Commission on Money and Credit, \textit{op. cit.}, p. 76, n. 1, p. 257, n. 4.
\item \textsuperscript{52}U.S., Congress, \textit{Hearings, Federal Reserve System After 50 Years, \textit{op. cit.}}, p. 1474.
\end{itemize}
Coordination of Monetary Policy

Monetary policy formulation, to the AFL-CIO, must be brought "within the fold of the United States government and not left outside." Organized labor strongly stresses coordination between the monetary authorities, the Treasury, the Labor Department, Commerce Department, and the lending agencies of the United States government. 53

Coordination is also desired by the AFL-CIO between monetary and fiscal policies to achieve sufficiently expansionary and growth-generating forces for economic balance and strength. It feels that balanced economic growth generally requires an ample, increasing money supply at relatively low interest rates. However, if fiscal policy is designed to encourage and monetary policy to discourage expansion within the economy, the AFL-CIO believes the result can be serious economic distortion. 54

Yet, the AFL-CIO does not feel that countercyclical debt management would serve as an appropriate instrument for stabilization. The need to minimize the cost of


managing the federal debt must have top priority. Therefore, the AFL-CIO maintains only coordinated fiscal and monetary policies should be used for stabilization.\textsuperscript{55}

In general, organized labor has advocated monetary ease because of its association with expansion of business and employment. Yet, it does recognize that a tight monetary policy is necessary when the economy is faced with an actual demand inflation, such as in wartime.

In conclusion, the AFL-CIO feels that when its recommended revisions have been made within the Federal Reserve System, it will be a public instrument of public policy—"a public system."

\textsuperscript{55}Commission on Money and Credit, \emph{op. cit.}, p. 105, n. 1.
CHAPTER VII

SUMMARY AND CONCLUSIONS

The growth and development of the organized labor movement in the United States has been a long and involved struggle for survival, recognition, and acceptance. This struggle has brought forth a changing character within American unionism which has been reflected in its attitude toward monetary reform and monetary policy.

Organized labor's maturing approach to these monetary actions has progressed with the advances that have been made in economic theory. More specifically, the Keynesian revolution helped to clarify the use of monetary and fiscal policies in the achievement of economic objectives.

The following sections will summarize organized labor's attitude toward monetary policy and monetary reform, give general conclusions for the entire period analyzed, and project organized labor's possible future reactions.
In the latter part of the nineteenth century, the United States' economy was undergoing a persistent price decline with occasional brief interruptions. Certain groups in the economy suffered at various times from this deflation. The laboring classes, including those who were members of unions, were faced with an insufficient supply of money, high interest rates, and during periods of depression, high levels of unemployment. Because of these adverse economic conditions, the platforms of the early labor organizations, such as the National Labor Union (1866), the Industrial Congress and Industrial Brotherhood (1874), and the Knights of Labor (1878), included somewhat radical monetary reform proposals. Organized labor urged the abolition of the National Banking System and the issuance of paper money by the government.

Because of the defects in the National Banking System, organized labor had a justifiable complaint; but it is very doubtful that it basically understood the operations of the System. Organized labor's opposition to the National Banking System can be particularly attributed to a deep-rooted resentment toward bankers. It viewed bankers with suspicion because of their close alignment with business
interests and their "monopoly power" over the money supply which oftentimes resulted in high interest rates to the workers. Moreover, unfortunate past experiences with worthless private bank notes issued prior to the Civil War and earlier waves of bank failures probably left a lasting impression on union members.

This fear of bankers and worthless bank notes brought about organized labor's appeal for governmental paper currency. Apparently organized labor hoped this would break what is regarded as the "monopoly power" of banks by transferring this power to the government. Thus, the issuance of paper money would be controlled by the government in the public interest rather than by the bankers in the private interest. No doubt it also believed that if the government issued paper money, there would be more paper currency in circulation, lower interest rates, and a relief from price deflation. Yet, it would be difficult to speculate whether or not the government would have actually increased the money supply in sufficient amounts to meet the demands of organized labor.

In the 1890's, the American Federation of Labor adopted the basic views of the earlier unions with one exception. The Federation, apparently reflecting the basic
conservatism of Gompers, wanted money issued "to and by the people." This unique proposal suffered from two primary weaknesses. First, it was subject to various interpretations by the members, indicating the lack of understanding of the proposal. And second, the Federation gave no actual explanation as to how this goal was to be achieved. Therefore, it can be concluded that this proposal by the Federation was more in the nature of a "radical slogan" serving primarily to rally support for monetary reform.

The free silver movement became a topic of major concern to organized labor during the last decade of the nineteenth century. Both the Knights of Labor and the American Federation of Labor supported the free coinage of silver at a ratio of 16 to 1 because they felt it was an alternative method of increasing the money supply, as contrasted to the issuance of money by the government or "to and by the people." But the question of the monetary standard of the United States—bimetallic or gold—reached a political climax with the presidential election of 1896. Even if William Jennings Bryan had won, it is doubtful that he could have secured the passage of a Free Coinage Act. Shortly after the election, an expansion in the money supply through increases in gold production brought rising
prices and returning prosperity without resorting to the free coinage of silver. With the passage of the Gold Standard Act and the second defeat of Bryan, organized labor's interest in the free silver issue declined.

Thus it can be concluded that organized labor recognized the need for an increase in the money supply which was a reasonably sound objective. It responded to the economic conditions of the time by offering proposals for reform within the monetary system. Yet, because of its limited knowledge and fear of bankers, these proposals can be considered somewhat extreme and restricted in depth.

1900 - 1928

In the first three decades of the twentieth century, the American Federation of Labor, reflecting the earlier view of the previous labor organizations, switched its stand from money "issued by the people" to money "issued by the government." This reversal no doubt can be attributed to a misunderstanding in interpretation by the union members, the need for clarification on the part of the Federation, and the lack of a definite program for achieving its earlier proposal.
The assessment of labor's views toward monetary reform is complicated by its lack of a clear definition of money. Organized labor was not specific in its definition, but one would suppose that it included gold and silver coins and treasury notes. However, it must be remembered that definitions of money at that time perhaps varied from the generally accepted definition of the 1960's.

Organized labor did not participate in the hearings on the establishment of the Federal Reserve System. Even after the Act was passed in 1913, organized labor continued to push for its old idea of money "issued by the government."

During the early 1920's, organized labor faced increased employer opposition as indicated in the open shop drives and company unions, and thus was engaged in a basic struggle for survival. It, therefore, devoted the greater part of its time in pursuing primary trade union objectives instead of pushing for monetary reform. Nevertheless, organized labor realized that it was still in an unfavorable position in dealing with the bankers. It feared that the bankers were using their influence as members of Boards of Directors and as financial advisors for business to discredit the trade union movement. As an alternative means of by-passing the bankers, the American Federation of Labor
supported the establishment of the Postal Savings System. Because it was an instrument of the government, organized labor regarded this system as a safer place for the workers' funds. There had been proposals by some union members recommending that Postal Savings handle demand deposits. Its support of this System was not only a reflection of organized labor's distrust of bankers but was also a mild form of "boycotting" the banks.

The influence of Samuel Gompers' conservatism was exemplified by the American Federation of Labor in the mid-twenties when it repeatedly rejected radical monetary proposals at its annual conventions. Even when the Federation affiliates established their own financial institutions--labor banks--the Executive Council of the Federation warned that these endeavors should be approached with extreme caution. The death of Samuel Gompers in 1924 and the election of William Green as Federation President did not cause a marked change in organized labor's attitude toward monetary action.

When the American Federation of Labor realized that the Federal Reserve System was a firmly established institution, its pragmatism became evident. It began lobbying for amendments to the Federal Reserve Act which it
felt would be beneficial to the laboring classes. However, the American Federation of Labor soon realized that it lacked a comprehensive understanding of "monetary problems" and needed expert advice in order to make any type of successful assessment of monetary changes. Often, its attitude toward monetary reform and policy was a mirror-image of the opinions of financial experts to whom it turned.

The American Federation of Labor wanted the Federal Reserve, through monetary policy, to stabilize the purchasing power of the dollar. Furthermore, it criticized the high interest rates and the Federal Reserve's lack of control over stock speculation in the latter part of the 1920's.

In conclusion, organized labor from 1900-1928 had made little progress in its basic understanding of monetary actions or even the definition of money. It rejected the Federal Reserve System as a solution to its monetary reform proposals. Yet, because of organized labor's pragmatic nature, it supported amendments to the Act which it felt would be beneficial to the laboring classes. The basic struggle for survival limited organized labor's time for concentration on monetary objectives. However, the Great Depression served as a stimulent to increased interest by
organized labor in the area of monetary reform and monetary policy.

1929 - 1946

The stock market crash of 1929 and the Great Depression instilled in the leaders of organized labor the need for further exploration and explanation of the operations of the United States monetary system. William Green, Federation President, appealed to economists and banking experts to submit articles for publication in the American Federationist. His plea was answered and a number of articles appeared for the benefit and enlightenment of the members.

No doubt influenced by these publications, organized labor supported those legislative measures which sought to strengthen, centralize, and regulate the banking system. In addition, it wanted to bring all banks under the control of the Federal Reserve. It is understandable and quite reasonable that from a security standpoint, organized labor would have advocated this measure. The American Federation of Labor rejected appeals by some members to lobby for nationalization of the banking system and reaffirmed Gompers' philosophy of working within the capitalistic framework.
In the area of monetary legislation, there was a notable change in organized labor's attitude from its support of the free coinage of silver in the 1890's. It was apprehensive about leaving the gold standard and the devaluing of the dollar because it feared that these measures would contribute to price inflation and decline in the purchasing power of the workers' dollar.

Regarding price inflation, organized labor might be considered somewhat inconsistent in its views. It favored the Goldsborough Bill in 1932 which proposed to raise wholesale commodity prices to the existing level before the deflation and then to maintain the prices at that level. Yet, organized labor neglected to consider the inflationary tendencies of the bill, but supported only that portion pertaining to price stabilization. This ambivalent attitude of organized labor toward prices was a further indication of its pragmatism and its lack of understanding of monetary issues.

The Federation hoped throughout the Great Depression that the Federal Reserve's easy money policy would stimulate business recovery. However, it soon realized that bank loans "were not being made to business." Therefore, at times it advocated stronger government action to achieve
this end. Organized labor's reaction to the ineffectiveness of monetary policy in the early 1930's could be favorably compared with the understanding of monetary policy in the 1960's. It is generally considered that monetary policy is more effective during "boom" periods than recessions.

The world economic conditions brought about increased Federation interest in international monetary reform. It favored the World Economic Conference and the Tripartite Accord primarily because it believed international trade would be stimulated, providing more work for wage earners.

The schism within the American Federation of Labor, which led to the formation of the Congress of Industrial Organizations in the mid-thirties, brought to the labor movement a new militancy and changing viewpoints. However, it is difficult to assess the attitude of the Congress of Industrial Organizations toward monetary policy and reform during its early formative years because of its preoccupation with organizing the mass production industries. Yet, because of the rejection of Gompers' philosophy, and the more radical nature of the Congress of Industrial Organizations, there is little doubt but that its leaders would probably have favored reforms such as the nationalization of the banking system.
The competition between the American Federation of Labor and the Congress of Industrial Organizations and the favorable government and middle-class position toward the labor movement helped spur union membership in the late thirties and into the war years. The growth in the labor movement undoubtedly brought an increased awareness among politicians of the influence that organized labor could possibly have on political issues. No doubt the encouragement by politicians and the general maturing of organized labor increased its concern with and participation in domestic and international monetary legislation. This was quite evident when organized labor was represented at the hearings and supported the Bretton Woods Agreements in 1945. It felt the outcome would have an effect on employment, income and the standard of living.

Thus, one can conclude that the Great Depression was a turning point in the growth of organized labor's attitudes toward monetary reform and monetary policy. It was developing an understanding of the role of a central banking system and of the role of banking in the economy. This can be attributed in part to articles in labor publications by financial experts. Organized labor pragmatically supported legislation to strengthen the banking system in hopes that
these measures would be beneficial to the laboring man. Yet, its greatest expansion into the area of monetary policy and reform came during the Post War Years.

1946 - 1965

A stability in membership, a gradual decline in militancy, and a more business like approach to its objectives characterized the organized labor movement in the post war years. Since organized labor has achieved general acceptance and gained security, it has broadened its goals, which includes greater interest in the area of monetary policy and reform. The growth of the labor movement together with the complexities of the time contributed to expansion in their research departments. Such economists as Boris Shiskin, Stanley Ruttenberg, and Nathaniel Goldfinger have helped convey organized labor's attitudes to Congressional committees and the general public.

In the late 1940's, conflicting views on Federal Reserve monetary policy were expressed by the American Federation of Labor and the Congress of Industrial Organizations. The American Federation of Labor wanted the Federal Reserve to follow a tighter monetary policy. In view of the economic situation, the Federation made
a correct assessment of the monetary policy to be pursued at that time. The Federation felt there was an abnormal increase in the money supply which was contributing to price inflation. Yet, the Congress of Industrial Organizations differed with the Federation's reasoning and maintained that the Federal Reserve was pursuing the proper policy by continuing to support the long-term government bond market. The Congress of Industrial Organizations feared that higher interest rates would have caused a downturn in business activity.

During the Korean War period, the American Federation of Labor again stressed the need for inflationary control and supported the Federal Reserve–Treasury "Accord," which would allow the Federal Reserve to pursue flexible monetary policies. In retrospect, the Federation's position on this issue can be viewed as basically sound. However, the Congress of Industrial Organizations criticized the Federal Reserve policy in 1951–1952 as being ineffective and urged more direct monetary control in the war-time emergency.

Both organizations and the merged AFL–CIO attacked the tight money policies of the Federal Reserve throughout the Eisenhower administration. They believed that
the Federal Reserve was fighting a "phantom" inflation and was contributing to recessions and unemployment in the economy. It stressed that the goals set forth in the Employment Act of 1946 should be the basic objectives of the Federal Reserve authorities. Organized labor would not deny that a tight monetary policy should be used during a period of demand inflation. Yet, because of the high levels of unemployment during the Eisenhower administration, it could not classify price rises as demand induced, and would not concede to the explanation of a "cost push" inflation. However, one would have to accept the fact that inflation was present, especially during 1955-1957, regardless of how it was caused, and the Federal Reserve authorities were generally pursuing the correct monetary policies. It could, therefore, be concluded that organized labor was not correct in its appraisal of Federal Reserve actions. Nevertheless, in light of organized labor's goals of increased employment and production, an easy monetary policy would have been correct, but excessive upward instability in prices would have been the sacrifice.

With the merger of the American Federation of Labor and the Congress of Industrial Organizations in 1955, organizational competition was eliminated and more time
and energy could be allotted for the pursuit of other objectives. In addition, the views of both organizations toward monetary policy and monetary reform were blended. The formation of one research department, composed of professional economists from both organizations, gave the AFL-CIO greater ability to broaden its research depth and increase its specialization.

The balance of payments problem in the 1960's has been an object of concern to the AFL-CIO. It was of the opinion that the Federal Reserve policy of "operation nudge" was not highly successful and suggested that direct controls be used over foreign investments until effective international monetary reform was achieved. If direct controls were used, interest rates could be lowered, production stimulated, and employment increased. Yet, direct controls may be criticized in that they infringe on the rights of private enterprise.

Since the AFL-CIO stresses the goals set forth by the Employment Act of 1946, it urges greater cooperation and communication between the Federal Reserve and other governmental agencies. Also, the AFL-CIO feels that coordination between monetary and fiscal policies is needed. These general recommendations certainly could not be considered
extreme, but on the contrary, could be considered well-founded.

In order to facilitate this coordination, the AFL-CIO has proposed that the Federal Reserve's instruments of monetary control be strengthened and used judiciously. The AFL-CIO has suggested for example that greater selective credit controls be used, that frequent changes in legal reserve requirements be initiated, and that the Federal Reserve's control be extended to non-bank financial intermediaries. However, to assess the validity of these positions by organized labor would entail a thorough analysis of debatable issues which are not within the scope of this study.

The AFL-CIO has further recommended that changes be made in the structure and composition of the Federal Reserve System to give organized labor a greater choice and representation in policy-making. The AFL-CIO feels that the composition of the Federal Reserve Board, the Federal Advisory Council, and the Directors of the Federal Reserve Banks should include organized labor representatives. Organized labor's position is well taken because the language used in the Federal Reserve Act and amendments is not clear in this regard, especially in light of the
of the statutory requirements for occupational representation.

Perhaps organized labor should be permitted a voice in policy making decisions. It has gained prominence and recognition in the United States society and general maturity in its approach to economic problems. As is understandable, due consideration must be given to qualifications and educational background, including banking knowledge, of those individuals selected to represent organized labor, whether on the Federal Reserve Board, the Federal Advisory Council, or Directors of Federal Reserve Banks.

In actuality, the problem of organized labor representation lies not only with the terminology of the Act and the educational specifications that are generally needed, but with "drawing the line" as to the various segments of society to be represented. In other words, if organized labor should achieve this goal, would not small businessmen, farmers, and consumers likewise want specific representation?

Organized labor's representation within the Federal Reserve System is a controversial issue. But from organized labor's viewpoint, it is understandable that such representation would be most desirable.
In addition, organized labor has suggested that the Open Market Committee be abolished. Yet, if this occurred, the efficiency of open market operations could be impaired. If organized labor did achieve a position on the Federal Reserve Board, perhaps it would become more cognizant of the significance of this Committee and thus retract its proposal.

In conclusion, the post-war years have found greater participation and analysis by organized labor toward monetary reform and policy. This is due in part to the great reliance placed on its professional research staffs, the general maturing of organized labor, and the passage of the Employment Act of 1946. The AFL-CIO feels that only after its recommended revisions are made within the Federal Reserve will it be a truly "public system" which can fulfill the objectives of the Employment Act.

General Conclusions

Organized labor has come a long way in its approach and attitudes toward monetary policy and monetary reform. This growth has been in three primary stages: 1866-1928, limited knowledge and understanding; 1929-1945, expansion and learning; 1946-1965, increased maturity and involvement. Organized labor's interest in monetary reform and
monetary policy has generally coincided with the business cycles of the United States economy; its views have been more strongly expressed in reaction to periods of depression or inflation.

Judging from organized labor's recommendations concerning monetary legislation during the 1866-1965 period, it can be concluded that its primary condemnations resulted from its early "resentment toward bankers." Even in the 1960's, organized labor specifically pointed out that it opposed the "bankers' control" of the Federal Reserve System.

Because of this view and its general maturing, one can predict that organized labor will not cease the pursuit of its goals in monetary reform and monetary policy. Perhaps as it continues to increase in specialization and depth within this area and continues to participate and lobby for monetary legislation, it will become more tolerant toward the role played by bankers. This tolerance could possibly be brought about by organized labor's representation within the composition of the Federal Reserve System.

Yet, the future participation of organized labor in monetary actions could well hinge on the independence of the Federal Reserve System. Should Congress abrogate the
independence of this System and bring it under closer control, the persuasive political powers possessed by the trade union movement in the United States may bring about organized labor's representation in the System. If this action should be taken by Congress, then there is no doubt that the future will bring even greater AFL-CIO involvement in the area of monetary reform and monetary policy.
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