

# An Inside View of the Money Trust

Following is an Associated Press dispatch: New York, June 6.—The immense power wielded by the New York clearing house association over the banks of the country's financial center and arbitrarily lodged in the hands of five men should be placed under judicial regulation, it was conceded by William Sherr, manager of the association, on the witness stand today. Mr. Sherr was the chief witness at the first hearing held by the house committee on banking and currency which is investigating the so-called "money trust." The committee came to New York today to take such testimony as its powers will permit, pending the passage of the amendment to the banking law now in the senate under which the committee hopes to be able to enforce from the banks its demands for the information which it expects to make the basis of remedial legislation.

While today's inquiry was characterized by Chairman Pujo as "collateral" to the main scope of the inquiry, Samuel Untermyer, special counsel for the committee, developed through Mr. Sherr's testimony to the effect that the destiny of practically every financial institution in New York was potentially at the mercy of the "mere whim, determination or order" of the five men who composed the "New York clearing house committee."

Mr. Untermyer referred to the regulations of the association conferring this power as "monstrous," also raised the question as to whether the association did not violate the interstate commerce laws in the banking operations of its members with out-of-town banks.

The clearing house committee had full power over the admissions to membership, according to the testimony of the witness, and the power of suspension.

"Then it rests with these five men as to whether they can keep a competitor out of the association?" inquired Mr. Untermyer. "Don't you think that is a monstrous regulation for an institution doing an interstate business?"

"The average banker has a moral status to maintain," replied Mr. Sherr. "He realizes that he can make more money by walking straight than crooked. I have never known responsible men who were able to fulfill the financial requirements for admission to be refused. If the committee took the narrow view of keeping out a competitor it would react against them. Merchants and business men who are the banks' largest customers would never stand for unjust discrimination."

"I am not speaking of motives," pursued the attorney, "but of the unbridled and unlicensed power of these men. Don't you think this power should be subject to judicial review and control?"

Mr. Sherr then explained that the clearing house was a voluntary institution, similar to a private club, and that no court would hold that a voluntary institution could be compelled to accept as a member anyone who could not comply with its regulations.

"But you know that this great power exists; should it not be judicially controlled?"

"I agree with you," finally conceded Mr. Sherr. "Where there is a wrong it should be corrected."

"And this mere whim, determination or order, whatever you are to call it, to stop clearing for non-member banks, don't you think that that is too great a power without judicial review?"

The witness again gave an affirmative answer, but asserted that in the exercise of the power, "it is not so bad as it looks," citing a recent instance where the committee's power was exercised to prevent an institution whose officers were "not of good character" from obtaining membership by buying out and merging with a clearing house bank.

"Good character, then, depends upon what group of banks you belong to, doesn't it?" queried Mr. Untermyer.

"Oh, I don't admit that," said the witness.

Mr. Untermyer raised the question of the violation of the interstate commerce laws when he brought out of the witness that by taxing the collection of checks on out-of-town banks the New York clearing house institutions "levied on the country a tribute" of over \$48,000,000 annually. This tax, which was first imposed by the clearing house in 1899, amounts to one-quarter of 1 per cent or one-tenth of 1 per cent, according to the territory from which the check

originates. Mr. Sherr said, and any bank charging a less amount is subject, according to the rules, to expulsion after a second offense.

"Don't you realize that the collection of out-of-town checks in this manner is in restraint of trade?" asked Mr. Untermyer, after pointing out that it was impossible for the clearing house banks to compete with each other for a customer's accounts, for example to collect their checks for nothing.

Mr. Sherr admitted that the clearing house was "an important factor in interstate commerce," but again pointed out that it was a purely voluntary organization, and that a bank not caring to pay the tax imposed, he said, to cover the cost of collection, could withdraw.

After Mr. Untermyer had read into the record evidence that the cost of collecting checks in Boston was only 7 cents on \$1,000, compared with the charge in New York of from \$1 to \$2.50 per \$1,000, he remarked:

"Banks have been obliged to close up because their clearing houses have withdrawn, haven't they?"

"Yes," said Mr. Sherr. "Just a rumor that it is to be expelled will cause a run on the bank, won't it?"

"That is probably true."

"Well, then, the idea of a bank allowing itself to be expelled on account of the collection rule is inconceivable," commented the attorney.

"I think that if I were president of a bank and felt that I was being unjustly used, I could announce the fact and withdraw without any damage to my interests," said the witness.

He admitted the imposition of the collection tax was not properly a function of a clearing house association.

Mr. Untermyer brought out by reading from a treatise by James G. Cannon, member of the clearing house committee, that the banks of Buffalo practically paid their dividends by taking the collection of out-of-town checks.

"Don't you know that some of the New York banks are earning from 30 to 40 per cent on their capital?"

The witness admitted that the National City bank was earning 40 per cent on its capital of \$25,000,000.

The business done with the clearing house banks by merchants and business men was in the neighborhood of 72 per cent, he said, as against 28 per cent for stock exchange transactions.

The hearings will probably be continued into next week.

## REAL HEARING PUT OFF

Because of its lack of power to obtain necessary data, the so-called money trust investigation in its main scope will not be taken up until fall. This announcement was made by Chairman Pujo, of the investigating committee, at the opening of the hearing in New York today.

"In view of the insistence by some of the financial institutions that the committee is without authority to enforce its demands for recognition, the committee concluded it inadvisable to take up the main inquiry until all doubt as to power had been removed by the passage of the bill to amend the banking law," said Mr. Pujo. "The bill has passed the house and is now before the finance committee of the senate."

"It will require months of painstaking investigation and preparation after the proposed legislation has been enacted to secure the data that is essential to the inquiry. The required data must be gathered primarily from the books of the corporations concerned and must be segregated before witnesses can be advantageously examined."

"The committee is anxious to avoid exposing legitimate transactions and this can be accomplished only after the plan has been arranged."

"The committee considers it inadvisable in every event to conduct this far-reaching economic inquiry during the excitement of a political campaign and has not from the outset contemplated any such course. The intervening time will be devoted to taking testimony on certain collateral subjects."

"The relations of the clearing house association and the stock exchange to the financial system and to the increasing concentration of money will be investigated in the few sessions that are to be held before the summer vacation."

From the first witness, Prof. J. Laurence Laughlin, head of the national citizens league

for the promotion of sound banking, Samuel Untermyer, special counsel for the committee, brought out the statement that no contributions had been made to the league's fund by J. P. Morgan & Co., or by Kuhn, Loeb & Co. Mr. Untermyer wanted to know why and Professor Laughlin said merely that they had not been solicited.

New York, June 7.—Testimony intended to show how the power of the New York clearing house committee was used to force a solvent bank to the wall during the aftermath of the panic of 1907, with the result "that the fair reputation" of its president was "blasted," was dramatically presented today before the Pujo committee of the house of representatives, which is investigating the so-called money trust. The testimony was elicited by Samuel Untermyer, special counsel of the committee, in his effort to demonstrate that the functions of the clearing house enables it to control the destiny of New York's financial institutions and should be subject to regulation by law. The bank around which this testimony centered was the Oriental, organized in 1853 and one of the charter members of the clearing house association, but it was testified that three other banks, the Bank of North America and the New Amsterdam National bank, in both of which Charles W. Morse was interested and the Merchants' and Traders' were similarly compelled through the action of the clearing house to close, although all proved to have been solvent.

Their financial distress was the result, it was testified, of a demand made by the clearing house committee three months after the panic began, that they redeem their clearing house loan certificates, and in the case of the Oriental, followed a promise that the association would stand by it "to the last ditch."

Mr. Untermyer had on the stand William Sheer, manager of the clearing house association; James G. Cannon, president of the Fourth National bank, who recently became a member of the clearing house committee; R. W. Jones, president of the Oriental at the time of the panic, and Erskine Hewitt and Charles A. Beckman, directors of the bank.

During the first rumblings of the panic in October, 1907, Mr. Jones was summoned before the clearing house committee, according to the testimony and told that the Oriental must stop clearing for three non-member banks, including two Brooklyn institutions which were under legal investigation. Mr. Jones said the withdrawal of the balances of these banks under the prevailing strained financial conditions would cause "serious trouble" to his institution, but the clearing house committee was obdurate. At his request the clearing house agreed to tide him over with a loan, after a clearing house committee examined the bank's condition and had found it "entirely satisfactory."

The Oriental then discontinued clearing for the Brooklyn banks, as the result of which both soon closed, it was testified. President Jones was then taken ill with pneumonia, and a report became current that he was to be indicted in connection with the investigation of the Brooklyn banks and was shamming illness, the day's testimony ran. It turned out that he was only wanted as a witness.

Meanwhile the rumors afloat had caused a run on the bank and the clearing house committee called before it Mr. Hewitt and Mr. Beckman and demanded, according to Mr. Jones, that he resign and the late Hugh Kelly also a director of the Oriental, be elected to succeed him.

This was consented to after a promise had been given to Kelly by A. Barton Hepburn, chairman of the clearing house committee, according to Hewitt's testimony, "that the association would stand behind the Oriental till the last ditch."

Kelly obtained a specific guarantee, Hewitt said, that the entire resources of the clearing house would be placed behind the Oriental.

As described in a letter, Mr. Jones testified Mr. Kelly prepared a statement but never sent it to the stockholders of the Oriental, which was put in evidence. A number of gentlemen of high place in financial affairs sat in judgment on him (Mr. Jones), their fellow-member, and concluded their deliberations with the following sentence: "That the board of directors of the Oriental bank must meet at once, accept Mr. Jones' resignation of the presidency and elect another president in his place."

"Thus, in a moment," the letter continued, "without excuse other than the statement without foundation in fact that Mr. Jones was already indicted or would be indicted that day, was a fair reputation blasted and the work of