

## Chapter M8

by  
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# Labor Banks & the Brotherhood of Locomotive Engineers Co-operative National Bank of Cleveland

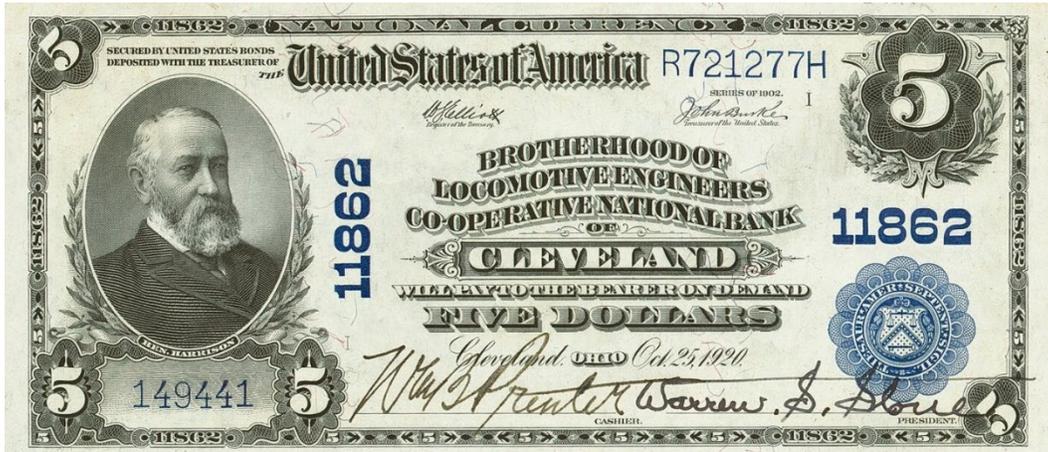


Figure 1. Note on a presentation sheet signed by President Warren S. Stone who built the Cleveland Brotherhood bank into the leader of the labor bank movement. Heritage auction archives photo.

### Purpose

The purpose of this piece is to profile labor banks that came on the scene in 1920, flourished for a few years, then fell into decline by the end of the 1930s. Stockholders and depositors enjoyed special so-called co-operative profit-sharing provisions such as deposit dividends common to co-op enterprises in other economic spheres that were in vogue at the time.

### Cooperatives and Labor Banks

Interest in cooperative enterprises increased substantially after the turn of the 20th century. Coops were ventures wherein people marshal their resources to carry out an activity of mutual benefit to the members of group. To classify as a coop, participants bought stock in the enterprise that was used to fund its operation and house it as their share of its ownership.

To qualify as a coop required certain attributes, some often considered socialistic in contrast to conventional capitalistic business models. Membership, at least a membership majority, is restricted to the specific class of owners being served by the coop. Limitations are placed on the size of holdings by any one individual. Provisions are made for participants to receive periodic stock dividends ideally capped at 10 percent so as not to drain the operation. In order to maintain egalitarian management, owners have one vote, not multiple votes based on the number of shares they own. Provisions include restrictions on the sale of shares to others in the special class being served by the coop.

In the case of the banks treated herein, Federal and state banking law required votes to be allocated by number of shares owned. In contrast, a feature that is considered particularly cooperative is the payment of dividends to savings depositors in addition to interest, thereby satisfying the cooperative doctrine that customers should share in profits.

Interest on the part of labor unions in the concept of labor banks began after the turn of the 20th century but was very slow to take root. The managers of the unions had a bit of a conundrum on their hands. They had funds that they routinely deposited with commercial banks that drew modest interest but the bankers often used their profits on that same money to finance activities that were antithetic to the interests

of the unions and its members. The question was could a labor bank turn this around and at the same time further enrich their membership?

Union hierarchy consists of a large collection of local and even regional trade unions that serve specific constituencies. They belonged to national-level federations such as the American Federation of Labor that promote the growth of the union movement, lobby for union goals, coordinate actions between the individual unions, serve as a liaison with similar labor-based federations such as the All-American Farmer-Labor Cooperative Congress, etc.

Progressive voices in the AFL began to toy with the concept of labor banks as early as 1904. The movement sputtered but gradually began to gain traction over the next two decades, spurred on by the fact that the treasuries of the member unions had fattened significantly owing to full employment of their members during World War I.

The Machinists' Union was the first to open a labor bank in the United States, an event that took place May 15, 1920. Theirs was the Mount Vernon Savings Bank housed in the Machinists' Building in Washington, D.C. Its opening drew scant attention.

The next to open was The Brotherhood of Locomotive Engineers Co-operative National Bank of Cleveland, Ohio, chartered October 26, 1920. This bank immediately took center stage in the growth of labor bank movement. The following from Princeton (1929, p. 18-22) provides an excellent summary of its growth.

#### **The Brotherhood of Locomotive Engineers Co-operative National Bank of Cleveland**

The inauguration of the Brotherhood of Locomotive Engineers Co-operative National Bank in Cleveland gave the first real impetus to the labor banking movement. The bank was entirely a labor institution. The Brotherhood had considered the establishment of a bank in the convention of 1915, so that those active in the organization were aware and interested in the development even before 1920. In October, 1919, Grand Chief Stone and First Assistant Grand Chief Prenter had been appointed by the Advisory Board of the Brotherhood a committee to draft a definite plan for the organization of the bank. In June, 1920, the board discussed in detail the plans for a bank and decided to proceed with the necessary steps. With the help of Dr. Frederick C. Howe and Dr. Walter F. McCaleb, preparations were made for opening the bank.

In the midsummer of 1920, a circular announcing the prospective opening of the bank was sent to all members of the Brotherhood of Locomotive Engineers. A charter for a Brotherhood of Locomotive Engineers Co-operative National Bank had been obtained from the Comptroller of the Currency. Capital stock of \$1,000,000 was to be issued and on the advice of the Comptroller the price per share was set at \$ 110 so that a paid-in surplus of \$100,000 would be possible. Stock subscriptions were limited to members of the Brotherhood, who in applying for stock signed an agreement to resell their shares to a purchasing committee of the bank in case disposal were necessary. To further ensure the exclusive control of the bank by the Brotherhood, the latter organization purchased fifty-one percent of the stock in its own name. By October 15, 1920, the forty-nine percent of the capital stock offered to members was oversubscribed by more than \$300,000. The loyal and prosperous members or at least some two thousand of the members had quickly grasped the opportunity to support the promising experiment.



**Figure 2. Warren Stanford Stone (February 1, 1860-June 25, 1925) built to Cleveland Brotherhood bank and it chain into the dominant labor bank. Wikipedia photo.**

Within three months after the assembling of capital had begun, the bank was ready for opening. On October twenty-fifth the rules of the bank were adopted. On November first the bank was formally opened in quarters which had been made ready in an old building across the street from the Engineers' headquarters. Capital of \$651,000 had been paid in and the remainder was soon forthcoming.

The deposits received during the first day of business by the new bank reached the modest sum of \$50,971, but two months later one million had been reached. A spectacular growth soon set in which can be best shown by the total deposits listed in the following statements:

December 29, 1920	\$ 1,009,880
June 30, 1921	4,754,504
December 31, 1921	7,883,450
June 30, 1922	11,633,267
December 29, 1922	15,480,657
June 30, 1923	19,587,898
December 31, 1923	21,453,324
June 30, 1924	26,016,688

The sources of these large deposits were but in small part the members of the Brotherhood. People of all classes, but more especially the small-salaried class in Cleveland, were interested in the new bank and supported it with their deposits. Mail deposits, also, poured in from railroad men throughout the country. The unique features of the bank set it apart from the run of old-line institutions.

The name of the bank, Brotherhood of Locomotive Engineers Co-operative National Bank, crystallized in the public mind the two features of the bank which attracted most attention. The Brotherhood was thus forcefully identified with its offspring. In addition, Co-operative struck a pleasing chord. The repeated announcement that this meant limitation of stockholders' dividends to ten percent on capital stock, and profit sharing with savings depositors, proved to be one of the most effective advertising features discovered in recent years of banking. The payment of a profit-sharing dividend in 1921 and thereafter through the first half of 1925 made good the promise and provided a repeated stimulus to new business.

The spectacular growth of the Engineers' bank was due in part to two dynamic but conflicting personalities. With Warren S. Stone as president of the bank and grand chief of the Brotherhood, the respect accorded the successful labor leader brought support from the railroad labor group. Stone was a man of domineering temperament who demanded the unflinching support of his constituents. His success in trade union activities during the War created an atmosphere of optimism about the new financial venture to which he turned his energies. His lack of knowledge of banking was covered up in the onrush of new business.

In contrast to Stone was McCaleb, the vice-president and executive officer of the bank. McCaleb was essentially a banking theorist and was partially responsible for the introduction of cooperative features in the bank's policies. His banking experience had included activity in commercial banking in Texas and service as Assistant Federal Reserve Agent in the Dallas Federal Reserve Bank. More recently, his theoretical and altruistic bent had caused him to enter upon a campaign for the extension of credit unions as a protection to working people.

McCaleb's interest in the Cleveland bank was that of an inventor demonstrating a new machine. His enthusiasm, energy, and singleness of purpose towards the goal of revolutionizing banking for the benefit of the working class suggested that emphasis of the end over against the means which marks the reformer. In the urge towards the new banking, caution became secondary and the energy which otherwise might have been used in warding off difficulties was spent in sweeping over them.

As long as two such personalities were at one in advancing the cause of the new day in banking, the movement was bound to attract attention. Stone lent the prestige and support of a large, prosperous, and well-disciplined labor organization, while McCaleb made this prestige and support effective in a new financial mechanism which attracted deposits at the rate of a million a month and turned out apparent profits almost immediately at a corresponding rate. Both Stone and McCaleb were able through their experience as organizers to put the results of their efforts effectively before the public, and especially, the trade union public.

Stone and McCaleb ardently advocated for the organization of additional labor banks and used the vast treasury of their Cleveland bank to do so. They worked to establish labor banks for any receptive trade union or group of unions. They sent organizers to promising markets or better yet to areas where local unions expressed an interest in a labor bank. The organizers worked to drum up local support, win over local labor factions, sell stock to union members, and prepare and apply for bank charters in the ventures.



**Figure 3. One of several banks in the Cleveland Brotherhood chain whereby the mother bank invested a 51 percent interest in the bank at the outset to maintain control over it. Mark Sims photo.**

### **Launching Labor Banks**

Although a specific union might sponsor and ultimately own a given bank, any union member regardless of trade could buy stock in the venture and that stock would count as union stock when it came to ownership control of the bank.

The labor banks were organized under both state and national charters, whichever the situation called for.

One particularly effective means to help launch these ventures was to set up a holding company for the proposed bank that could hold funds gained through the sale of stock in the new venture. In time the Cleveland bank operated a web of holding companies for this purpose.

The Cleveland bank often lent the holding companies funds and for many maintained at a minimum a 51 percent ownership. Upon establishment of the bank, this gave Cleveland the majority interest in the new bank. This mechanism created for the mother bank a chain of Brotherhood banks that operated in diverse parts of the country under the control of the Cleveland bank.

The heydays for organizing labor banks were during the early 1920s. By 1929 there remained 39 active labor banks in the country (Princeton, 1929, p. 281). You can't always distinguish a labor bank from a conventional bank by its title because no word in the title is associated with labor.

A recurring problem for the labor banks was staffing. Many simply didn't have officers with banking experience to assured success. In some cases, the key positions in the institutions were drawn from the union that owned the bank, often not a good fit.

### **Henry Edward Cass - Bank Organizer**

The two notes illustrated on Figures 5 & 6 carry Henry E. Cass's signature as president. His signature also appeared as cashier on the early notes from The Brotherhood's Co-operative National Bank of Spokane issued in 1923. Clearly this man was a major factor in the growth of the Cleveland Brotherhood empire. As you trace his career below, his crowning achievement was organizing and presiding over The Brotherhood National Bank of San Francisco. This certainly placed him in the big leagues and earned him recognition in *Financing an Empire, history of banking in California* (1927, v. 3, p. 125-126) from which the following is copied.

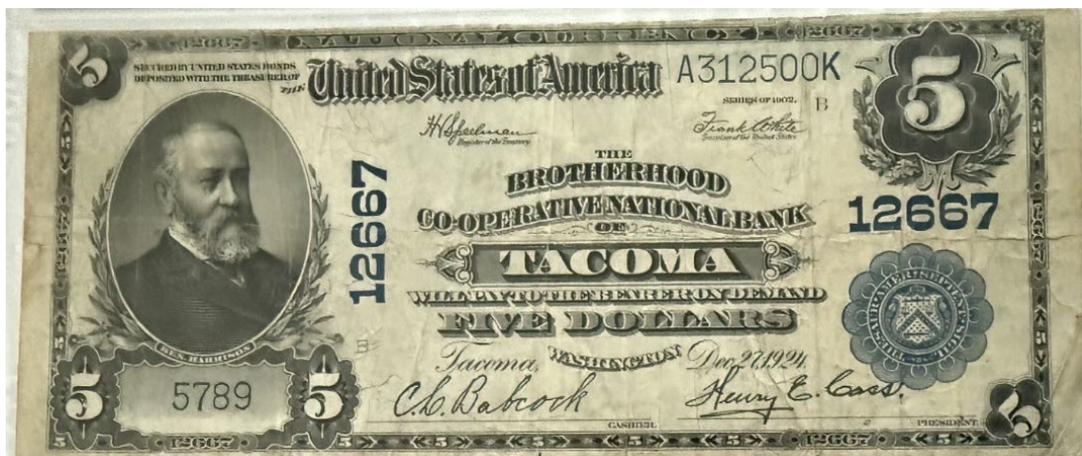
Since May, 1918, Cass has been continuously identified with Brotherhood banks in various sections of the country. At that date he joined the Brotherhood Bank at Cleveland, Ohio, in the capacity of assistant to the executive vice president, and after a short time was sent to Spokane, Washington, where he organized the Brotherhood Bank, of which he was elected vice president and cashier and with which he is still associated as the executive vice president. His labors through the period of his residence on the coast have been far-reaching, effective and resultant and have been of great benefit to the labor interests thereby represented. On the 1st of

January, 1926, Mr. Cass organized the Brotherhood National Bank at Portland, Oregon, of which he is also executive vice president, and on the 1st of July, 1925, he completed the organization of the Brotherhood National Bank of Tacoma, in which institution he is filling the presidency. His splendid executive powers were further manifest in tangible manner when on the 1st of August, 1925, he organized the Brotherhood Bank & Trust Company of Seattle, of which he was elected president, and on the 16th of March, 1926, the Brotherhood bought the State Bank of Hillyard, Washington, which Mr. Cass reorganized under the name of the Brotherhood State Bank, becoming its executive vice president. On the 18th of December, 1926, he organized the Brotherhood National Bank of San Francisco and was also made its president, so that he is now concentrating his efforts and attention upon important financial interests of the west with results that are highly satisfactory to all concerned.



**Figure 4. Henry Edward Cass organized numerous banks in the for the Cleveland chain and ultimately served as president of the San Francisco Brotherhood bank. Coastal Banker (1926).**

In 1923 Mr. Cass received appointment aa Pacific Coast financial representative of the Brotherhood financial interests and is president of the Pacific Brotherhood Investment Company; president of the California Brotherhood Investment Companies; president of the Universal Mortgage Corporation of Portland, Oregon; chairman of the board of the Pacific Insurance Company of Seattle, Washington; president of the Pacific Empire Company; president of the Assured Thrift Agency of Seattle; president of the Assured Thrift Corporation of Cleveland, Ohio; president of the Brotherhood Safe Deposit Company of San Francisco; and president of the Pacific Publications, Inc.



**Figure 5. In the process of organizing banks for the Cleveland chain, Henry E. Cass would serve temporarily as president or cashier. Mark Sims photo.**

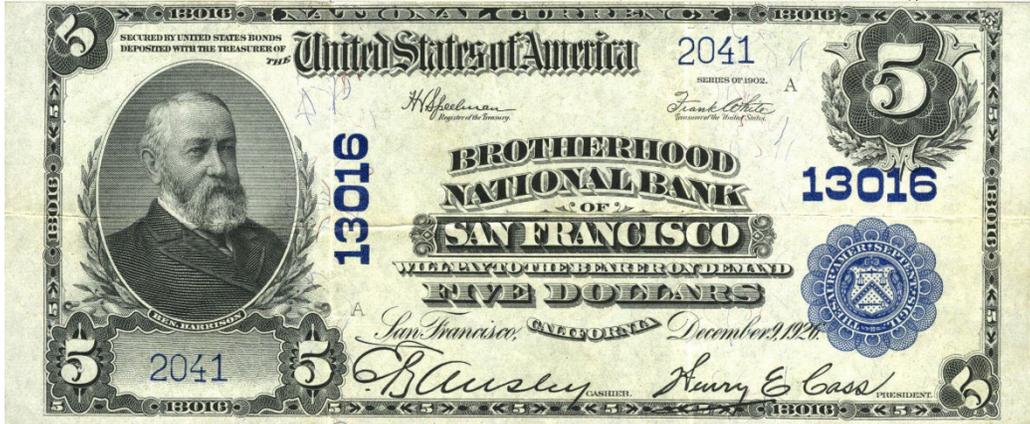


Figure 6. The organization of the Cleveland Brotherhood bank in San Francisco squarely placed Henry E. Cass in the big time. Mark Sims photo.

### Withering

Warren Stone, architect of the phenomenal growth and reach of the Cleveland Brotherhood bank, died in 1925. The New York Times reported the value of his empire at \$150 million, a huge amount at the time.

Stone was particularly proud of construction of the 14-story Brotherhood of Locomotive Engineers Union Building on the southeast corner of St. Clair Ave and Ontario St in Cleveland. It was completed in 1910 as the first union headquarters building owned by a union. This was fitting because the Locomotive Engineers was the oldest union in the country. However, his crowning real-estate achievement was the 21-story Brotherhood Bank Building

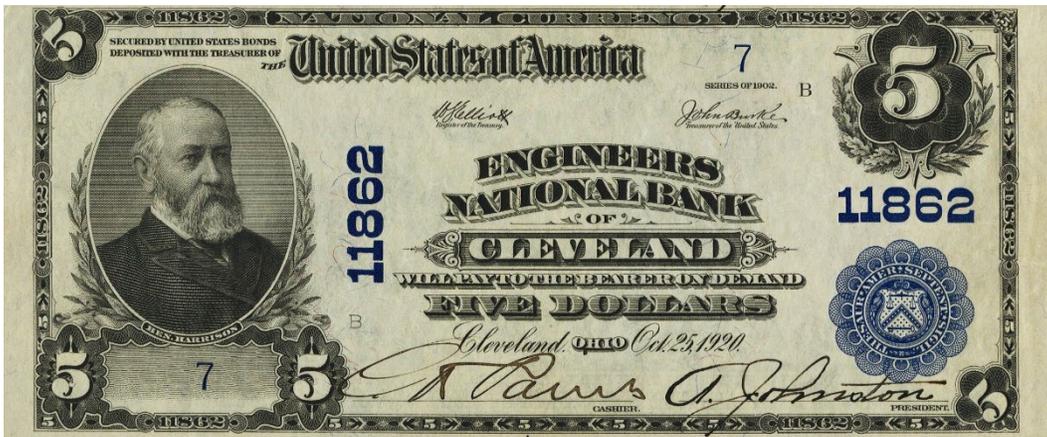


Figure 7. The title of the Cleveland Brotherhood bank was shortened in 1928, and the bank was liquidated in 1930. Heritage auction archives photo.

at 1370 Onterio St completed in the year of his death. It featured a 1,250-seat auditorium. The union headquarters was moved into that new building.

Stone's death was a harbinger of a gradual withering of the labor bank movement that sputtered on for another decade.

Trouble was brewing. A major problem with the Cleveland and other labor banks was union interference in the running of the banks. The proletarian union officials apparently had the bourgeois desire to wear the title of bank president or vice-president, and the fact that they were not qualified for the position did not always keep them from obtaining it. Loans that should have been denied on fiscal grounds were occasionally approved because they furthered union interests. It was difficult to get experienced outside directors. Locations were often poor and in overbanked areas. As union member customers improved their lot, they often moved out of the bank's area and moved their accounts. Deposits were unusually highly concentrated in interest-bearing savings accounts, and unusually low in interest-free checking deposits. Employee morale was low because they were poorly paid and not allowed to unionize. And, general economic conditions were deteriorating. (Corrign, 1978).

By 1927, the Cleveland bank was under fire. The president was accused of using the bank as a source of position and power for himself and his cronies at great cost to the union. The scandal resulted in a cleanup. Limitations on stock resale were removed as well as loosening of other co-op restrictions. The name of the bank was shortened to The Engineers National Bank in 1928. The bank subsequently was liquidated September 12, 1930 with a circulation of \$800,000.

The stories of the other labor banks are similar. Some became normal conservative banks that just happened to have a labor ownership. Others were sold to non-labor interests. Some of the weaker failed. The Spokane Brotherhood National succumbed to a run on the bank.

#### **Labor Banks that Issued National Bank Notes**

Harry Corrigan (1978) compiled a brief sketch for each of the 15 labor banks that held national charters. His list is reproduced below.

Unless otherwise stated, dividends to stockholders were limited to 10 percent in this list. Only the Cleveland and Spokane banks were prosperous enough to pay depositor dividends.

**10357 – The First NB in Bakersfield, CA.** Although chartered in 1913 and the lowest charter number of any labor bank, it was not a labor bank when organized as the NB of Bakersfield. In 1924 the bank was failing when speculators bought it and sold it to local railroad union interests. It was renamed on May 3, 1924, but not to one indicating labor ownership. At its peak, labor owned 70 percent of the stock, but by 1929 this was down to 20 percent. Proxy voting and repurchase agreements that proved ineffective were the reason control was lost. The bank never was successful. Its stockholders were assessed a total of \$225 per share over its lifetime. In 1935 it was absorbed by the Anglo California NB. Its circulation was then \$500,000.

**12282 – The Transportation Brotherhood NB of Minneapolis MN.** Opened Dec. 18, 1922. Fifty-one percent owned by a BLE affiliate. Stock ownership limited to members of four transportation brotherhoods. Bank had right to repurchase shares. Liquidated Feb 4, 1930. Absorbed by the Marquette NB of Minneapolis. 1928 circulation was \$75,000.

**12389 – The Telegraphers NB of St. Louis, MO.** Opened Jun 9, 1923. Seventy-two percent owned by the Order of Railroad Telegraphers. Ownership limited to ORT members with directors qualifying shares. limit of 10 shares per person. Still in business in 1934 with a circulation of \$491,800. Second largest labor bank with peak assets before 1929 of \$7 million.

**12418 – The Brotherhood Co-operative NB of Spokane, WA.** Opened Aug. 1, 1923. Owned 25 percent by Brotherhood Investment Company, 35 percent by members of the BLE, 25 percent by members of other unions, and 15 percent by the general public. No restrictions on resale. Depositor dividends paid until 1927. In 1928, disaffection with the BLE caused other stockholders to kick them out, and decision was made to go after the business of the general public. Hence the name changed in 1928 to City NB – much to the disgust of hardline unionists. Although absorbed by the Old NB in 1928, 12418 nonetheless went into receivership in 1930. In 1928, the circulation was \$200,000.



Figure 8. Labor interests acquired the failing National Bank and reorganized it as a labor bank with title of First National Bank in Bakersfield without a labor related word. Heritage auction archives photos.

**12446 – The Brotherhood of Railway Clerks NB of Cincinnati, OH.** Opened Dec. 15, 1923. The BRC owned 51 percent of the stock, but there were no other ownership limitations. In 1925, their union convention ruled that no union officers could be officers of the bank. The bank went into receivership in 1930, but was restored to solvency and liquidated later the same year. Its circulation in 1930 was \$200,000.

**12540 – The Brotherhood of Locomotive Engineers NB of Boston, MA.** Opened May 24, 1924. Controlling interest owned jointly by the BLE national organization and the New England BLE Securities Corp. Stock restricted to BLE members, officers and directors of the bank. In 1927, bylaws were amended to remove stock restrictions and name changed to Engineers NB. In 1930, changed again to Continental NB. Liquidated later that year and consolidated with the Boston NB. Circulation in 1929 was \$275,000.

**12560 – The Labor Co-operative NB of Paterson, NJ.** Opened July 26, 1924. Shareholding limited to 40 for a labor organization, 10 for individuals; limits later raised to 60 and 20, respectively.. There was a resale restriction in the subscription agreement, and management manipulated the stock price to keep it down. Name changed to Labor NB in 1928, when most co-operative features were dropped. Liquidated in 1925. Succeeded by N. Union B. Circulation in 1927 was \$42,800.

**12613 – The Brotherhood Co-operative NB of Portland, OR.** Opened Jan 3, 1925. By 1929, union and union member ownership had fallen under 25 percent. At this time the name was changed first to Brotherhood NB, then to Columbia NB, hinting an end to co-op features. Liquidated in 1931, absorbed by the American NB of Portland. Circulation in 1930 \$200,000.

**12667 – Brotherhood Co-operative NB of Tacoma, WA.** Opened July 1, 1925. Title changed to Washington NB in 1930. Went into receivership Feb 2, 1932. Circulation \$191,960 in 1932.

**12755 – The Peoples NB of Los Angeles, CA.** Opened May 6, 1925. Fifty-one percent owned by local AFL groups. Repurchase agreements were ineffective, so gradually the union interests lost control.

After an assessment of \$24 per share in 1928, labor interests lost control and the name was changed to NB of Commerce. Bank liquidated in 1932. Circulation in 1929 was \$500,000.

**12771 – Labor Co-operative NB of Newark, NJ.** Opened June 27, 1925. Stock ownership limited to ten shares for individuals, 50 for unions. Subscription agreement had a repurchase provision and said that a majority of the new board must be unionists. It is not stated whether there were stock dividend limitations or provisions for depositor profit sharing, but name change in 1927 to Labor NB and then to Union NB indicates that there were changes in organization. Still in business in 1934 with a circulation of \$175,000.

**12939 – Labor NB of Jersey City, NJ.** Opened June 28, 1926. Voting stock limited to trade union organizations; most other stock not union held. Otherwise, no co-operative features. Liquidated in 1931; circulation in 1930 was \$100,000.

**13016 – Brotherhood NB, San Francisco, CA.** Opened Dec. 18, 1926. Owned 51 percent by Pacific Brotherhood Investment Co. that was related to the Brotherhood Investment Co. that owned the Spokane bank, 25 percent by union members, the remainder by the general public. In 1929 the unions sold their interests and the name was changed to City NB. It was liquidated in 1932 and absorbed by the Pacific NB of San Francisco. The circulation in 1929 was \$200,000.

**11429 - The Labor NB of Great Falls, MT.** Did not issue.

**12361 - The Labor NB of Montana of Three Forks, MT.** Did not issue.

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