

GOVERNOR SHALLENBERGER'S MESSAGE

An Important Document, Particularly That Bearing on Guaranteed Bank Deposits and the Primary Law

The first message of Ashton C. Shallenberger, Nebraska's democratic governor, was particularly interesting.

Governor Shallenberger promised on his own behalf, and urged the democratic legislature to do likewise, every effort for the redemption of all pledges made to the people. He urged a change in the revenue law to the end that the people elect precinct assessors, also that the arbitrary powers given by existing law to the state board of equalization and assessment be modified "so that the people shall have restored to them some voice in determining the amount of taxes they shall be compelled to pay to support the state government." He urged the passage of the law authorizing the state railroad commission to appraise the physical value of public service corporations and to control their debt creating power. He suggested that the state institutions be placed in the charge of a non-partisan board to be appointed by the government. He advocated home rule for the cities of Omaha and South Omaha.

PRIMARY LAW

On the subject of primary law Governor Shallenberger said:

Our present primary law is unsatisfactory and unfair in many of its provisions. The expense to the state in holding a state wide primary is enormous, and unless the election results in registering the will of the party majority of those voting and placing better candidates before the people than the convention method, the benefits of the law can not be said to warrant its cost. Under the present law, the accidental alphabetical position of the candidates named upon the ballot is at times more potent in obtaining nominations than merit or ability. The number of names required upon the petition of a candidate for a state office, is grossly insufficient. The cost of elections, both to the candidates and the state is greatly increased. It is doubtful if the average elector will ever have the required acquaintance with the long list of candidates for the different offices upon the ballot in a state wide primary to insure intelligent selection. I would suggest to you a county primary to nominate county officers and delegates to a state convention. The state convention to select two or more names for each office to go upon the primary ballot and to make the party platform, which ought to be issued in advance of the primary instead of subsequent, as at present. The plan of the present law for organizing the party machinery is not particularly calculated to produce good results, nor is it fair in its provisions to the different counties. In the last analysis no law can be considered satisfactory unless it accomplishes the things which it was framed to do, and I can not believe the present primary law has public approval, judged by this standard. It should either be amended materially in its provisions or repealed.

GUARANTEED BANK DEPOSITS

Governor Shallenberger devoted a large portion of his message to guaranteed bank deposits, the chief issue upon which he was elected. On that subject the governor said:

Andrew Carnegie has said: "America has the worst banking system in the world." I scarcely think the facts warrant such a statement, but will venture the opinion that we have not the best system that it is possible for us to obtain and nothing but the best should be good enough for the people of Nebraska. Our present law is very much in advance in all that pertains to safe and proper banking to the law which preceded it. No one will venture to maintain that the one now in force is perfect, therefore we are warranted in asking for still further improvement. The primary purpose for the establishment of banks so far as the public is concerned is first that the people should have a safe place to deposit their money, and second that those who need it may conveniently obtain funds upon proper security after the money shall have been gathered together by the banking corporation.

The ideal system of banking will guarantee to depositors the absolute certainty of the return of every dollar deposited, and this will insure the greatest possible volume of loanable funds in banks for the need of business. The state and

nation should see to it that every safeguard shall be used to provide for the security of the depositor since they permit and authorize the receiving of deposits under the sanction of a charter granted by the state.

Recognizing this implied obligation the state has already provided in many ways by useful laws for the insurance and guaranty of the funds of depositors who place their money in banks operated under its laws.

From time to time these guaranties have been increased until losses to depositors are rare indeed. The report of the comptroller of the currency for 1908 shows that a tax of one-twenty-sixth of one per cent levied upon the deposits in national banks during the forty-five years that that system has been in existence would have raised a sufficient sum so that no persons, who had trusted their money to a national bank, would have lost a cent.

A study of the figures of our own state banking department shows even a more satisfactory condition. Only during the last eight years, has the law provided for a complete report from receivers of failed banks. During this period a tax of less than one-thirtieth of one per cent levied upon the deposits in our state banks would have raised a sum sufficient to have insured every depositor against any possible loss.

With these facts before us, I do not hesitate to say that it is a reflection upon our American civilization and business methods to longer fail to provide an insurance guaranty fund and banking law, which will make every dollar deposited in a Nebraska bank absolutely sure of being returned to its lawful owner when it shall be demanded. Certain deposits are now secured in state and national banks by safeguards in addition to the guaranties which the law exacts of the banker to protect his individual depositor. The county, state and the nation having found by experience that the securities which the law provides for the ordinary depositor are at times insufficient and therefore require that the banks shall at their own expense deposit bonds as additional security to protect them against any possibility of loss. There can be no rule of business ethics which makes it just to secure the state and the nation and deny the same protection to the individual depositor. The only question for you to decide, it seems to me, is as to whether or not the proposed additional guaranty fund that can be credited with the certainty that it will provide absolute security to the depositor and not place an unfair burden and responsibility upon the banker.

I believe that the desired security can be obtained by levying a light tax upon the capital stock of each bank transacting business under our laws, thus providing a guaranty fund to pay promptly any possible loss to a depositor by reason of the failure of a state bank. The amount of such tax to be a certain per cent of the average deposits as shown by the reports of the department of banking and payment to be made at stated periods and for a fixed amount.

The volume of money supposed to be in circulation in the United States on October 1, 1908, according to the latest report of the national banking department, was \$3,378,800. Less than one-half of this enormous sum is accounted for by reporting banks of every description or as on deposit in the national treasury. Not one-tenth of that portion which is unaccounted for is serving any useful purpose in the economy of modern business methods. If one-half of it were returned to the banks it would enormously expand the business and wealth of the state and nation and raise the banking power of the United States until it would exceed that of the rest of the civilized world. To bring this great idle fund into the active channels of trade is the problem for the bankers and legislators to solve. If loss of bank deposits is made a thing of the past, I believe a great step in this direction will have been accomplished.

The reports of the comptroller of the currency and of our own department of banking furnish us with data which show us that the cost of an adequate insurance fund would be a very small charge upon the profits of the banks. A total of 499 national banks have become insolvent during the forty-five years that the national system has been in existence. Against these banks \$175,058,171 in depositors' claims

have been allowed. Four hundred and one insolvent national banks have been liquidated and the receivers discharged. There has been \$182,182,313 collected from the assets and stockholders' liability of these failed institutions, or more than 100 per cent of depositors' claims. The expenses of liquidation and the payment of claims, other than those of depositors, has reduced the amount collected until only about seventy-five per cent of the amount due depositors has actually been returned to them. In later years, under better conditions, this percentage of loss has been greatly reduced. Fourteen national banks became insolvent during 1903 and have been liquidated and ninety-nine per cent of their deposits have been returned to their creditors.

Since 1900 our state department of banking has a complete record showing the result of receiverships of insolvent state banks. This record shows that a total deposit of \$515,264.24 has been placed in jeopardy by reason of the failure of state banks during this period. From the assets of these insolvent institutions depositors claims have been liquidated until the balance unpaid for the entire period of eight years is \$198,255.23, or an average annual loss of about \$26,000 to depositors. Creditable as this showing is, I feel quite certain that with a number of improvements which can be made in our present law, the percentage of loss can still be materially reduced. The minimum capital required for the incorporation of a state bank should be increased to at least \$15,000. Bank examinations should be made twice a year instead of once as now required. Examiners should be assigned to a certain territory and thus eventually would become familiar with conditions and securities in that locality and would acquire the necessary knowledge as to the worth of the bills receivable of the banks which they would examine, which is the essential thing in determining the solvency of any banking corporation.

Under a guaranty plan which would make the banks of the state sustain the losses of the entire system, the bankers should be given a share in the control of the department. The present banking board, which is composed of three officers elected for an entirely different purpose, should be abolished and a non-partisan board established to be composed of three members appointed by the governor, each of its members to have had at least five years' practical experience in banking, and at least two of them to be actively engaged in that business at the time of their appointment. A bank commissioner should be appointed by the governor with the approval of the banking board, who should have had an experience in the banking business equivalent to that required of a member of the board, and he should select the necessary number of examiners with the approval of the board of control. The banking board should sit in session at Lincoln at stated periods and be paid for the actual time in session. They should have complete control of the issuance of charters and the general administration of the banking laws. It has been urged by critics of the guaranty of deposits plan that it would lead to the establishment of too many banks. This would be a serious objection if such were the result. It would greatly strengthen our banking system if the banking board were empowered to exercise a proper censorship over the issuance of bank charters.

The possibilities of profit to be made in taking other people's money on deposit, loaning it to the public and keeping the interest thereon is so alluring that at times the number of banks increase more rapidly than the needs of business require with consequent overloading, hazardous risks, extravagance in buildings and expenses, with the result that in lean years failures occur and innocent people suffer. The over-issuance of charters can be in a great measure overcome by increased requirements as to the amount of capital stock necessary to be paid in by the stockholders before a charter shall issue. The amount required in each instance should bear a proper proportion to the population of the town or city in which the bank is to be established. As an example, showing the manner in which requirements as to capital effect the number of bank charters issued, 3,942