

## Insuring Bank Deposits

D. L. Heinsheimer, President Mills County National Bank, Glenwood, Iowa

It is not so much the question of more dollars, but how to keep busy what we have. The public grants the banker a greater credit on his reputation than a banker would grant to a manufacturer or merchant.

A statement for credit from one of these, with a showing of \$25,000 capital, and \$100,000 indebtedness, nearly all of which is due on demand, would not be regarded by a banker as strictly "gilt-edge," and security would be asked for a loan in any amount, and yet this is a better statement than the average banker offers of his condition to the public.

There is no good reason why the banks, and through them the commerce of 85,000,000 of people should be so radically disturbed at a time when other conditions and resources were never equalled, because of the action of a few high-grade promoters and gamblers.

These we shall always have, but their power to injure ought to be kept down to the minimum, so that they would not be able to create distress beyond their own associates and immediate connections. But under our present system this is impossible.

When it requires 96 per cent of confidence and 4 per cent of currency to do the business of the country, why take up so much of our valuable time in discussing the kind of securities necessary to bolster up the 4 per cent? Why not devote more time to the more important feature, and insure the stability of the 96 per cent?

We keep on discussing currency and more currency, when it is only through a lack of confidence that we have been deprived of the currency that rightfully belongs to us.

An emergency currency, based on furnishing sufficient confidence for the 96 per cent used in business, will be a failure and a disappointment, for, in times of panic, the emergency currency would be locked up as fast as it was issued, and would not do the business expected.

There have been many plans suggested to improve and remedy our financial system, but all, except the guarantee of deposits, are based on the issuance of more currency in times of stringency, and not one without a guarantee, or else backed up by the government, or both. Then why should the friends of these measures cry "socialism," "paternalism" and other bad names at the believers in the guarantee of deposits, when we are willing to furnish the funds for the payment of depositors, and do not ask the government or the state to act otherwise than as a depository for the funds.

Look at it from any standpoint, and carefully analyze all the proposed remedies, and you will find the government will have more to do with the banking business under these plans, than under the insurance of deposits.

Unless the bankers come to their senses and do business, we will have the government in the banking business on a grand scale, and our strongest competitor, so much so, that when we look backward, the friends of the insurance of deposits will be looked upon as extremely conservative, and not as socialists and destroyers of the reputations of banks that flatter themselves that they are able to do business regardless of the rest of the world.

I fully appreciate the personal worth and reputation of the honorable banker who has, and is deserving of the confidence of the people. This is generally true of most banks and the undeserving are few in comparison.

During the recent unpleasantness, many of the country banks, deprived of their deposits as they were, and notwithstanding the advice and action of their correspondents, paid out cash in unlimited amounts to their customers, while during the same period, their correspondents locked up everything in sight and gave as their reason for so doing, that "they were afraid of the country banker."

There are many more of the country banks than of the large city banks, and if their deposits are not as great, neither are their liabilities. Yet in times of stringency, as in 1907, their reputation will compare favorably with the larger banks, and it is for the stability and protection of their capital, and for their profits and in their business that the "insurance of deposit" sentiment has been growing among them like the city bankers, they are inclined to look at the question from a selfish standpoint.

The insurance fund could be used only for paying deficiencies, after all assets are exhausted

and assessments have been made against the stockholders as provided by law, therefore I am unable to see where there can be any inducement on the part of any one to do reckless banking, when, as now, their own capital is involved, and only depositors' deficiency is to be paid from this fund.

As it is now, if there is a failure in his town, the banker will discover that his deposits will shrink from the effects of loss and general confidence, while on the other hand, under the insurance plan, the depositor will find a ready market for his claim. So the remaining banks will receive the benefit and business of the failure. And the community in general, will not find their funds, which are necessary to conduct their business, tied up and unavailable for an indefinite period.

Did the Chicago clearing house apply this method of reasoning at the time of the failure of the Chicago National Bank? Did the clearing house say to Mr. Walsh, "You have done fraudulent banking, and it would encourage others to do the same if we paid your depositors." No, like sensible men, looking out for their own interests, they wisely paid the depositors, and substantially applied the principle that we are advocating today.

The Iowa State Bankers' Association, in the past years, has been interested in, and has accomplished much in matters pertaining to their financial welfare. If we had deposit insurance, it is reasonable to suppose that they, being financially interested, would interest themselves in weeding out fraudulent banking. This would become an important feature of their business, and I will vouch for much cleaner banking, when these competent men, many of whom I have served with on committees, interest themselves in this matter. They are much better informed as to the banks and their management than it is possible for a few men to be, on whom all the responsibility and duty of investigation now devolves.

The question has been frequently discussed of late.

The item of the cost of this insurance is conceded to be so comparatively slight that our opponents do not usually argue from that standpoint.

The comptroller's report shows that the loss is about one-twentieth of one per cent on the average yearly deposits of national banks since they have been in existence and for the last ten years it has been very much less, so the loss is but nominal.

I do not like to pay for other peoples' deficiencies and crime, but do we not do so and do it willingly when we patronize fire, burglary, fidelity and numerous other forms of insurance? Would not the banker decline or decrease the line of credit to the merchants who refused to insure against fire because he was opposed to paying for the carelessness and crime of others?

We must look at both sides of the ledger and cut out all sentiment and nonsense and not depend so much on the length of our pedigree.

We must not forget that such men as Bigelow, Stensland, Crocker and many others, up to a short time ago, could outshine the most of us in that respect, and that now and then our depositors remind us of this at a time when we try to convince them that they are perfectly safe and call their attention to our reputation and standing in the community. We can not depend too much on our reputations, as we have witnessed time and time again that general confidence declines more rapidly than Wall Street stocks when there is something special doing.

Runs are common even among the largest and the oldest banks, and only a word from an evil disposed person without reputation can, at certain times, interfere materially with a bank's career and expectations. What we need and must have at all times in banking is confidence and stability. It is everything to the banker and we can not have it as long as we are subject to such performances as we had in 1907. At that time we were politely told that we could shift for ourselves and our correspondents would care for our funds. I do not criticize the big banker in this, because he, like everyone else, had lost confidence in everything and was obliged to look out for himself regardless of results.

We were all to blame, and yet it is not our fault, but the fault of our banking system.

Our banks were suddenly transformed into hoarding institutions and thereby created more mischief in a few hours to the commerce of the country than can be repaired in years.

The present is an age of insurance and security. We, as bankers, demand the highest

recommendations from our borrowers and employees and yet we ask security from both. This is right and it is also right and proper to grant the depositor the same security that the government and state demand of us, especially when it is to our interest to do so.

Is it surprising that the depositor loses confidence when the only privilege granted to him for safety is to examine our published statements which, in almost every instance in unsound banks, failed to state the truth? Often, after a large failure, the bank examiners or their superiors admit that the bank was insolvent long before, but for fear of general loss of confidence they did not act as provided by law. Is it surprising that the depositor should lose confidence when the truth is withheld and he is deceived so that he continues to increase his deposit while the condition of such banks have been covered up by the public officials?

The wealth, safety and reputation of conservative banks are today too much dependent on the movements of the unprincipled stock jobbery annexes to the great banking institutions.

We must have something that will disconnect the affairs of the legitimate banker from these. With the insurance of deposits such men as Morse, Heinze and others will not be permitted by bank examiners and public officials to cover up their speculations of long standing for fear of producing a panic. With the insurance of deposits the career of this class of banks would be shorter. There would be every inducement to expose their condition as soon as their banking methods were discovered and their power and influence for harm to commerce in general would be greatly diminished.

When a proposition is favored by probably one-half of the bankers and practically all of their customers, is it wise to act as the railroads did, who now appreciate the fact that they were too slow to act and remedy their faults and so compelled the people to act?

Insurance of deposits can not be downed because of the individual banker who places himself, through pride in his strength, personality and reputation, against what is for the good of the nation. The demands of great commercial interests, stagnant and prostrated at this time, will not consider this kind of logic as of much importance.

The banker who opposes the insurance of deposits because it might help a weak competitor and make all banks safe, must give his attention to something more logical because this argument is not sufficient. By this plan we hope to make all banks safe because our system is like a fence, it is no stronger than its weakest place.

A plan that will furnish and maintain confidence the principal asset needed in the commercial world is one that, I believe, will in time overcome all the minor objections.

### WHY DON'T THE PEOPLE RULE?

P. Zuckriegel, Cleveland, Ohio—Because, since the dawn of civilization we have systematically made it to the material interest of the rich and strong to take advantage of the weak and poor. Which under our form of government could easily be remedied, but for the fact that \$100 in the hands of political manipulators is more effective on election day than 100 unorganized or partisan slave voters. Make all the evils of society which entails public expenditures, payable from a graduated income tax, thus making it to the material interest of the rich and strong to improve human and social conditions in a general way, and the problem will soon be solved. For this I believe we can easily get a majority vote, even against the combined money power and old party organizations.

S. E. Brown, Wayne, Mich.—The reason why the people do not get what they want, is the same reason that the wolf did not catch the hare, Aesop's well known fable. When the wolf was bantered by the dog for not catching the hare, he made this reply: "The hare is running for his life, and I am only running for my dinner." Special privilege is the very life of these corporations and they make a business of it just as large firms make a business of advertising. It is part of their expense account, and as in advertising it is the larger part. They are fighting for their existence, while the people are fighting for a principle, or their dinner.

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