

Guaranteed Deposits

[Speech delivered by Mr. Bryan in Topeka, Kansas, August 27, 1908.]

Why not make the depositor secure? The United States government requires the deposit of specific security when it entrusts money to a national bank, although it can examine the bank at any time; the state requires security when it deposits money in a bank; the county requires security and the city requires security; even the banks require security from the officials who handle money. Why should the depositor be left to take his chances?

Not only is the depositor without protection, but the security given to nation, state, county and city lessens his security. They are preferred creditors; they have a mortgage on the gilt-edged assets and the depositor must get along as best he can with what remains. Why are the interests of depositors thus neglected?

A bank asks deposits on the theory that the depositor is sure of the return of his money, and the laws ought to make the facts conform to the theory. The depositor, the community and the banker himself will be benefited by legislation which will give to every depositor the assurance that that which is committed to the keeping of the bank will be available to meet his needs at any time. Such is not the case today, for while all banks are reasonably secure, they are not absolutely so. This statement can be verified in several ways.

First: The President has advocated a postal savings bank, and his postmaster-general, in presenting an argument in its favor, pointed out that many millions are sent to European savings banks every year by Americans of foreign birth, who prefer to trust the state institutions of the nations beyond the sea rather than the private banking institutions here.

Second: It is known that a considerable amount of money is in hiding, the amount increasing with the approach of a panic or business depression. This money is not only withdrawn from active use, but is likely to be withdrawn just at a time when money is most needed and when the withdrawal will increase the financial disturbance. It is impossible to reason with fear; it is futile to tell men that they will probably get their money. The moment the depositors suspect a bank, they hasten to destroy its solvency. Distrust, and distrust alone, can explain the hiding of money.

Third: The increase in the issue of money orders, payable to the order of the purchaser, is another evidence that people are seeking greater security for their money. The banks will pay an interest upon deposits, and yet those who buy money orders prefer to lose the interest and, in addition to that, pay the price of the money order in order to secure the government's guaranty.

Fourth: National banks confess that their banks are not secure when they oppose the guaranty of state banks on the ground that it would lessen the deposits in national banks; and state bankers confess that their banks are not secure when they oppose a national guaranty system on the ground that it will draw deposits away from state banks. If you want to find whether banks are absolutely secure, ask the directors to give you their personal note to secure your deposit and you will learn that they will not bear the risk which they ask you to bear.

Fifth: The experience of Oklahoma furnished conclusive proof that depositors do not reel that their money is safe in unsecured banks. On the 17th of December, 1907, the Oklahoma legislature enacted a depositors' guaranty law, which became operative February 4th, 1908. By the provisions of this law, all state banks, and as many national banks as desire to avail themselves of the law, are taxed one per cent on their deposits, and the money thus collected is put into a guaranty fund. The banking board is authorized to make additional assessments from time to time to keep the fund up to this amount, and is directed to take possession of any insolvent bank, pay the depositors in full, and reimburse the fund by collecting the assets of the failed bank. Five hundred and fifty-five banks, including fifty-four national banks, had come

under the provisions of this law on the 14th of last May, leaving but 255 unsecured banks (all national) in the state. Statements are made by the banks in December and May. Between these periods the secured banks gained in deposits \$4,237,765.22, while the unsecured banks, all national, showed a decrease in deposits of \$1,101,807.86. A large part of this increase represented money brought from hiding or from without the state, but the decrease in the unsecured banks can only be explained in one way. A large number of depositors withdrew their money from the unsecured banks, and deposited it in the secured banks, and this, too, in spite of the fact that in order to prevent withdrawals, the unsecured banks, in some instances, offered a higher rate of interest than the secured banks were permitted to pay; and it must be remembered also that the banks which suffered a loss of deposits were all national banks. And to make it certain that the difference was caused by the guaranty law, the secured national banks gained, while the unsecured banks lost. While the deposits were increasing in the guaranteed banks of Oklahoma, they were falling in the state banks and trust companies of Kansas—the decrease being \$1,153,026.27 between March 31st and June 13th.

No amount of criticism of the timid depositor can change the facts; the people who deposit money want more security than the laws at present give them. They will change banks to get more security, and, if necessary, they will send their money to another state.

For many years efforts have been made in congress and in the various states to secure a law guaranteeing deposits, but the influence of the great banking institutions has been sufficient to prevent action. Last fall, however, when the banks, by a concerted action, suspended payments on checks, the depositors were everywhere brought to a realization of the fact that their deposits are, in fact, loans, payable on demand under ordinary circumstances, but payable at the will of the bank in emergencies. The depositors suffered a considerable loss during the suspension of payments, and they have not forgotten the lesson which they then learned. The democratic party, being more free than the republican party to respond to the needs of the masses of the people, inserted the following plank in its national platform:

"We pledge ourselves to legislation by which the national banks shall be required to establish a guaranty fund for the prompt payment of the depositors of any insolvent national bank, under an equitable system which shall be available to all state banking institutions wishing to use it."

This principle has been applied in Oklahoma and the results have been very satisfactory. The average annual loss to depositors in national banks during the last forty years has been less than one-tenth of one per cent of the deposits, and the loss to the fund in Oklahoma, under better regulations and restrictions, has been absolutely nothing during the six months in which the law has been in operation.

The republican platform is silent on the subject, and the republican candidate not only does not advocate a compulsory system, but specifically and emphatically opposes it. He says:

"The democratic platform recommends a tax upon national banks and upon such state banks as may come in, in the nature of enforced insurance to raise a guaranty fund to pay the depositors of any bank which fails."

And then he questions the right of the government to enact such a law, saying:

"How state banks can be included in such a scheme under the constitution is left in the twilight zone of state rights and federalism so frequently dimming the meaning and purpose of the promises of the platform. If they come in under such a system, they must necessarily be brought within the closest national control and so they must really cease to be state banks and become national banks."

His solicitude for the state bank will hardly impress the country, for he is quite indifferent to states and their reserved rights when he deals with other subjects. When congress is in the control of those who want to legislate for

the whole people rather than for the few, it will not be difficult to frame a law under which state banks can avail themselves of the advantages of a federal law guaranteeing the deposits of national banks, just as it was easy in Oklahoma to frame a law which permitted national banks to take advantage of the state guaranty system. It will also be easy to enact a federal law which will permit national banks to avail themselves of state guaranty systems until a national system can be secured. Attorney-General Bonaparte's ruling, whether it correctly interprets the law or not, would not bring such consternation as it does if the republican candidate favored a law allowing national banks to take advantage of state systems for the protection of depositors, but Mr. Taft's hostility to all guaranty systems is shown in the objection which he offers:

"The proposition is to tax the honest and prudent banker to make up for the dishonesty and imprudence of others. No one can foresee the burden which, under this system, would be imposed upon the sound and conservative bankers of the country by this obligation to make good the losses caused by the reckless, speculative and dishonest men, who would be enabled to secure deposits under such a system on the faith of the proposed insurance; as in its present shape, the proposal would remove all safeguards against recklessness in banking, and the chief, and, in the end, probably the only, benefit would accrue to the speculator, who would be delighted to enter the banking business when it was certain that he could enjoy any profit that would accrue, while the risk would have to be assumed by his honest and hard-working fellow."

He even pictures dire disaster and declares that "if the proposal were adopted exactly as the democratic platform suggests, it would bring the whole banking system of the country down in ruin."

As an afterthought, he suggests that a voluntary system might be tolerated, but as his objections to a compulsory system apply just as well to a voluntary system we may fairly count him against all legislation which has for its object the guaranty of depositors.

As Mr. Taft's argument is that presented by the big banks which put their own selfish interests above the welfare of the depositors and the safety of the community, it is worth while to answer several propositions which he advances.

Let us take the first sentence, that "the honest and prudent banker would be taxed to make up for the dishonesty and imprudence of others." Is not this true of all restrictions on banking? Does not the honest and prudent banker, under existing laws, suffer in order that the depositor may be protected from the dishonest and imprudent? If we had no banking laws at all, and banking was done by private individuals, the honest and prudent banker would save the money that he now pays for enforced examination of his bank, and he could at times make interest on a part of the money which he is now required to keep in his vault as a rigid reserve. But because some bankers are not prudent, these laws place a burden upon the good as well as upon the bad, it being difficult to distinguish the prudent banker from the imprudent one until a bank actually fails.

In like manner it might be said that if all people were careful about fire, fire insurance rates need not be as high as they are, but the careful have to pay higher rates than they should because some are not careful. Life insurance rates are higher than would be necessary to cover the actual risk if everybody took care of his health, and here, too, the cautious are burdened because some are careless of their health. All insurance is open to the same objection, and yet insurance of all forms is growing, and the insurance of depositors is growing in popularity more rapidly than any other form of insurance — and, I may add, it yields the largest return on the investment.

Mr. Taft complains that "no one can foresee the burden which, under this system, would be imposed upon the sound and conservative bankers of the country by this obligation to make good the losses caused by the reckless, speculative and dishonest men," etc. We have the past to guide us, and we have reason to believe that the loss will be less in the future than in the past, because when banks become mutually