Guarantee Fund to Protect Bank Deposits

The following paper was read before the Candle Light club, Lincoln, Neb., January 27, 1908, by Dr. P. L. Hall, president Central National bank, Lincoln, Neb.:

I am in favor of a guarantee fund to protect bank deposits in state and national banks, coming to this conclusion after a careful study of the reasons favoring and the objections thereto. I believe the time is near at hand when without some provision for a guarantee of bank deposits, this country will adopt the European plan of postal savings banks. This can not mean anything else than ultimate disaster to the small independent banks, especially of interior points, by taking deposits from all points touched by the postal service and aggregating such deposits in favored central banks, much after the manner that government deposits are now distributed and always have been.

The writer is opposed to any system which will take from even a cross-roads point, any resources created there and which should be used there for the upbuilding of that community, and carrying them to some central point to become a plum to be controlled by some political accident.

The persistent agitation of postal savings banks and the growing sentiment among the people favoring some government protection, especially to the smaller depositors, seems to indicate that unless some step is taken by the banks, state and national, that in the not distant future they will come in direct competition with the government itself for the deposits of the people.

Believing the above to be true, I can not help but think it is imperative that the banks anticipate any such probable outcome by at once acceding to the sentiment of a large portion of the people for some provision that will at least come near meeting the demand. Here in the west we certainly will suffer more from the competition of postal savings banks than will the eastern cities. For some reason, or in some way, when the government has any favors to grant, the west usually receives secondary consideration. Probably because New York and the larger cities adjacent thereto are geographically situated so that they are in closer touch with the government authorities.

With a full knowledge of the importance and far-reaching effect of legislation looking to the guaranteeing of bank deposits, I will endeavor to state briefly such facts and conclusions as have come to me in a study of the various phases of this question. It is with no overconfident estimate of my ability that I attempt the role of advocate in dealing with a matter of such vital importance and interest to thousands of people and millions of wealth. But the question seems to be on for settlement and whether settled right or settled wrong its consideration is now being forced and decision must be made soon unless all present indications fail.

Oklahoma on the south has already adopted a law, which goes into effect February 15, and while the law adopted in that state is imperfect in many particulars and falls short, in many necessary essentials, of a perfect measure, yet it is so nearly practicable that by amendments it may very easily be made a safe and workable law. The action of Oklahoma has stirred the state of Kansas to such an extent that a special session of the legislature is now being held. One of the principal objects of calling the special session, I am informed, is the pressure that has been brought by the people, and to some extent by the banks of Kansas, for a law of a similar nature. This is clearly a defensive action on the part of Kansas. Already the action of Kansas is having a material effect on the minds of people in Nebraska and I have no doubt the next session of the legislature in this state will see this matter up for consideration.

The struggles that ended the life of the United States bank committed this country to the independent banking system in contra-distinction to government control or semi-control and branch banks, as existing in other countries, especially in Europe. It is not necessary here to consider the relative merits of the two systems. The independent banking system we have and with all its imperfections, the people of this country have steadfastly refused to exchange it for the banking system of any other country. It is a characteristically American system in that it offers the fullest and widest opportunities for individual initiative and effort. It may be and is imperfect in many ways and it may and does fail to fully meet all requirements, but it has been a virile force in, and adjunct to, the mightiest development and progress that ever marked the rise of any nation in the world. The measure of the wisdom that originated and perfected the system is clearly vindicated in the record it has made.

The United States is but little over a century old and yet it has forty-two per cent of the banking power of the entire world. It has a banking power of sixteen billions as against twenty-two billions for all the rest of the world. When you hear an American criticising our banking system and suggesting some old world system, such as asset currency or branch banking, point to the above record.

Just how much the spirit behind and controlling this independent banking system has influenced the forces that have driven this civilization through forests, across plains and over mountains from the Atlantic to the Pacific, who knows! In view of the achievements of the people of this country working with this system, we have a right to believe it has been best for us and best suited to our needs. But the world moves, conditions change, requirements alter and everything must either go forward or backward. If this system is to be continued as the banking system of this country it must be improved from time to time to meet the demands and necessities of changing conditions.

From the beginning we have had independent state banks and for more than forty years, independent national banks. The one chartered by the state and the other by the nation. Both operated under the same theory of corporate independence and individuality. We have seen banks operated under both systems, in time of financial peace and in time of financial storm, go down. Side by side stand the strong and the weak. The strong giving no help to the weak, the weak asking none, knowing it would be useless to ask, as the iron law of competition and the universal rule of the survival of the fittest stand as immovable barriers.

In the panics of 1837, 1857 and 1893 banks went down like broken reeds. However, in the panic of 1893, here and there was a concerted action by clearing houses in cities for the common good and since then there has been more of a tendency toward lending mutual assistance in time of trouble, stimulated by the fear of loss of the people's confidence following failure.

Two years ago in the city of Chicago, was witnessed the taking over of one of the largest banks in that city by the other clearing house banks. It was not philanthropy; it was not sympathy for the depositors of the failing bank —it was business. It was self-interest, and was done to protect the remaining banks of that city from the contagion of fear that might follow, which is something every banker everywhere learns to dread. The action was taken to preserve confidence, for confidence is to a bank what faith is to religion.

In the recent panic there was a hastily formed compact here in the city of Lincoln, by which the banks stood as one bank, protecting and aiding each other until the storm passed. All over the United States, from ocean to ocean, from lakes to gulf, in one day, from Saturday's closing to Monday's opening there was a suspension of currency payments and only concerted action and a hastily formed compact with marvelous patience and loyalty of depositors saved this country from a panic of such disastrous proportions that those who understood its full import feel that it might have gone round the world. This panic demonstrated as never before the interdependence of banks in a time of crisis and indicated the power of concrete and concerted action to meet emergencies. Had each bank in the recent crisis stood by itself the result would have been appalling and instead of the people as they are today, looking toward the future with hope and confidence, we would now be in the midst of financial gloom. This concerted action and evident interdependence has done much to impress the people outside of the banks and awaken sentiment inside of the banks to the fact that some move, some system, some provision is vitally necessary to enable the banks to meet such conditions in the future.

This brings us to the question of a guarantee fund or mutual insurance for the protection of deposits. The probabilities are, this will take the form of a tax on the banks, enforced and controlled by the supervising authorities. This seems to be, at the present time, the most popular method offered. By the banking fraternity as a whole, in the past, it has been looked upon as impracticable and undesirable, but events are forcing consideration and even bankers are becoming advocates, believing it will maintain confidence and ward off government competition. Few indeed are the bank officers who have not had this question of confidence brought to their attention in the last two or three months. Many of them would doubtless have been glad to pay a tax did it give relief from the necessity of the strenuous efforts they had to make to allay the anxiety of their depositors.

The situation in which the banks were placed during that period, while it had a serious and comic side, was exceedingly unsatisfactory to both depositor and banker. Had the people known they were fully protected by a guarantee of ultimate payment, there would have been little or no disturbance and probably in the west no suspension of currency payments. Without doubt this recent experience and the hearty co-operation of the people with the banks, so lately demonstrated, brought the depositor and the banker nearer together than ever before in the history of banking in this country. It did much to rivet the attention of the public to the wisdom of some remedy that, under similar circumstances, might be of benefit.

The man on the outside of the counter is probably more interested in something being done than ever before.

It is not to be forgotten that of the total banking power of the United States the stockholders of banks have invested less than three billion dollars, while the depositors have invested twelve billion dollars. It takes a good degree of temerity to deny to the owners of the twelve billion dollars in the banks a considerable voice in the laws governing these institutions and that is why the public are assuming the right to discuss the question of a guarantee fund to protect deposits.

The whole matter seems to resolve itself into a settlement of the following propositions:

Is it practicable and can a tax be levied sufficient and yet not be oppressive to fully protect deposits? Take the national banking system as an example. For forty-five years that system has existed and through war and peace, through prosperity and panic, year by year, its record has been written in the archives of the treasury department at Washington—capital, surplus, profits, deposits, loss to depositors, in detail and total are given and from those records it would seem that an annual tax of less than one-tenth of one per cent, on the average deposits for the whole time would have paid all losses sustained during the life of that system and then left some remaining in the fund.

The average annual deposits in the national banks from 1865 to 1904, as shown by the report of the comptroller of the currency, were $1,333,063,452. The annual loss to depositors is shown to be $1,075,724. It is to be remembered that legal restrictions and bank supervision were not, in the earlier years of the system, the safeguards they now are, so that even a less tax with present supervision and restrictions would doubtless meet all losses sustained.

An analysis of the reports of the department of banking of this state shows that under state supervision approximately the same results have obtained. If the foregoing is true then this objection can not be sustained, for such a tax would not be oppressive.

Would it be equitable to compel the prudent, careful banker to pay a tax to protect depositors of the reckless, dishonest or incompetent banker? I am going to let James B. Forgan, president of the First National Bank of Chicago, answer this question for none have put the objections in more concise, terse language than Mr. Forgan.

"I am very decidedly opposed to such a proposition and my reason is that if the government is going to guarantee the deposits of all the banks, it completely eliminates the necessity of the public discriminating between one bank and another. The old-established bank with a record of many years of conservative management and accumulated strength would become just the same in the eyes of the public as a bank in the hands of speculators or incompetent or dishonest managers. Ultimately the banks honestly managed would have to pay for the escapades of the dishonestly managed banks and there would be

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