# "NOISY OPPOSITION AND CLEVER SOPHISTRY OF CORPORATION POLITICIANS"

## By a Former Cabinet Officer

In its issue of October 15 the Chicago Journal printed an article dissecting the arguments against guaranteed bank deposits. This article, the Journal assures us, was written by "a former cabinet member." Inasmuch as guaranteed bank deposits will be a live issue until the people secure the reform this article will be of interest at this time. Here it is:

Washington, October 14.—The continuous attack on the democratic proposal to guarantee bank deposits has led me to investigate this question somewhat closely, with rather surprising results.

From careful study of general banking conditions, and from analysis of the statistics set forth in the last report of the comptroller of the currency, I am quite sure these attacks are based on false premises in every instance where figures are quoted to back up the opposition.

I am equally sure, and I make the charge deliberately, that big depositors, both individuals and corporations, have fostered this opposition to deposit insurance, because they are very largely protected under present conditions, and they are unwilling to stand even the slight expense of making the small depositor safe.

The large depositor is the large borrower. If his bank fails he charges up his deposit against whatever he has borrowed, and reduces his loss to a minimum. The small depositor, the man whose savings are the basis of all our banking, is the man who suffers.

### BIG DEPOSITOR PROTECTED

Suppose his account never shows more than $500 balance at the bank. His $500 and the $500 deposits of ninety-nine other small depositors are used to make a $50,000 loan to a big depositor whose deposit account amounts to $50,000.

The bank fails. The receiver asks the big depositor to repay his loan to the bank. He presents his bank book showing his $50,000 on deposit. His loan is canceled.

The big depositor who was a big borrower has saved his entire deposit of $50,000, while the one hundred little depositors at least temporarily lose their one hundred deposits of $500 each.

It is easy to see why rich men, rich corporations, and politicians who are supported by rich men and rich corporations make all sorts of dire prophecies and reckless statements as to what will happen if anything changes the present system of banking, under which one big depositor's account is insured at the expense of a dozen, a score, or a hundred depositors of small means.

### SHOWS HUGHES PROPHECIES SILLY

Governor Hughes in his western tour has attracted a good deal of attention by his statement of what would have resulted under a bank deposit insurance system in New York state. Let us see what would have happened, not last year, and not in New York state alone, but during the entire forty-three-year period from the beginning of the national bank system up to 1907.

These figures are taken from the last report of William B. Ridgely, comptroller of the currency, and furnish a complete history of our banking system, showing every detail during the forty-three-year period above mentioned.

Of 8,489 banks organized in forty-three years, 447 have failed. The aggregate loss of depositors was $47,911,583, or $1,114,223 a year.

To remove all possibility that anyone can consider my reasoning unfair I will confine it to the 387 which have had their affairs wound up out of 447 banks that failed. The sixty banks whose affairs are now in the hands of receivers have millions of undistributed assets which will reduce the loss below the amount above mentioned.

The depositors of the 387 national banks that have been wound up lost a total of $24,700,029. Compare this with the aggregate deposit of $5,256,100,000. An annual tax of one-ninth of one per cent on deposits would have paid the entire loss.

### UNJUST? WHERE? WHY?

There has been loud complaint of what an unjust tax this would be to impose on the depositor. Let us see. In 1907 the United States government received from its semi-annual tax on circulation $2,806,070.54. The department of the comptroller of the treasury spent but $413,759.41 all told.

The government's net profit was exactly $2,392,311.13. Observe that this sum is more than enough to pay the average loss of depositors for two years. If this profit were turned over to the bank deposit guaranty fund, it would furnish the entire necessary protection, without a dollar of cost to the depositors.

### WHERE'S THE EXPENSE?

Is it fair to object to the "expense" of insuring bank deposits when the present system imposes enough unnecessary tax to insure all depositors twice over? Or are the objectors animated more by a desire to protect the big depositors against the small depositor, rather than by any conviction of what is right or wrong?

The government's total accumulation from the national banking business in forty-three years is $90,250,915.24. The total loss of depositors, including the sixty banks now under receivership, and whose losses will be reduced by millions when the assets are all turned into cash, is only $47,911,583 for the same period.

These figures effectually dispose of the "injustice" outcry that has been raised against the insurance proposition. Add the profit of the government from bank notes never presented for cancellation, and the maintenance of a large part of its circulation at no expense and it certainly looks to me as though the government could afford even to set aside an insurance fund without adding a penny to the depositors' expense.

### SMASHES OFFICIAL'S ARGUMENT

Various writers and speakers, among them the deputy comptroller of the currency, argue that it is just as reasonable to insure the stockholder of a bank as he is more likely to lose than is the depositor. Here are the facts:

In forty-three years national bank stockholders have paid $17,616,404 under the stockholders' liability act, and they have lost $59,622,420 by depreciation of stock values, which in some cases have been entirely wiped out. A total of $77,238,824 loss in forty-three years.

The comptroller's last report shows an average dividend of 17.2 per cent for the sixteen months just concluded on the stock of all the national banks in the country.

During the same period surplus and undivided profits increased $69,983,898, adding what is in effect an 8.3 per cent divident on their entire capital. With this showing of 25.5 per cent earnings in sixteen months the poverty-stricken owners of national bank stocks need protection as against the small depositor. It is preposterous. If national bank stocks weren't the best investments in America they wouldn't be held entirely by millionaires.

There isn't one logical argument against the insurance of deposits. Governor Hughes is cleverly begging the question in his neat array of statistics, which are very evidently intended to mislead anyone who reads them carelessly.

### SHOWS CLAIM NONSENSICAL

The nonsensical claim that such insurance would make gamblers and thieves by wholesale out of heretofore honest bank officials is childish foolishness.

The comptroller's report gives twenty-eight distinct causes for bank failure. Of the 447 banks failing in forty-three years, 428 collapsed through defalcations, frauds, or other violations of law, frequently excessive loans to officers and directors, which for some mysterious reason have escaped classification as crimes.

Twenty-nine failures were due to depreciated securities, failure of large borrowers, runs, or being closed by directors for fear of runs.

Twenty-one of these twenty-nine banks have either resumed business or paid their depositors in full. Only eight of these banks failed permanently, and their total *loss to depositors was $360,222.25, or less than $8,500 a year.*

*The whole safety of the depositor lies in honest banking, and the figures I have given prove it beyond the shadow of doubt.*

### SHOWS TRIBUNE IN ERROR

The Chicago Tribune has recently been quoted as objecting editorially to the "injustice" bank deposit insurance would work in New York, Massachusetts and New Jersey, where the failures would be rare, and the assessments therefore an excessive and needless burden on the poor depositor. If the Tribune made such a statement it must have taken leave of its senses.

New York, New Jersey and Massachusetts, according to the Tribune's interpretation, must shoulder 45 per cent of the entire loss to depositors in forty-three years in the United States, her territories and dependencies.

Bank losses are not a question of territory. They are a question of common honesty. In the District of Columbia, right at the center of national life and law, depositors have lost $771,554.40. In Wisconsin, which includes Milwaukee with bank clearings of twice Washington's transactions, the loss has been but $131,702.72. Honesty is not geographical, as the Chicago Tribune appears to think. And honesty is the whole issue.

More thorough examination by liberally-salaried examiners; elimination of assistance from within the bank in checking securities and accounts; reduction of loans exceeding the prescribed limit with immediate notification of the comptroller and the directors of the offending bank; refusal to permit allied banking institutions under one roof (to prevent temporary transfer of securities for the benefit of the examiner); punishment of directors who lend or sell their names; punishment of directors also for false statements to examiners or the comptroller; these are needed reforms.

The profits of the currency department are large enough to warrant an increase in the efficiency of the force. The government and the fidelity guarantee companies can enforce honesty among bank officers. The burden of deposit insurance has been misrepresented, and the dangers are imaginary.

"The underlying substantial wealth of our industrial and agricultural classes," which Comptroller Ridgely in his letter of last New Year said "saved us from a worse panic," is bearing the burden today.

**And all the noisy opposition and clever sophistry of corporation politicians directed against bank deposit insurance is merely the attempt to prevent any just part of this burden being transferred to the big depositor, who today profits at the expense of the little fellow.**