

GUARANTEE OF BANK DEPOSITS FAILURE

Plan Given Up After Scandinavian-American Crash.

PROBLEM IS UNSOLVED

Small Fund of Washington Institutions Unable to Pay Interest on "Protected" Amount.

(This is the first of a series of three articles on the operation of state banking laws in Washington, by James Woolley. The Oregonian has been asked to publish the second article with an early date.)

PUGET SOUND BUREAU, Seattle, Wash., Jan. 6.—Banking under the state laws of Washington has reverted to the banks of business morals and methods. Hereafter, as was the case before June, 1917, banks will be conducted honestly or dishonestly, according to the lights and purposes of their respective officers, subject to the customary rules, regulations and restrictions, but without the false stimulus any impossible assurance that the state of Washington guarantees the security of every penny on deposit.

With the end of the year 1931 the last of the member banks associated in the so-called "Washington Bank Depositors' Guaranty Fund" complied with the simple formality required by law and gave notice of withdrawal from their share in the responsibility. A news dispatch in The Oregonian of December 31 announced that the membership had been reduced, by successive withdrawals, until only seven small banking institutions remained in the fund. By the close of business on that same day the last of these small seven had followed the safety-first example of all its sometime associates. The fund was cleaned for at least one New Year's resolution—"Never again."

State Paternalism Closed. This abandonment of the guaranty fund may be said to close the last chapter of a story of simulated state paternalism. But the volume will not be complete without all the notes and addenda of the making. Complainants, counsel and the courts have yet to be heard from. Complainants are already vociferous and have been so for some time; counsel will have much and the courts enough to say. When that's all done the whole tale may be told of Washington's state bank guaranty fund and its failure to function for the protection of anybody.

Meanwhile the facts relating to the origin of the fund, something of its operations and the causes of its final flattening out afford an interesting field for study of the impracticability of the futility of legislation designed to equalize, without penalizing, the twists and turns and contrivances of human nature.

System Is Unpopular. At the outset it must be said that none of the complaints so loudly heard of late, none of the cases begun or in course of preparation by counsel, are specifically directed against the former member banks that have recently run out, almost if not from the responsibility they had voluntarily assumed under the guaranty fund law. Popular resentment, especially keen with those who have suffered loss, is directed against the system, against the loose construction of the guaranty fund law which permitted assurance not only to be given, but to be strongly advertised, that the security of deposits in member banks was absolutely guaranteed.

That is exactly what the great majority of depositors believed. It is not necessary to hint at "false pretenses" by saying that they were deceived, but to believe it. The fact stands that they did believe it, because there were no surface indications to the contrary. Of course, if they had all consulted lawyers or had been able to interpret the law for themselves, they would have discovered the truth—that their deposits were secured only to the extent of the amount slowly accumulating—and to the state's function was purely administrative. The state pledged them nothing. Many of them didn't find this out in time to do them any good, but it is true.

Fault Not With Banks. But so far as the swift withdrawal of member banks is concerned, no fault can be found with them under the law, according to the opinion of lawyers who have given the matter much study. The law made membership optional with the state banks. Under certain conditions they could join in the guaranty—if they pleased. There was nothing compulsory about it. By conforming with certain regulations and paying a fee, they saw fit to do so. Their wholesale withdrawal has been in due form and, so far as can be known at this time, in exact accord with the law.

And, in point of fact, this seemed to be the one thing that these banks really had to do. Optional as it was, as the law was concerned, withdrawal was made compulsory to these banks as a matter of duty to themselves and their clients, as an act of self-preservation. It is supposed to be the primary and essential principle of banking that a bank's first obligation runs to its depositors. In the interests of sound banking the banks owe some measure of mutual service to one another. A strong bank, or a group of strong banks, may properly come to the relief of a weaker sister that can be saved by timely aid. But no strong bank may reasonably be expected to sacrifice itself, its assets and the money of its trusting depositors on a hopeless task of salvage.

Failure of Plan Proved. Here is the picture that the officers and directors of the state banks have had before them:

When the Scandinavian-American bank of Seattle, once the biggest and most important member of the guaranty fund, closed its doors June 29, 1931, its total deposits amounted, in round numbers, to \$10,000,000. Of this amount \$8,500,000, also in round numbers, were the supposedly guaranteed deposits of individuals, separate businesses and manufacturing concerns and the like. The remainder, approximately \$1,500,000, were deposits of public funds to which no guaranty attached since they were covered by the surety bonds of the depositing public officials.

At the time of this failure 114 other state banks, scattered among the cities and towns of Washington, were members of the guaranty fund. The combined total of the capital and surplus of all these banks did not then and does not now exceed \$8,000,000.

At the time of this failure the total amount already contributed or set aside on the books of the member banks as belonging to the guaranty fund was about \$400,000.

How, then, were these 114 member banks, whose utmost pretense of

SPOKANE ENTHUSIASTS FOR COLUMBIA BASIN PROJECT, VISITORS IN PORTLAND YESTERDAY.



LEFT TO RIGHT—J. A. FORD, WILLIAM A. MONTENE, T. S. LANE, R. R. GILL, N. W. DURHAM, GEORGE A. PHILLIPS, W. T. DAY AND ARTHUR D. JONES.

financial resources did not extend beyond a total of \$5,000,000, to deal with one member's loss of guaranteed deposits to the total of \$8,500,000?

Problem Beyond Solution. The men of the 114 banks, it is now admitted, knew from the moment that they first realized the magnitude of the failure that the problem was beyond their several or combined solution. Nevertheless, they consented to entertain and discuss a plan devised by the light of which the task to the formation of a new bank in Seattle, the stock in which was to be taken up or underwritten by all the member banks on some pro-rata basis. This new bank was to take over the remaining assets of the Scandinavian-American and the other member banks were to keep on paying into the guaranty fund as usual. In the course of years, it was urged, the fund would work itself out automatically.

But here stood a pertinent provision in the guaranty act itself: a provision in the light of which the task to which the governor had called the member banks was made to appear interminable. It followed that "wherever the state bank examiner shall take charge of and proceed to wind up the affairs of any guaranty fund bank, he shall, by law, be authorized to make such order as he shall deem proper for the liquidation of the guaranty fund, which warrant, if there be not sufficient money in the guaranty fund to pay the same, shall bear interest at the rate of 5 per cent per annum from date until called."

Withdrawals Begin Quickly. Disregarding the inconsequential sum accumulated at the time in the guaranty fund, it was a simple matter in mental mathematics for any banker to arrive at the annual interest load of \$125,000 at 5 per cent on the \$2,500,000 guaranteed deposits of the Scandinavian-American bank, for which warrants would have to issue. This calculation, coupled with the obligation to pay the regular 1 per cent on his own deposits—not for the protection of his own bank and other sound banks, but to carry dead horse—made every banker look askance at Governor Hart's proposal.

No new bank was formed. The state supervisor of banking, which title, under the new administrative code, superseded that of bank examiner, continued in charge of the affairs of the Scandinavian-American bank and will be on the job for a long time to come, with plenty to do. Withdrawals of member banks from the guaranty fund, begun immediately after the Scandinavian-American bank closed, became more frequent after the governor's conference had failed of a saving solution.

Now the banks are all out and on January 3, the first business day of the new year, John P. Duke, state supervisor of banking, made the public announcement that the much advertised, much-trusted and seriously abused Washington bank depositors' guaranty fund was a thing of the past.

PORTLAND JOINS IN SHOW

Exhibits to Be Made at Seattle by Furniture Manufacturers.

PUGET SOUND BUREAU, Seattle, Wash., Jan. 6.—Portland, Tacoma and other northwestern manufacturing cities will join with Seattle in a big industrial show to be given in this city the last week of next July, according to announcement made today by the northwest products committee of the Seattle chamber of commerce.

Portland, it was said, has offered to forego its annual furniture week and 32 Portland manufacturing concerns have agreed to participate in the larger exposition here.

Eighteen Tacoma concerns already are listed and members of the committee of the northwest products committee, of which Paul T. Kennedy is chairman, sponsored a successful industrial show in Seattle last July, but at that time the exhibits were limited to local manufacturers. Since then efforts have been made quietly to broaden the scope of the show so as to cover all the northwest and the committee today announced that it was assured of general participation.

BOOTLEGGERS TO WORK

County Establishes Rockpile and Days of Ease Are Over.

GOLDENDALE, Wash., Jan. 6.—(Special.)—Five moonshiners and bootleggers now serving out their sentences in the Klickitat county jail who have been toasting their shine over a warm fire at the expense of the taxpayers and receiving two good meals a day carried to them from a nearby hotel, will have to go out into the cold and wield sledge hammers on an old-fashioned rockpile. This is the order made today by the county commissioners upon the request of Prosecuting Attorney Ramsey.

A work camp will be established at once in a county rock quarry on the state road to Maryhill, four miles south of Goldendale. Extreme winter weather now prevailing in the Klickitat valley will not permit of the operation of a rock crusher, but tools will be provided so that big rocks can be made into little ones by the old-fashioned method.

Read The Oregonian classified ads.

WOMEN DIPLOMATS AIM

RESOLUTION IS ADOPTED BY CLUB FEDERATION.

Consular Undersecretaryships for Sex Indorsed—Congress Is Asked to Probe Movies.

CHICAGO, Jan. 6.—Consular undersecretaryships for women were indorsed by the board of the General Federation of Women's Clubs at the close of a three-day conference here today. The board took the action after arguments had been advanced that peace will be made more probable with women in diplomatic positions.

Other resolutions adopted today asked congress to investigate the political activities of the motion picture industry, indorsed the four-power treaty, asked newspapers to give less space to reports of crime, indorsed the establishment of a national cemetery at Yorktown and the construction of a fireproof hall of records in Washington for the preservation of national documents, the latter two resolutions being passed at the request of the Daughters of the American Revolution.

The committee on international relationships was empowered to support an international memorial day on May 30 to be observed the world over.

Liquor Cache Is Found.

GOLDENDALE, Wash., Jan. 6.—(Special.)—A liquor cache was uncovered in the Simcoe mountains near the Reed mountain farm in the Munson prairie section, about 16 miles east of Goldendale, today when George Reed, who with his brother Silver Reed, is serving a jail sentence in the Klickitat county jail on a moonshine charge, plotted Sheriff Warner to the place where the brothers had the manufactured product hidden. About ten gallons of liquor, said by Reed to be double run product, were found.

Montesano to Clean Up.

MONTESANO, Wash., Jan. 6.—(Special.)—Montesano will make a bid for a lower insurance rate by giving the city a thorough clean-up. A visit from the inspector of fire hazards is expected soon and Mayor Wilson is determined that he shall find a spotless town. Special attention will be paid to alleys and basements of downtown buildings. All dilapidated frame buildings not in use that front on alleys will be torn down. The work will be under the direction of Fire Chief Healy.

Holstein Breeders to Meet.

CHEHALIS, Wash., Jan. 6.—(Special.)—Next Wednesday has been fixed as the day for the annual meeting of the Lewis County Holstein-Friesian association. The meeting will be held in the Citizens' club rooms. State Secretary Bouchart will be in attendance. Election of officers and other matters, including selection of two delegates to the March meeting of the state organization, will be transacted.

Electric Service to Be Extended.

ILWACO, Wash., Jan. 6.—(Special.)—Arrangements for poles and other material have been completed by the Ilwaco Light & Power company for extending its electric lines through to Ocean Park and Nahcotta. A branch service line will be extended to the head of the bay, and will serve the homes on that road. The line will branch off from the main lines near Long Beach. Construction work will commence in about ten days.

Tacoma to Go Further Into Plans.

TACOMA, Wash., Jan. 6.—At a meeting here last night it was decided after Spokane men had presented the Columbia basin project claims to hold a general gathering of Tacoma Civic club members here next Wednesday to go further into plans for aiding the financing of a survey by General Goehman. The Spokane delegation left for Portland last night.

Farmers Will Have Luncheon.

CHEHALIS, Wash., Jan. 6.—(Special.)—Tomorrow noon there will be a get-together luncheon at the Hotel St. Helens by the Lewis county farm bureau. State President Armstrong of Yakima will be in attendance. He is also to deliver two other addresses while in Lewis county.

State Services to Be Held.

KELSO, Wash., Jan. 6.—(Special.)—The Kelso Methodist church will have the third in its series of state services next Sunday evening when Texas and Louisiana nights will be observed. A special speaker will take part in the programme.

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Inland Empire Business Men Say Products of Reclaimed Land Would Come Here.

(Continued From First Page.)

of N. W. Durham, managing editor of the Spokesman-Review, who declared that development of the project would add a population of 1,000,000 to the inland empire with 2,000,000 acres under water. In 40-acre tracts, he pointed out, with five people to each small farm, the project would support a population of 250,000 on the soil, and double that number on 20-acre tracts, which would be an ultimate development. The growth of towns and industries, he predicted, would equal the rural population.

"It is not the smaller projects that are menaced today," he said. "These will be taken care of. But we are adding to our national population at the rate of 1,500,000 a year. Where are lands to be provided? Very largely in these arid domains, that must be reclaimed or the nation will suffer."

Water Shortage Feared.

"There is going to be a demand on the waters," he said. "We cannot hold our ground. If we cannot be assured that this project will be made a federal project and a continuing project, that by its, are diverted to other uses this huge tract will remain in perpetual desert."

"I tell you that \$200,000,000 a year will be lost. What a crime it would have been if the Yakima valley had been kept in desert. Now, multiply that by six, for this project is equal to six Yakima valleys."

J. A. Ford, managing secretary of the Spokane chamber of commerce

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made a final plea for co-operation on the part of Portland, and requested that the local chamber name a standing committee on the Columbia basin project to confer and serve with similar committees in Spokane, Seattle and Tacoma.

Help Is Promised.

President Van Duser, for the Portland chamber, assured the Spokane delegation that their requests would at once be referred to the agricultural committee for recommendation, and assured them that Portland's interest in the Columbia basin project is keen.

The delegation was welcomed on arrival by Mr. Hetherington, executive secretary of the Portland chamber; E. N. Weinbaum, manager of the trade and commerce department, and E. E. Paville, chairman of the agricultural committee. Its members were George A. Phillips, A. C. Loomis, M. M. Higley, N. W. Durham, R. H. Gill, Charles Hebbard, Arthur D. Jones, W. T. Day, W. S. Gilbert, William A. Montene, T. S. Lane and J. A. Ford.

Driver Escapes 20-Foot Plunge.

ABERDEEN, Wash., Jan. 6.—(Special.)—Ellis Loomis, crashing through the Balch bridge, which crosses the Chehalis river near Oakville, and plunging in his rural delivery car 20 feet to the ground below, escaped with only slight scratches yesterday afternoon. Loomis was returning from his route on Garrard creek when his car skidded, crashed through the bridge railing and landed bottom up, with the engine still running. Loomis was able to crawl out and made his way on foot to the Balch Market across the street. The top of the car was demolished.

Postmaster Must Go to "School."

CENTRALIA, Wash., Jan. 6.—(Special.)—E. L. Hughes, Napavine's newly appointed postmaster, received word this week from the postal department that he will be expected to take a course in "postmastering" before assuming his duties. The "school" will be held in Seattle.

AUTO SEARCH IS BARRED

RULING MADE ON AGENTS HUNTING FOR LIQUOR.

Action of Washington Supreme Court Is Declared to Be Bootleggers' Victory.

(Continued From First Page.)

PUGET SOUND BUREAU, Seattle, Wash., Jan. 6.—The supreme court of Washington has held that concealed liquor is immune from seizure for evidence except on a search warrant, and Prosecuting Attorney Douglas of King county today declared that this is not a victory for bootleggers. The decision, signed by five of the supreme court justices, reversed the conviction of Fred Gibson of Ritzville, who was picked up on suspicion by the sheriff of Adams county and taken in his automobile to the courthouse. There the automobile was searched, a suitcase full of liquor was found, after which Gibson was served with a search warrant, put under arrest, tried and convicted.

Prosecutor Douglas said today: "Under this decision booze runners who conceal their illicit cargo in an automobile in such a way that it is not visible through the windshield are stopped and searched without a search warrant and inasmuch as the state is making no provision for a 'warrant' for an automobile, but only for premises, concealed liquor in an automobile is immune. Even if it were legal to get a search warrant for an automobile, the car at which the warrant is directed could be in the next county before the warrant could be served."

Among the bootleggers, however, is likely to be short-lived when they learn that the decision will not have the slightest effect on the activities of federal prohibition agents. Moreover, by decision of the United States supreme court, it makes no difference to the federal

PINCHOT ASKS PROTEST

Removal of Forest Control From Department of Agriculture Scored.

GOLDENDALE, Wash., Jan. 6.—(Special.)—With the contention that the department of agriculture is the proper place for the control and supervision of national forests, Gifford Pinchot has written the Golden Commercial Club asking that a formal protest be made by the club in the form of a resolution against action now pending at Washington, D. C., by which it is proposed to take the control of national forests out of the hands of the department of agriculture and place them under the supervision of the secretary of the interior.

Mr. Pinchot has also requested that the club adopt a resolution of protest against removal of the bureau of marketing from the control of the department of agriculture and that it be placed in the hands of the department of commerce. He states that, in his opinion, the department of agriculture is in a better place to handle problems affecting marketing of farm products.

Lutheran Brotherhood Organized.

CHEHALIS, Wash., Jan. 6.—(Special.)—Members of the Lutheran church organization have organized the Lutheran brotherhood, with August Jaeger, president; Arthur Wedemann, vice-president; E. C. Jaeger, secretary, and Leonard J. Jaeger, treasurer. The organization plans an active programme for the winter season. Monthly meetings will be held. At the end of each quarter a dinner will be given.

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