

IEWS OF AN EXPERT.

Shall Banks Be Made Liable for One Another's Debts?

Recognized Authority on Financial Questions Discusses Practical Bearings of Proposed Guarantees Plan.

(By George E. Roberts, former Director of the Mint.)

The proposal to require the banks of the country to guarantee each other's deposits owes its present strength to the financial disturbance of last fall. It is urged as a means of preventing panics, and there is no disagreement about the desirability of accomplishing that purpose.

For years the advocates of comprehensive currency reform have pointed out that with \$14,000,000,000 of bank deposits in the country and only about \$3,000,000,000 of money all told in the country, both in the banks and out, there should be some method provided by which, on the basis of good assets, the supply of lawful currency could be readily increased to meet exceptional demands, whether such demands were due to seasons of unusual business activity or to alarm among depositors.

The guaranty of deposits is a crude and imperfect remedy at best. It does not recognize or attempt to cure the defects in our banking and currency systems, but aims only at persuading depositors not to draw their deposits. The losses to depositors by the failure of national banks has become an insignificant percentage, and is growing less every year, as a result of natural, evolutionary progress in banking.

The fundamental weakness in our currency system is in the fact that it is not readily responsive to the needs of the country. The legitimate demand for money varies from year to year, and from season to season in the same year. It is a familiar fact that there is a great deal more business to be handled from September 1st to December 31st each year than in any other four months of the year, but there is no more money in the country unless gold is imported for the purpose.

Would Lead to Reckless Banking.

As a remedial measure the guaranty of bank deposits is not only inadequate, but it is worse than inadequate, for it proposes to overturn the principle of individual responsibility by means of which the banking business has been raised to its present high standards, and upon which all individual and social progress is based.

The proposal contemplates that the public shall be relieved entirely from the exercise of judgment and discrimination in the choice of banks, and while it is highly desirable that all banks shall be made safe, to the end that even the most ignorant and confiding may be protected, it is still true that an alert public opinion has great influence in maintaining proper banking standards. We cannot afford to do without that influence.

Under present conditions the investments, the personal habits, the general character and abilities of the banker are under the constant scrutiny of the community, and a matter of public interest. Notwithstanding occasional instances in which the public has been deceived, it may be stated as a general proposition that an unblemished character and a reputation for good business ability and conservative judgment have been necessary to success in the banking business. The public looks over the individual who is to receive, and invest and be responsible for its money with some discrimination, and the elimination of the unfit by the scrutiny and composite judgment of the community is a factor of the highest value in maintaining the standards of the banking business.

They calculate the insignificant percentage of loss to total deposits under present conditions, and assume that no greater losses would occur after character ceased to be a factor in the business, and all deposits were given blindly to whoever would bid highest for them. To the objection that this elimination of character as a factor in the acquisition of deposits must tend to promote reckless banking, reply is made that bankers will be deterred from recklessness by fear of losing their own money. The reply misses the point. All men are not deterred from recklessness by fear of losing their own money, but reckless men are now,

as a rule, kept out of the banking business by the unwillingness of the public to entrust money to their care.

Careful Banking Best.

Under present conditions there are compensations in favor of careful and conservative banking. There are people who are not influenced in their selection of a bank by the highest rate of interest offered on deposits, and who have their suspicions aroused by the tender of exceptional inducements. They know that such offers put a strain upon the business, and they deliberately prefer to place their money with a banker who will not subject himself to such strain. These depositors esteem safety above all other considerations, and they are numerous enough to exercise a very wholesome restraint upon reckless tendencies in the business. A banker now prizes the reputation of doing a safe business, and cannot afford to have a reputation for imprudence and speculative inclinations. And yet, although held in check by these powerful considerations, the pressure of competition carries the business near the danger line even now. There is too much competition for deposits, and the ambitions of the more venturesome members of the fraternity, and the pace they set, puts the whole system under strain.

But what are likely to be the conditions in the business when the public is no longer concerned about the management of a bank, and all the restraints upon recklessness are removed? The considerations which in the past have tended to safeguard the business and advance its standards would be gone. The public would care nothing for the personality of the banker. Instead of looking to the institution which received the deposits, the depositor would rely on an outside fund. A banker might bet all the deposits on horse races without the fact becoming a matter of any concern to his customers.

And how would the conservative, prudent banker fare under these conditions? The legitimate reward for maintaining that character would be lost to him. He would get no deposits unless he bid as high for them as his rivals, for the government would stand behind the latter, and assure the public that they were just as safe as he, and tax him to make them so. In short the reckless and incompetent people, who are now either excluded from the banking business, or held in check by the distrust which everybody else in the banking business would be obliged to conform or get out of the business.

Would Demoralize Business.

The hardest competitor in any line of business is the incompetent or dishonest man who does anything to get business. Such people get into the banking business even now, but their number and influence for mischief would be greatly increased if they were backed up by unlimited credit. In other lines there may be some question as to the quality or service offered by rivals, but all bankers deal in the same kind of money, and if deposits were made a joint liability, there is no reason why they should not go to the bankers who offer the greatest inducements to attract them. The careful banker would have no offset or protection against demoralizing competition, and he would be placed in the strange position of being liable for his competitor's obligations.

All efforts to make it appear that the interests of bankers are on one side of this question and the interests of depositors on the other are untrue to the facts. Nothing that in the long run is harmful to the banking business, that puts it under strain and tends to lower its standards, can be beneficial to depositors or the public. It cannot be advantageous to the community to have its savings and working capital pass into the hands of the venturesome class of bankers who will bid most for them. The actual waste and loss through unwise investments would inevitably increase. It would fall at first on the conservative bankers and penalize them. Instead of an elimination of the unfit, which is the true process of evolution, the tendency would be to an elimination of the best. Eventually the burden of increasing waste would have to be borne by all depositors and the whole community.

Oklahoma Trial Inconclusive.

The fact that the first bank failure in Oklahoma after the law went into effect, was followed by immediate reimbursement of the depositors, proves nothing as to the practicability of the system in the long run. The fact that the State banks of Oklahoma have gained deposits since the system went into operation, while national banks within the State have lost, if true, proves nothing as to the merits of the system. The law itself requires that all public deposits must be kept in banks that belong to the system, and this provision alone would cause a considerable transfer of deposits and influence some banks to join the system. The real test of the policy will come in its influence upon the banking business in the long run. Will it tend to secure more careful and prudent investment of the vast sums which the people of the country keep in banks, or will it tend to weaken the personal responsibility for these funds and divert them into incapable and wasteful hands. It is a superficial view which lays all emphasis upon the immediate results of the law and gives no consideration to its violation of fundamental principles and the consequences, which must follow.

An Unaccepted Challenge.

To Mr. Bryan's complaint that the federal authorities have not prosecuted the United States Steel corporation Attorney General Bonaparte has made a reply which clearly entitles the Nebraska agitator to the protection of the Society For the Prevention of Cruelty to Children. Mr. Bonaparte says: "I have no information, official or personal, that Mr. Bryan has violated any federal statute. Therefore the department has not prosecuted him. I have no information, official or personal, that the steel trust has violated any federal statute. Therefore the department has not prosecuted it. If Mr. Bryan will give me such information about the steel trust the steel trust will be prosecuted, and if the steel trust will give me such information about Mr. Bryan Mr. Bryan will be prosecuted. But in either case I shall want specific charges, sustained by legal evidence and verified by an impartial inquiry, not loose talk, embellished by oratorical fireworks and evolved from the inner consciousness of an eager and perennial candidate for office."

Mr. Bonaparte's attitude is old-fashioned—ridiculously old-fashioned—from the Bryan viewpoint. He holds to the principle that neither an individual nor a corporation should be condemned without trial, that there should be no trial except upon formal complaint and that no complaint should be considered unless backed up with competent evidence worthy of judicial investigation. That is the Bonaparte attitude and the Republican attitude.

Mr. Bryan's attitude is radically different. He would crush the interstate corporations and try them afterward. He regards their very existence as proof that they are lawbreakers. He would indict them on hearsay testimony, place them on trial in the absence of a formal complaint and convict them in obedience to popular clamor, irrespective of their guilt or innocence as determined by established rules of evidence.

The Republican contention is that corporations, being the creatures of law, can be effectively controlled and regulated by law and that they should not be penalized except by due legal process. The Bryan policy is that the only way to reform them is to destroy them, that they are in the very nature of things enemies to the common good and that their prosperity may justly be confiscated without process of law. Bryanism aims at the destruction of property rights invested in corporate organizations. Republicanism insists that those rights, as defined by law, shall be preserved.

Attorney General Bonaparte's challenge will not be accepted. Mr. Bryan is dealing in theories, not in facts, this year and has no time to devote to such trifling things as law and evidence. He knows in his heart that if he had a prima facie case against the steel corporation and the moral courage to submit it to the department of justice at Washington the machinery of the law would be instantly set in motion to prosecute his complaint. On the other hand, he is just as well aware that even though he were a thousand times accused, anonymously or unofficially, of violating the federal statutes, the attorney general could not proceed against him except on a formal, sworn complaint, supported by competent legal evidence.

Mr. Bryan is at liberty to swing himself on either horn of the dilemma. His puerile whine that the government has not prosecuted the steel corporation is due either to shameless hypocrisy or shameful ignorance of the first principles of law.

Roosevelt on Taft, the Laborer's Friend.

If there is one body of men more than another whose support I feel I have a right to challenge on behalf of Secretary Taft it is the body of wage-workers of the country. A stancher friend, a fairer and truer representative, they cannot find within the borders of the United States. He will do everything in his power for them except to do that which is wrong. He will do wrong for no man and therefore can be trusted by all men.

Governor Hughes on Tariff Revision.

Tariff revision there must be. It should be prompt, thorough and fair. But the policy of protection will be maintained and American industry, involving the interests of our wage earners, must be properly safeguarded.

"I ask," shouts W. J. Bryan, "who shall save the people from themselves?" Then, with the shrinking modesty peculiar to himself, he decorates his countenance with a blush which signifies that Barkis Bryan is willin'.

If, as Mr. Hearst says, the Democratic party is now "drunk with power," what a fearful spectacle it would present if it were given any more power.

It is strange that if Mr. Taft is unfriendly to labor some complaint of his treatment of them should not have come from the 30,000 workmen who he employs on the Panama canal.

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