BANK GUARANTY PLAN NOT VISIONARY OR NEW

J. H. Albert of Salem Gives a Clear Statement of Investigations Made by Men of Finance and Some of the Conclusions Already Reached.

Written for The Journal by J. H. Albert, president of the Capital National bank, Salem, Or.

It has been urged by Republican journals and campaign speakers that the question of guaranty of bank deposits is only a political or partisan cry to be forgotten after election; that it is a new question and one which neither careful bankers nor prudent depositors will want. They have invented visionary guaranty plans, wild insurance schemes, vagaries of their own; have demolished them and imagine their sophistry has killed the principle of guaranty of national bank deposits, the elaboration of which is not a political or partisan question but purely one of economics, the agitation of which began long before this political campaign, had no connection with either of the parties and after this election will not be forgotten nor will it down until it be settled by providing security from loss to the depositors as is now vouchsafed to the note holder.

Eminent Bankers Favor It.

It has been the subject of earnest consideration and discussion in bankers' conventions and in congressional committees for a decade or more and was one feature of the new currency bill adopted and reported by the committee on currency to the house of representatives at its last session of which the Honorable Charles N. Fowler, a conservative banker and an authority on financial legislation, is chairman, and, I understand, received the moral support of the president.

This bill provided for an additional national bank note issue and the establishment in the United States treasury of a fund approximating $700,000,000 to guarantee the redemption of those notes in gold coin and protect all depositors in national banks. This bill was a Republican measure and was defeated only by a coalition of the friends of the Aldrich and the Vreeland bills, resulting in the passage of a temporary patchwork bill called the Vreeland-Aldrich bill, expiring by limitation in 1914 but providing for a monetary commission of nine senators and nine representatives, to which is referred the guaranty question and all others affecting our monetary system—to report at its discretion. Many of our eminent bankers favor the guaranty of national bank deposits, among them the distinguished financier, the Honorable Lyman J. Gage, late secretary of the treasury, who says:

Lyman J. Gage's Opinion.

"There is no difference in principle between the obligations of the bank expressed by a credit on its books, and its note which may pass from hand to hand." To the committee on currency and banking when asked by Representative Weeks, "Do you think it would be judicious for congress to pass the Fowler bill substantially as it is in its entirety and practically change our circulating medium at one jump?" Ex-Secretary Gage answered "Yes, I think the people would look upon $700,000,000, if that is the way it figures up, as security for note redemption guaranty and for deposits, with perfect complacency. They would be very unreasonable if they did not."

Others who nominally oppose guaranty of deposits favor its equivalent, viz.; Solidarite in the relation between the banks in this system and their depositors, such as exists between the parent bank and its branches in other countries. We have over 6,000 branches in our national system, but no central or parent bank. The comptroller of the currency, William B. Ridgley, in his last report December 2, 1907, referring to the central banking system, says:

"A national central bank, etc. etc., would not be open to the objections urged against the former United States banks, that they were really private institutions engaged in a banking business. Such a bank would be little more than a department of the government. It would greatly improve the efficiency and value of the treasury department and make it a means of assistance and benefit to business, instead of a menace and a danger, and would make our currency and banking system a source of impregnable strength in times of financial stress.

Would Prevent Panics.

"By the wise use of its great powers and facilities it would be able to absolutely prevent the recurrence in the United States of a widespread bank panic. It would add to the stability of our business in every line and give us a banking and a financial system equal to any in the world.

"Some of the objections to the guaranty of deposits by the general government would not hold in the case of its being done by a central bank which might be given power to do that in its charter. If the experience of the country in the bank panics from 1857 to 1893 needed any further confirmation, the panic of 1907 has demonstrated beyond the possibility of denial that perfectly solvent banks, if independent, isolated units with no power of cooperation except through such voluntary association as their clearing houses, cannot protect themselves in a panic and save themselves from failure without such a suspension of payments as to produce disorder and demoralization in all the business of their customers. No single bank or group of banks can do this for themselves. They must depend on the government of the United States. For this reason this question is submitted for your consideration.

Successful in Canada.

"The solution of such a vast problem as this presents is not to be hoped for in any short time. Opinions are still too diverse to bring about quickly any such agreement as is necessary to accomplish a definite and final result."

"Now I do not believe that indemnity to depositors, though an important factor need await the solution of the whole problem. I believe the government stands in a similar relation to the national banks that the parent bank in Canada does to its branches. The national system is the creature of the government subject to its rules and actually governed by it through the comptroller of currency and the regulations of the currency bureau. It has been reimbursed for every item of expense incurred by it and has reaped besides a net profit of $167,095,063.72, while the total losses to depositors and other creditors of its insolvent banks during the 43 years of their existence is but $38,183,288.00 or less than one-fifth of the amount of the government's net share of earnings. While the government has contributed nothing to the capital, it has received a large share of the profit and I believe should be liable, if not as principal, as a silent partner for losses, at least to the extent of such participation in the profits.

Would Not Add Burden.

Such indemnity would not interfere with or in any manner change the conduct or supervision of the national banks nor lay any additional burden upon them, but will solve the question of the depositor who asks why a deposit of $100 in a national bank for which he received its engraved certificate to bearer is safer than the other $100 deposited at the same time, for which he received a lithographed certificate payable by the same bank to his order. The one being a national bank note, the other a national bank certificate of deposit.

It is to be regretted that in the discussion of the question raised in the platform of the Democratic party relative to the guaranty of payment of depositors of insolvent national banks, its opponents should evade the real issue and endeavor to bring it into disrepute by citing the sporadic action of the state banking system of Oklahoma inaugurated only a half a year ago without the reliable data to be obtained only from a long period of banking experience, as pertinent to the real question and entitled to consideration in its discussion.

Bring Money From Hiding.

The fact that the platform ignores the Oklahoma method is evidence that it does not approve it, and its phraseology indicates that it lacks confidence in any independent action on the part of the state banks. There being reason for this lack of confidence in the history of the note issues of the state banks under the heterogeneous systems which prevailed before the war, causing a loss of many millions of dollars to thir noteholders. The framers of that platform well knew that in our so-called state banks we have 48 different systems, good and bad, old and new, with no semblance of uniformity, furnishing no reliable data upon which to base a guaranty law acceptable to conservative bankers. On the other hand, our national system, with its 44 years of experience, including three periods of great financial stress, furnishes such reliable data pertaining to possible maximum and minimum losses, and the average losses to depositors in insolvent national banks for that period, as to enable it closely and safely to estimate present and future losses. Hence the only guaranty legislation suggested in the platform pertains to national banks and such state banks as may voluntarily adopt the same or a similar plan. It suggests no plan—simply promulgates the doctrine. This would apparently give great advantage to the national banks for reasons above stated, yet no hegira from the state banks need be expected. Indeed, under normal conditions a guaranty would make little difference with the patrons of a bank, but it might be of great value in the dawn of a panic, and might be valuable at all times in calling out of hiding money hoarded by a class of people who had before been afraid of all banks.

Patrons Have Blind Faith.

To show that depositors do not usually patronize one bank instead of another on account of comparative strength and safety, but that they consider all banks safe, I will cite the present status of banking in Oregon. Section 3 of our constitution provides that "The stockholders of all corporations and joint stock companies shall be liable for the indebtedness of said corporation to the amount of their stock unpaid and no more," so that under our law the depositor in a state bank has no recourse upon the officers and shareholders, but must rely solely upon the assets of the bank; while the depositor in a national bank is secured by the personal liability of every shareholder to the extent of the full par value of his stock in addition to his original payment of its par value. Yet, about one half of the deposits in this state are held by the relatively insecure banks.

The guaranty plan is impractical in Oregon except by voluntary action of such of the state banks as would be willing to be jointly liable for each other and without personal liability of shareholders its guaranty fund would necessarily be very large to be adequate.

Is Bulwark of System.

The great bulwark of the national banking system is the reserve of $900,000,000 personal liability of its stockholders and it is due to the fact that this reserve has been so liberally drawn upon in the past to meet the liability of its insolvent banks that the average loss to depositors since its establishment has been cut down to about the one-twentieth part of 1 per cent of the average deposits.

Again, it is regrettable that disingenuous statements should be made to the public upon this question, especially by those in a position to know the facts. For instance, I quote below a stock argument used by Mr. Taft in his campaign itinerary:

"It is permissible under the national banking act for banks to organize with a capital of $25,000. The security which banks offer the depositors depends upon the amount of capital, the amount of surplus and public confidence in the officers of the institution.

"Under the proposed system the depositors in a bank with a capital of $25,000 and no surplus, and with officers of little experience and indifferent reputation can offer the public exactly the same security for the payment of deposits as a bank with a capital of $500,000, a surplus of $250,000 and with officers known to be honest and able. Depositors, therefore, insofar as security of deposits is concerned, are as likely to make their deposits in the $25,000 bank as in the bank with the capital of $500,000."

Now Mr. Taft, long-time member of the cabinet and candidate for the office of president of the United States, should know that "it is permissible under the national banking act for banks to organise with a capital of $25,000" only in towns of not more than 3,000 population where it would be impossible to come into competition with a bank of $500,000 capital and $250,000 surplus." If Mr. Taft does not know better some friend in the currency bureau should correct his blunder.

Repeats Taft's Blunder.

Another of his statements repeated by the Baltimore Sun, is that the loss to depositors "amounts in the national banks of the country to one-twenty-sixth of one per cent of the deposits each year" and in another place gives the present amount of deposits at $5,000,000,000. The fact is that the loss of one-twenty-sixth of one per cent was the average loss to depositors upon the annual average deposits of national banks since their organization, such annual average deposits being but little in excess of $1,500,000,000. Now as the loss to depositors has no relation to the amount of deposits, some of the heaviest losses having occurred when deposits were at the lowest ebb, the percentage of the annual loss at present would be as 1⅓ is to 5, but making the correction upon the basis of the last report of the comptroller of the currency it would really be approximately one-fiftieth of one per cent.

Again Mr. Taft says:

"In Oklahoma, the place where they try out the experiments, they are finding that banks are being organized with a capital of $10,000 by persons who have failed in the banking business before, by men that are under charges of embezzlement, but who are able to get deposits by saying to depositors: 'I am a good fellow and want you to help me out. Put your money in my bank, because this million-dollar bank up here of Mr. Smith's is my security that you will get your deposits back.'"

Replies to Mr. Taft.

Now what bearing has this upon the question of the guaranty by the government of deposits in its own banks? To the old timers of the south, Mr. Taft's present itinerary will recall that of his mythical prototype of "Baron Roorback's" tour through the western and southern states.

There are jingos on both sides of this question who are detrimental to its solution. The optimist who builds castles in the air and deems the guaranty a panacea for all financial ills, that under its provision there can be no panics, that by some occult process gold can be instantaneously transferred from New York to Portland to meet the exigencies of commerce, and, on the other hand it can be miraculously wafted back again to meet the exchange demands of our customers ignores the fact that over 90 per cent of the business of the country is based on credit and that when any locality demands the cash that it sometimes becomes a physical impossibility to comply with the demand.

It is not a question of confidence in responsibility and ability finally to pay the demand, but in confidence in the ability to pay now and here that caused the panic of a year ago. On the other hand we have the pessimist, the calamity howler, who predicts absolute ruin of the good banks of the present by an invasion of swindlers and rascals who will leave the gambling tables and start banks purposely to wreck them to get rich on the spoils. This class would lead you to believe a paradox, viz.: that guaranteeing deposits will result in unsafe banking, that national banks are safe now because they are not perfectly secure, and that to make them perfectly secure would make them unsafe.

To establish the fact that our national banking system was not invoked by the banks and capitalists of that day but was purely a creation of the government and forced upon the banks by the exigencies of war, and that there is a moral obligation as well as a fiscal one on the part of the government to indemnify their depositors against loss, we need but review briefly their history.

History of Banking.

The financial crisis of 1857 had rid the several state banking systems of their unsound institutions, leaving but few standing in the west, and placing the whole country on a solid specie paying basis. During the general suspension, the well-secured notes of the eastern and New England states circulated there as freely as before, but the western states had practically no currency left but gold, and having lost heavily through the depreciation of their poorly secured bank circulation, were loath to reinstate paper currency of any kind. The constitution of our own state (section 1, article 11), bears evidence of this revulsion in its prohibition of banks of issue, and our subsequent adherence to the gold standard throughout the war was the result of the same feeling which permeated all the west and which east of the Rocky mountains was overcome by contiguity alone. Again the remoteness of the Pacific slope coupled with the fact that it had no banks of issue led it to adhere to the gold standard in all transactions except those with the general government.

The entire national debt at the beginning of 1861 was about $90,000,000. The customs fell off during the year in consequence of the taking effect in April of the Morrill protective tariff (the first Republican tariff) so that they amounted for the current year to only $39,000,000, less than had been realized in any former year since 1818. The circulation consisted of notes (of specie-paying state banks) $200,000,000; gold and subsidiary silver, $240,000,000.

Was War Time Measure.

On July 17, 1861, just four days prior to the disastrous defeat of our armies at Bull Run, within cannon sound of the capitol, President Lincoln approved "an act to authorize a national loan and for other purposes," providing for the ussue of not exceeding $250,000,000 of United States bonds: $50,000,000 of this sum, however, was authorized to be issued in treasury notes, payable to bearer on demand, none to be issued of a less denomination than $10. This was the first note issue of the government. The banks of New York, Philadelphia and Boston immediately took $50,000,000 of the bonds, advancing the gold as required by the government. Later these same banks took $50,000,000 more.

In the meantime the conclusion was reluctantly reached by the government and the people that the war was not to be ended in a few months, and that the preparations financially were entirely inadequate to the pressing needs present and future. The banks had parted with $100,000,000 of their gold which the government could not repay and the inability to respond to further calls, coupled with the rumor that congress was about to issue a large amount of notes giving them legal-tender powers, forced the banks of New York, Philadelphia and Boston to suspend specie payments, which they did simultaneously December 30, 1861, when gold and bank notes parted company, not to meet again until the resumption of specie payments on January 1, 1879.

Our national credit had been impaired abroad by a combination of unfortunate events. Our defeat at Bull Run had been exaggerated and misrepresented in Europe. Our soldiers accused of cowardice. The humiliating conclusion of

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