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This dissertation traces the history of state and federal bank deposit insurance from the first state program enacted in 1829 to the creation of the Federal Deposit Insurance Corporation (FDIC) in 1933. I seek to correct a common misperception that federal deposit insurance was part of the legislative agenda of Roosevelt's New Deal. Not only was Roosevelt not in favor of the measure, he actively opposed it. Behind this misperception is one hundred years of history of state bank insurance programs and forty years of advocacy at the federal level. This study argues that the call for government bank insurance was a recurring democratic impulse that emanated from the developing, rural economies in the periphery of an expanding nation. The advocates of this legislation sought to use the power of the state to stabilize banking and currency in an expanding market economy in order to better tie the rural periphery to its commercial and financial center. This study is both the history of a bank regulation and the history of a legislative idea whose champions and effects cut across geographic, economic, political, and social boundaries. The first state bank insurance program was formulated in the unique political economy of New York in 1829 at a time when the federal government guaranteed the credit of the United States, but only part of the money supply: specie, government-minted gold and silver coins, but neither bank notes nor bank deposits. State bank insurance programs then spread west to five more states before the Civil War. After the Civil War, bank insurance programs were called for at a time when the credit of the federal government had expanded to guarantee bank notes, but not bank deposits. After

the Panic of 1907, eight more states enacted deposit insurance programs. The call for deposit insurance at the federal level began in 1886. The legislative idea was handed down through one hundred and fifty bills and three generations of progressive Democrats from the Middle West and South before FDIC was created in 1933. Government-managed bank insurance represented a renegotiation of the balance of power between the state and private banks to use the power of the state to distribute default risk across all banks, from the weakest to the most powerful. An underlying institutional argument of this study shows that state power was a precondition of government bank insurance and how the state's credit ultimately became the source of the guaranty. The federal guaranty of bank deposits was not cut from whole cloth in 1933; it was a recurring democratic impulse from the periphery of American capitalism that can be traced to the beginning of the Republic.

MORE LIVES THAN A CAT: A STATE AND FEDERAL HISTORY OF BANK DEPOSIT INSURANCE IN THE UNITED STATES, 1829-1933

by

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To Jim, whose support for this project never wavered.

APPROVAL PAGE

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CHAPTER I

INTRODUCTION

The Federal Deposit Insurance Corporation (FDIC) is commonly known as a legacy of the New Deal. Even the gift shop of the Franklin Delano Roosevelt Presidential Library sells t-shirts printed with the FDIC logo along with the alphabet soup of New Deal program acronyms. Above and below the sea of acronyms is a quote from historian Arthur Schlesinger, Jr.: "The world we live in today is Franklin Roosevelt's world."[1] Roosevelt may have signed the Banking Act of 1933, which created the FDIC, but he did not support the measure. In fact, he ardently worked to defeat it. Although FDIC is commonly thought of as part and parcel of FDR's legislative agenda, the provision was enacted in an eleventh-hour political compromise. Only as the clock was ticking during the last days Congress was in session did Roosevelt agree to a carefully-conditioned deposit insurance provision in order to pass the bank reform that was on his agenda, the separation of commercial and investment banking. It was Henry Steagall, the Chairman of the House Committee on Banking and Currency from rural Alabama, who wagged the dog. With the support of key Congressional leaders from the Middle West, South, and West and increasing public pressure from the unabated financial crisis,

[1] Arthur Schlesinger, Jr., "Franklin Delano Roosevelt" in "100 Leaders and Revolutionaries of the Twentieth Century," *Time*, April 13, 1998.

Steagall defended the deposit insurance provision in conference committee until Roosevelt agreed to sign the bill into law.[2]

Historical biographies of Roosevelt report his opposition to government deposit insurance in 1933 and earlier, but they also acknowledge that the FDIC came to be regarded by the public as "one of the New Deal reforms." The president did nothing to correct that misperception and happily "reaped political credit for it."[3] This misperception is often repeated in broader histories of the New Deal. In *Liberalism and its Discontents*, for example, Alan Brinkley makes the common error of conflating the creation of FDIC with Roosevelt's other legislative efforts:

> Roosevelt did act effectively to stem the dangerous banking crisis. He declared a 'bank holiday,' passed emergency bank legislation and later won passage of more substantial banking reforms that created federal insurance of banking deposits and strengthened the Federal Reserve System.

In *Freedom from Fear*, David Kennedy notes in one chapter that the Banking Act of 1933 passed "over Roosevelt's objections." In another he proclaims, "The New Deal had decisively halted the banking panic. The many millions whose bank savings had been secured by the Federal Deposit Insurance Corporation owed a weighty political debt to Franklin Roosevelt."[4] These characterizations obscure the fundamental character of the

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[2] "Conferees Agree on Banking Bill," *New York Times*, June 13, 1933, 1; Frank Freidel, *Franklin D. Roosevelt: Launching the New Deal* (Boston: Little, Brown and Company, 1973), 442-3; William Leuchtenburg, *Franklin D. Roosevelt and the New Deal*, 1932-1940 (New York: Harper & Row, 1963), 60; Susan Kennedy, *The Banking Crisis of 1933* (Lexington: University Press of Kentucky, 1973), 214-23.

[3] Frank Freidel, *Franklin D. Roosevelt: Launching the New Deal* (Boston: Little, Brown and Company, 1973), 444.

[4] Alan Brinkley, *Liberalism and Its Discontents* (Cambridge, MA: Harvard University Press, 1998), 19; David Kennedy, *Freedom from Fear: The American People in Depression and War, 1929-1945* (New York: Oxford University Press, 1999), 153, 285.

hundred years of deposit insurance history that preceded the Banking Act of 1933 and the history of the Banking Act itself.

Illustrator Saul Steinberg's famous 1976 *New Yorker* cover, "View of the World from 9th Avenue," encapsulates a point of view that this study uses to reorient and refresh the history of deposit insurance.[5] Steinberg, who called drawing "a way of reasoning on paper," portrayed the provincial worldview of New Yorkers with colored pencils.[6] Looking west from 9th Avenue over a multicolored cityscape, New Yorkers can see the Hudson River to "Jersey." The rest of the continental United States consists of a barren, brown rectangle that runs between Mexico and Canada to the Pacific Ocean. A few random cities and states are carelessly labeled. Beyond the Pacific Ocean, China, Japan, and Russia are three foothills in the distance. The New Deal may be remembered as part of the legislative program championed by Roosevelt, the urbane, Harvard-educated, New Yorker and former New York governor. In fact, FDIC was the culmination of a recurring legislative impulse that came from the heartland, whose geographic, political, economic, and social status had long been peripheral to the center of American capitalism.

Although federal deposit insurance was enacted during the banking crisis of 1933, the history of government bank insurance dates back to the beginning of the Republic.[7]

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[5] Saul Steinberg, "View of the World From 9th Avenue," *New Yorker*, March 29, 1976, cover illustration.
[6] Saul Steinberg Foundation, http://saulsteinbergfoundation.org/.
[7] In this narrative, the phrase "government bank insurance" or "bank insurance" is used as shorthand for the more technical description "government bank obligation insurance," in which a government enacted insurance program covered specified bank obligations. Before the Civil War, government bank insurance programs covered bank notes, in some cases bank deposits, and sometimes other specified liabilities. After the Civil War bank insurance programs and proposals covered, bank deposits, in some cases bank notes, and sometimes other specified liabilities.

This study frames the history of government bank insurance in the tumultuous political history between the federal government and the states for the control of banking and currency and the turbulent economic history of American capitalism.[8] Before the Civil War, only state banks issued paper money. The first state bank insurance programs were developed to stabilize the value of a state's paper money across all banks. The bank insurance programs enacted before the Civil War insured bank notes and sometimes bank deposits. During the Civil War, the federal government took control of issuing bank notes through a system of national banks. After the Civil War, bank insurance programs and proposals primarily insured bank deposits. The bifurcated system of state and national banks created a dynamic but fragile banking system.

The history of bank insurance is also part of the history of the federal government to guaranty the credit and currency of the United States. Beginning with the Funding Act of 1790, the federal government established the credit of the United States by guaranteeing the war debt of all the states and the Continental Congress. Starting with the Coinage Act of 1792, the federal government secured part of the money supply, specie, that is, government-minted gold and silver coins. Seventy years later, when the Banking Acts of 1863 and 1865 created a single national currency through a system of national banks, those national bank notes were guaranteed with the full faith and credit of the federal government. Seventy years after that, the Banking Act of 1933 created the Federal Deposit Insurance Corporation to secure the bank deposits of all member banks.

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[8] In this narrative, the words "currency" and "money" are used interchangeably in the common phrases "credit and currency" or "banking, money, and the economy" to refer to the money supply, which includes specie or minted coins, bank notes (paper money), and bank deposits.

The history of government bank insurance is part of the history of the federal government to secure the money supply.[9]

The history of bank insurance was also inexorably shaped by the tumultuous economic history of American capitalism, marked by exponential growth and cyclic instability. That instability was characterized by periodic bank panics, often triggered by unstable financial markets and sometimes by government monetary policies. The economic effects of that instability often fell unevenly across a continent where up to the first decades of the twentieth century the majority of the population lived and worked in agriculture. This economic sector was served by a system of state and national banks, whose loan portfolios were heavily invested in agricultural loans.

When Henry Steagall fought to include federal deposit insurance in the Banking Act of 1933, he was working for the thousands of people who had lost their life savings, but he was also working to stabilize the monetary system, integrate the banking system, and preserve the system of rural credit that served his constituents and the millions of other people hit by the Depression who lived in Steinberg's barren expanse.[10]

The central focus of this investigation is to understand how the idea of state deposit insurance was conceived and carried forward over time. The central argument of this study is that the call for government-managed bank insurance legislation was a

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[9] A. Barton Hepburn, *A History of Currency in the United States* (New York: Augustus M. Kelly Publishers, 1967), 1-41, 179-204; Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton, NJ: Princeton University Press, 1963), 434-45.

[10] Ben S. Bernanke, "A Century of U.S. Central Banking," *Journal of Economic Perspectives*, 27, no. 4 (Fall 2013): 3-16; Elmus R. Wicker, *Federal Reserve Monetary Policy, 1917-1933* (New York: Random House, 1996); Elmus R. Wicker, *Banking Panics of the Gilded Age* (Cambridge: Cambridge University Press, 2000); Elmus R. Wicker, *The Banking Panics of the Great Depression* (Cambridge: Cambridge University Press, 1996); Robert H. Weibe, *The Search for Order, 1877-1920* (New York: Hill and Wang, 1967), viii.

recurring, democratic impulse that originated with business and political leaders who settled the continental United States westward, who built their communities from the ground up, and then worked to tie them to the national project and its financial center in New York City. The leaders who championed bank deposit insurance came from the geographic, economic, political, and social periphery of the United States. Any community of people whose peripheral status to the larger industrial economy made their local banks too small or too undiversified to withstand the shockwave of a bank panic could be motivated to call on the power of the state to legislate bank insurance to secure the economy from the periodic but inexorable failures of the American financial system. Government-managed bank deposit insurance was a public-private partnership that represented a renegotiation of the balance of power, between the state and the private sector and within the private sector, by using the power of the state to spread default risk across all banks. Government bank insurance was a call for government to have a hand in maintaining economic stability and a role in mitigating the collateral damage of American capitalism.

The history of bank deposit insurance as a legislative idea therefore offers insight into a historic debate in U.S. history about the role of government in banking, currency, and the economy. The idea of state-managed bank insurance represents the crystallization of the idea that it is a legitimate role of government to mitigate the risk and consequences of economic failure. At the core of this conception of the role of government is the central importance of the ephemeral but elemental role that faith plays in banking, currency, and the economy. The history of government bank deposit insurance shows how public policy at the state and federal level slowly moved to secure that faith from the beginning of the Republic.

Segments of the history of government deposit insurance have been the subject of academic investigation. The first academic study of the first bank insurance program, the New York Safety Fund, was commissioned by the National Monetary Commission in 1908.[11] Recent studies of early American banking by economic historian Howard Bodenhorn also include discussions of the New York program.[12] Several academic investigations of the eight state programs enacted after 1907 were commissioned by Congress and conducted while the programs were still in operation.[13] The first major academic study of this second wave of programs after they ended was the doctoral research of economist Arthur Alvin Smith in 1933.[14] Historian Susan Estabrook Kennedy is the author of the most comprehensive historical treatment of the Glass-Steagall Act. Her study examines the inclusion of the deposit insurance provision in that act and briefly references its longer history.[15] Each of these studies tells a part of the history of deposit insurance. No one academic study has investigated the historical arc of state and federal deposit insurance in the United States as a whole.

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[11] Robert E. Chaddock, *The Safety Fund Banking System in New York, 1829-1866* (Washington, DC: GPO, 1910).

[12] Howard Bodenhorn, *State Banking in Early America: A New Economic* History (New York: Oxford University Press, 2003), 155-182; Howard Bodenhorn, A History of Banking in Antebellum America: Financial Markets and Economic Development in the Era of Nation Building (Cambridge: Cambridge University Press, 200), 35-39.

[13] Z. Clark Dickenson, "State Guaranty of Deposits in Nebraska," *Quarterly Journal of Economics*, 29, no. 1 (Nov. 1914): 187-97; Thornton Cooke, "Deposit Guaranty in Mississippi, *Quarterly Journal of Economics*, 29, no. 2 (Feb. 1915): 419-25.

[14] Arthur Alvin Smith, "The Guaranty of Bank Deposits" (PhD diss., Vanderbilt University, 1933); John Blocker, "The Guaranty of Bank Deposits," *Kansas Studies in Business* (University of Kansas), No. 11 (July 1929), 1-57.

[15] Susan Estabrook Kennedy, *The Banking Crisis of 1933* (Lexington: University of Kentucky Press, 1973), 214-223.

While the histories of populism and progressivism are an undercurrent of the late nineteenth and early twentieth century deposit insurance proposals and programs, this study, which begins in the Early Federal period, shows that bank deposit insurance was a legislative idea which transcended political ideology. The peripheral status of a community or region to the national project superseded the influence of any particular political ideology. In 1829, the first bank insurance program was commissioned by the leader of the newly minted Democratic Party and conceived by a former Federalist. In the late nineteenth century, when there was still a wing of the Republican Party that called for a stronger government role in the economy, federal deposit insurance proposals came first from Republicans and then Democrats and Populists. In the twentieth century, federal deposit insurance was increasingly championed by progressive Democrats, but not by all progressives or only by Democrats. The legislators who introduced the federal bills after 1886 and the state programs established after 1907 were influenced by the Populist Movement and the Progressive Era, but the legislation was not a feature of these movements. Deposit insurance was never a party plank for the Populists and only appeared once, conditionally, in the Democratic Party platform in 1908.[16]

This study traces a line of progressive advocacy at the federal level from William Jennings Bryan to Robert L. Owen to Henry Bascom Steagall. Certainly, the idea of government deposit insurance embodies the radical challenge by the rural periphery that the Populist Movement, in particular, represented in American history, but federal deposit insurance was not a product of a particular political movement or of one political party.

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[16] Lawrence Goodwyn, *Democratic Promise: The Populist Moment in America* (New York: Oxford University Press, 1976), 270-272, 477-92, 520.

Perhaps this investigation more closely taps into Robert Wiebe's insight about an underlying "search for order" and a call for "continuous government involvement" during the late nineteenth century and early twentieth century.[17] This study argues that the call for continuous government involvement in stabilizing banking, currency, and the economy has been a part of a recurring democratic impulse from the beginning of the Republic.

Starting in 1934, the Division of Research and Statistics at FDIC did an extraordinary job of systematically collecting historical information on the state deposit insurance programs. Economists Clark Warburton, who joined that department when it was created in 1934, and Carter Golembe, who joined in 1951, traveled the country over a period of more than twenty years gathering data on the fourteen state bank insurance programs. This institutional research focused on the financial, legal, and operational aspects of the individual programs. Warburton and Golembe authored a series of internal papers on the state programs for the FDIC.[18] Golembe became the public face of this research and later published several articles on the state deposit insurance programs before and after the Civil War.[19] The FDIC also published data on the one hundred and fifty federal deposit insurance bills introduced in Congress between 1886 and 1933 in its

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[17] Robert H. Wiebe, *The Search for Order, 1877-1920* (New York: Hill and Wang, 1967), viii.
[18] Carter H. Golembe and Clark Warburton, "Insurance of Bank Obligations in Six States During the Period 1829-1866," (Washington, DC: Federal Deposit Insurance Corporation, 1958); Clark Warburton, "Deposit Guaranty in Eight States During the Period 1908-1930," (Washington, DC: Federal Deposit Insurance Corporation, 1959).
[19] Carter Golembe, "Origins of Deposit Insurance in the Middle West," *Indiana Magazine of History*, 52, no. 2: 113-20; Golembe, Carter, "The Deposit Insurance Legislation of 1933: An Examination of its Antecedents and its Purposes," *Political Science Quarterly* (June 1960): 181-200; Carter Golembe, "Our Remarkable Banking System," *Virginia Law Review* (June 1967): 1091-114.

1950 annual report.[20] In 1983, the FDIC published a celebratory narrative of its fifty year history, which included a brief treatment of the longer state history of deposit insurance.[21] The economic data gathered by the FDIC undergird this study, which in turn endeavors to further analyze and interpret that data in a more robust and nuanced historical context.

Academic studies written after the Great Depression that include a treatment of state or federal bank insurance tended to address the topic in triumphal terms. Some of these authors lived through the Depression; some experienced the fear and deprivation of those years first hand. Their praise of the state-managed bank insurance idea at both the state level and the federal level is often effusive.[22] Such evaluations may not have been sufficiently critical, but they were not unwarranted. The New York Safety Fund was a novel idea in the world in 1829. The state deposit insurance programs that preceded FDIC were important experiments in risk management amidst a volatile capitalist expansion and were precursors to the successful federal program. Since January 1, 1934, "no depositor has lost a single cent of insured funds as a result of a bank failure."[23]

Studies by economists and economic historians in the last three decades have offered a revised assessment of government-managed bank insurance in light of the

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[20] *Annual Report of the Federal Deposit Insurance Corporation for the Year Ended December 31, 1950* (Washington, DC: Federal Deposit Insurance Corporation, 1951), 63-101, hereafter *1950 FDIC Annual Report,* http://fraser.stlouusfed.org.
[21] *FDIC the First Fifty Years: A History of the FDIC 1933-1983* (Washington, DC: Federal Deposit Insurance Corporation, 1984); FDIC, *A Brief History of Deposit Insurance in the United States* (Washington, DC: Federal Deposit Insurance Corporation, 1998), 12, https://www.fdic.gov/bank/historical/brief/brhist.pdf.
[22] Early Federal period: Fritz Redlich, *The Molding of American Banking: Men and Ideas, Part 1* (New York: Johnson Reprint Corporation, 1968), 88-95; New Deal era: Leuchtenburg, *Franklin D. Roosevelt*, 60; Kennedy, *The Banking Crisis of 1933*, 214-23; 183-4, 442-3. Kennedy, *Freedom From Fear:* 366; Ronald Edsforth, *The New Deal: America's Response to the Great Depression* (Malden, MA: Blackwell Publishers, 2000), 192.
[23] "Who is the FDIC?" https://www.fdic.gov/about/learn/symbol/; "When a Bank Fails: Facts for Depositors, Creditors and Borrowers," https://www.fdic.gov/consumers/banking/facts/.

savings and loan crisis in 1987 when the deposit insurance fund fell into the red for the first time and in the most recent economic collapse of 2008 when the insurance fund dipped into the red a second time.[24] Charles Calomiris and others emphasize that government-managed deposit insurance creates economic disincentives. Deposit insurance, they argue, encourages adverse selection, in which customers become less willing to discern between well-run banks and poorly-run banks. Deposit insurance also increases moral hazard, in which bankers become more willing to make riskier investments when bank deposits are backed by government deposit insurance.[25]

Other recent studies offer a more favorable evaluation of the role of deposit insurance in the U.S. economy. Political scientist David Moss emphasizes the degree to which government involvement in risk management has been a critical aspect of American capitalism. Moss argues that federal laws governing corporate liability, bankruptcy, workman's compensation, and bank deposit insurance created a stable foundation for U.S. economic expansion.[26]

The purpose of this study is not to judge the efficacy of government bank insurance or to advocate for preserving or dismantling the FDIC. By lifting the thread of

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[24] Eric Dash, "As Bank Failures Rise, F.D.I.C. Falls into Red," *New York Times*, November 24, 2009, B4; Edward J. Kane, *The S & L Insurance Mess: How Did It Happen?* (Washington, DC: The Urban Institute Press, 1989), 1-22

[25] Howard Bodenhorn, "Zombie Banks and the Demise of the New York Safety Fund," *Eastern Economic Journal*, 22, no. 1, (Winter 1996): 21-33; Charles W. Calomiris and Eugene N. White "The Origins of Federal Deposit Insurance" in *The Regulated Economy: A Historical Approach to Political Economy*, ed. Claudia Dale Goldin and Gary D. Libecap, 145-88 (Chicago: University of Chicago Press, 1994); Charles W. Calomiris, *U.S. Bank Deregulation in Historical Perspective* (New York: Cambridge University Press, 2000); Eugene N. White, *Regulation and Reform in the American Banking System* (Princeton, NJ: Princeton University Press, 2014); Edward Kane, *The Insurance Mess: How Did It Happen?* (Washington, DC: The Urban Institute Press, 1989); Charles W. Calomiris and Stephen H. Haber, *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit* (Princeton, NJ: Princeton University Press, 2014).

[26] David A. Moss, *When All Else Fails: Government as the Ultimate Risk* Manager (Cambridge, MA: Harvard University Press, 2002), 6.

government deposit insurance in a way that denaturalizes familiar formulations of American economic, political, and ideological development, this study endeavors to offer a history of government in securing banking, currency, and the economy that makes a contribution to the historiography of American democratic capitalism.[27]

A history of deposit insurance is relevant because, as so much of the New Deal era legislation has been challenged and dismantled in the last eighty-five years, FDIC has steadily expanded. Even the Glass-Steagall provisions that separated commercial and investment banking were repealed in 1999.[28] Federal deposit insurance protection, on the other hand, has grown exponentially. In 1933, the Glass-Steagall Act created a deposit insurance program that covered deposits up to $2,500; in 2010, the Dodd-Frank "Wall Street Reform and Consumer Protection Act" insured bank deposits up to $250,000.[29] The FDIC umbrella has also grown wider. In 1995 FDIC protection was expanded to include savings banks. A separate federal agency operates an insurance fund for credit unions. In 1933, FDIC was the first federal deposit insurance program in the world. Today, there are government-managed deposit insurance agencies in more than one hundred countries.[30]

As federal deposit insurance has expanded, so has the source of the guaranty. For more than one hundred years, deposit insurance was most often proposed as a

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[27] Sven Beckert, "History of American Capitalism" in *American History Now*, ed. Eric Foner and Lisa McGirr, 314-35 (Philadelphia: Temple University Press, 2011).
[28] Stephen Labaton, "Congress Passes Wide-Ranging Bill Easing Bank Laws," *New York Times*, November 5, 1999, 1.
[29] Dodd–Frank Wall Street Reform and Consumer Protection Act, H. R. 4173 11th Cong. (2010)
[30] David Hoelscher, Michael Taylor, and Ulrich H. Kleuc, *The Design and Implementation of Deposit Insurance System* (Washington, DC: International Monetary Fund, 2006); Ash Demirguc-Kunt, Edward Kane and Luc Laeven, editors, *Deposit Insurance around the World: Issues in Design and Implementation* (Cambridge, MA: The MIT Press, 2008).

government-managed but privately-funded insurance program. Theoretically, in that public-private structure, an insurance fund could only protect depositors for as long as the fund was operating in the black. In 1991, the Federal Deposit Insurance Corporation Act of 1991 (FDICA) allowed FDIC to borrow directly from the Treasury Department up to $1 trillion.[31] In practice, the FDIC managers, the politicians who regulate it, and the people who depend on it have come to understand that federal deposit insurance is ultimately backed by the full faith and credit of the United States.[32] This study offers insight into how the source of that guaranty has shifted from the private sector to the public sector over time.

The study of deposit insurance is also timely in that it offers an interesting historical antecedent of a government policy that addressed the right of the government to regulate the private sector and to compel the private sector to participate in a government insurance program to benefit the economy as a whole and protect the general welfare. In 1829, the state of New York had the authority to charter banks, and therefore the authority to compel compliance with a state deposit insurance program. However, within seven years, the New York legislature changed banking laws that compelled participation in the Safety Fund and chartering altogether. Most states followed suit. Significantly, all existing state bank insurance programs persisted and others were enacted even after this change in incorporation laws. In the deposit insurance programs established after 1907,

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[31] Federal Deposit Insurance Corporation, 1000 – Federal Deposit Insurance Act, Sec 14, https://www.fdic.gov/regulations/laws/rules/1000-1600.html.

[32] Federal Deposit Insurance Corporation, "4000 - Advisory Opinions - Full Faith and Credit Behind the FDIC Deposit Insurance Fund," November 9, 1987 Alan J. Kaplan, Counsel, https://www.fdic.gov/regulations/laws/rules/4000-2660.html; Federal Deposit Insurance Corporation, "Symbol of Confidence," https://www.fdic.gov/consumers/assistance/protection/depaccounts/confidence/symbol.html.

the right of state governments to compel the participation of private state banks was challenged up to the Supreme Court. The majority opinion, written by Oliver Wendell Holmes, emphasized the special public function of banking and affirmed the state's power to compel banks to participate. The Glass-Steagall Act established a temporary federal deposit insurance fund in 1933, but the largest banks fought to block and overturn the law up to the passage of the permanent fund in 1935.[33] This study shows that the concept of shared individual liability to strengthen the economic stability of the whole dates back to the Funding Act of 1790, when the federal government assumed the Revolutionary War debt of all the states. Bank deposit insurance further demanded a basic redistribution of financial risk between the weakest economic actors and the strongest. This policy idea has been promoted over time and across party lines since the early Republic.

The scope of this study is ambitious, but the basic structure of the study is straightforward. The story of state and federal bank insurance is told chronologically from 1829 to 1933. Three chapters tell the state story. Three chapters tell the federal story. The lead chapter of the *state* story introduces the broader political economy of New York that gave rise to the first state deposit insurance program in 1829. The next two chapters investigate the wave of state programs that preceded the Civil War and the wave of programs that followed the Panic of 1907. These chapters emphasize the first program in each wave, which operated as a regional catalyst for the majority of programs

[33] *Nobel State Bank v. Haskell*, 219 U.S. 104, 113 (1911), http://caselaw.findlaw.com/us-supreme-court/219/104.html.

that followed. The state narrative follows the key leaders who advocated for the first bank insurance programs in each wave and the immediate political and economic conditions surrounding the legislative process.

The lead chapter of the *federal* story examines the national political economy forged in the crucible of the Civil War and discusses three federal decisions regarding the guaranty of bank notes and bank deposits between 1863 and 1910. The next two chapters examine the one hundred and fifty federal deposit insurance bills introduced in Congress between 1886 and 1933. This long legislative history is told in three phases defined by the immediate political and economic conditions surrounding the legislative process. The federal narrative highlights the key political leaders who advocated for this legislation in each phase until the federal bill was passed. To tie this state and federal history together, in lieu of in-depth studies of each state program and each deposit insurance proposal, this study examines four key components of all the state programs and federal proposals: *eligibility*, *supervision*, *liability*, and the *source of the guaranty*, in which eligibility defined which banks were eligible to participate, supervision specified the governing authority over the program, liability specified which bank obligations were insured and for how much, and the source of the guaranty defined the ultimate institutional responsibility to pay a claim. The analysis of these features is used to show how the legislation and the legislative idea evolved over time to shape the Banking Act of 1933.

This history of government-managed deposit insurance in the United States begins in Chapter II, which investigates the role of the *state* of New York in the conquest, settlement, and economic development of western New York during the Early Federal period from 1787 to 1828. This chapter argues that the power the state accumulated and exercised in this period was a pre-condition of establishing the first bank insurance program in 1829, which claimed unprecedented power by the state over the private sector. The unique political economy of New York evolved from the settlement of the state during two very distinct time periods. Colonial settlement dating back to the Dutch settlement of the Hudson River Valley in the early seventeenth century created a thriving merchant economy based in New York City and a long-established state based in Albany. The first white settlement in western New York began after the American Revolution. In the liminal period between the end of the war and the first seated Congress, the state of New York exerted extraordinary, quasi-legal power in the conquest and settlement of western New York and in its economic development. Martin Van Buren and Joshua Foreman both had deep family roots in the state of New York and were leaders in its economic and political development before they collaborated to propose the first state deposit insurance program in 1829.

Chapter III argues that the *state* bank insurance programs created between 1829 and 1866 were radical experiments that represented a renegotiation of power between the state and private banks and the balance of power within the banking sector as a whole. This chapter puts state bank insurance in the context of the volatile development of banking and the national economy in the Early Federal period. It then examines the first state bank deposit insurance program created in New York. The legislation was conceived by Joshua Forman, a founding white settler of western New York and a former legislator with a track record for bringing the resources of the state to that region.

Forman's legislation called on the state to level the playing field between New York City and the state's western periphery along the Erie Canal by using the insurance principle to spread default risk across all banks. Deposit insurance was enacted as the Erie Canal became the core artery of a common market from New York City to the Old Northwest. Five more states in this common market independently adopted deposit insurance programs. Even after several programs faced financial trouble after the Panic of 1837, the majority of the state bank insurance programs improved on each other's experience. When the National Banking Acts of 1863 and 1865 put the power to issue bank notes in federal hands, most state banks converted to national banks, and all six state bank insurance programs closed by 1866.

Chapter IV argues that the expansion and denial of *federal* financial obligations during the National Bank era, from 1863 to 1913, paved the way for federal deposit insurance. In a period punctuated by major bank panics in every decade—in 1873, 1886, 1893, and 1907—the National Bank era was marked by qualified commitments on the part of the federal government to protect the money supply, both the circulating medium and bank deposits. First, the Banking Act of 1863 created a common national currency for the first time backed by the credit of the United States government. Second, this chapter examines the failure of the Freedman's Savings and Trust Company, a national savings bank specially chartered by Congress in 1865 for emancipated African Americans. The failure of the bank in 1874 tested the political waters for federal deposit for more than thirty years. In this case, the federal coverage of deposit insurance was denied. Third, the creation of the U.S. Postal Savings System in 1910 offered savings accounts backed by the full faith and credit of the United States for the first time. This legislation was a Republican-preferred alternative to federal deposit insurance enacted in response to the Panic of 1907 before the creation of the Federal Reserve in 1913. These developments shaped the path of federal deposit insurance during a time when federal deposit insurance bills began to be proposed in Congress but never got out of committee.

Chapter V argues that the *state* bank deposit insurance programs created in the Middle West, South, and West after the Panic of 1907 were important precedents that paved the way for federal deposit insurance in 1933. The catalyst of this second wave of state bank insurance programs was the enactment of the Oklahoma program in December 1907, as the state was admitted to the Union in the midst of the Panic of 1907. This chapter introduces Robert L. Owen, an economic and community developer in Indian Territory and one of the two first U.S. Senators from Oklahoma who helped to ensure the passage of the state bank insurance law in Oklahoma before he left for Washington in December 1907.

A total of eight state deposit insurance programs were enacted during this period. Six of these states formed a continuous corridor from Texas to North Dakota. States in two other regions adopted programs as well, in Mississippi in the South and Washington in the far West. These programs ran successfully until the deflationary recession of 1920-1921, which hit agricultural states the hardest; all eight programs were rescinded by 1929. The impulse that initiated the second wave of state deposit insurance programs came from the agricultural heartland of the United States in response to a bank panic that emanated from New York. The leaders who worked to make these programs successful, particularly those from the Middle West and South, formed the core political support for the enactment of federal deposit insurance in 1933.[34]

Chapters VI and VII trace the legislative history of *federal* deposit insurance from 1886 to 1933 in three phases. Chapter VI examines the first phase deposit insurance bills introduced in Congress from 1886 to 1906, which enjoyed broad support across all political parties and regions of the country. The second legislative phase covers the rise of federal deposit insurance to a national debate after the Panic of 1907 under the leadership of presidential candidate William Jennings Bryan and the federal advocacy for federal deposit insurance by Democrats from the Middle West under the leadership of Robert L. Owen through 1819. Chapter VII examines the resurgence of support for federal deposit insurance, following the deflationary recession of 1920-1921 to the Banking Crisis of 1933. The baton of leadership in this final phase was picked up by Henry Bascom Steagall in 1924, the year Owen stepped down from office.

These final two chapters argue that advocacy for federal deposit insurance was consolidated under Democrats from the Middle West and South after 1907. The leadership handed down from Bryan to Owen to Steagall formed a thread of continuity in the advocacy for deposit insurance by political leaders who believed that democratic government had an obligation to stabilize the economy as a whole and to protect the rural

[34] For the purposes of this analysis, the Northeast includes the Mid-Atlantic States, NY, NJ, PA, MD, and DE, and the New England states, MA, CT, RI, VT, NH, and ME; the Middle West includes states west of the Mississippi and east of the Rocky Mountains, TX, OK, KS, NE, SD, and ND plus OH, IN, IA, MN, IL, MI, WI and MO; the South include the states along the southern the Atlantic coast to the Gulf Coast, VA, NC, SC, GA, AL, MS, LA plus WV, KY and TN; and the West includes the states along the Rocky Mountains, NM, CO, WY, and MT, to the Pacific Coast.

poor against the vagaries of capitalism. The Banking Act of 1933 was passed in the crucible of a national groundswell that arose out of the Great Depression through a clever political compromise that limited certain parameters of the program. The long legislative history of federal bank insurance proposals shows that over time a political consensus was built across party affiliation and the continent that the federal government needed to play a central role in the guaranty of bank deposits.

The conclusion examines the enactment of federal deposit insurance in the context of the central argument of this study. FDIC constituted a reformulation of the balance of power in the United States between the federal government and its citizens, between the federal government and state government, between the federal government and the private sector, and between the financial center of the United States in New York and the rural periphery of a vast continent. This renegotiation was carried forward by leaders from the Middle West and South, where the Depression had hit the hardest. It was also a reformulation that was more than a century in the making.

CHAPTER II

JOSHUA FORMAN, MARTIN VAN BUREN, AND THE ROLE OF THE *STATE* IN THE CONQUEST, SETTLEMENT, AND ECONOMIC DEVELOPMENT OF WESTERN NEW YORK DURING THE EARLY FEDERAL PERIOD, 1787-1828

The New York Safety Fund was created by an act of the New York state legislature in 1829 to manage the risk and consequences of bank failure. The law compelled all banks in the state to contribute to an insurance fund through assessments based on a percentage of the bank's assets. The liabilities covered by the insurance fund initially included bank notes and deposits. If a bank failed, its note holders and depositors would be reimbursed by the insurance fund. The New York Safety Fund represented an unprecedented use of state power to mandate, in effect, that large "city" banks underwrite the security of small "country" banks to bring stability to the state economy and protect the nascent economic growth in the western part of the state. This chapter grounds this policy idea, and the men who originated it, in the unique political economy of New York in the Early Federal period during which the state government played a key role in the economic development of the state. This study defines the Early Federal period from the time the Constitution went into effect in 1789 to the election of Andrew Jackson in 1828.

The political economy in New York during the Early Federal period was a product of two transformations, an economic transition from British mercantilism to American market capitalism and a political shift from the first national party system of

Federalists and Democratic-Republicans to the second party system, which crystalized with the rise of the Democratic Party in 1828.[1] Both of these transitions were fueled by territorial expansion of the United States. From the time the Constitution went into effect in 1789 to 1828, the territory of the United States expanded west to the Mississippi River. Ohio, Indiana, and Illinois were created from the "Old Northwest" territory ceded by Britain to the United States by the Treaty of Paris in 1783. Vermont, Maine, Kentucky, Tennessee, Alabama, and Mississippi became states and territories of the federal government after New York, Massachusetts, Virginia, North Carolina, South Carolina, and Georgia relinquished their land claims to the federal government. Louisiana and Missouri were carved from the Louisiana Purchase to become the first states admitted to the union west of the Mississippi, securing entry to the Mississippi and Missouri Rivers. Of the original thirteen states, only New York gained significant territory after the American Revolution.[2]

State-managed deposit insurance was an original idea in 1828 conceived by Joshua Forman, a former state legislator from western New York and commissioned by the governor-elect, Martin Van Buren, to create a state bank regulatory system. Van

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[1] The Democratic-Republican Party, the national political party that elected Thomas Jefferson president in 1800, was broken into many factions in the state of New York after 1800. Some leaders of some factions referred to themselves as Republicans and to their party principles as Republicanism, which was both distinct from and sometime blurred with a more general notion of republicanism. In addition, some Democratic-Republican leaders in New York referred to themselves as Democrats in the Early Federal period. The language used in this study follows the language used in the primary and secondary sources of New York in this time period. See Martin Van Buren, *Inquiry into the Origin and Course of Political Parties in the United States* (New York: Hurd & Houghton, 1867), 227, 258, 265, 281, 297, 299, 307; and Donald B. Cole, *Martin Van Buren and the American Political System* (Princeton, NJ: Princeton University Press, 1984), 32-64.

[2] Daniel Hulsebosch, *Constituting Empire: New York and the Transformation of Constitutionalism in the Atlantic World, 1664-1830* (Chapel Hill: University of North Carolina Press, 2005), 162-63; L. Ray Gunn, The *Decline of Authority: Public Economic Policy and Political Development in New York, 1800-1860* (Ithaca, NY: Cornell University Press, 1988), 256.

Buren had risen from humble origins to become the architect of a faction of the Democratic-Republican Party that was built by self-made men, outside of the centers of power and privilege in the state. The party claimed to adhere to the principles of Jeffersonian Republicanism, advocating the supremacy of state sovereignty and limited national government. As the party rose to power with support from the newly settled western part of the state, Van Buren continued to pay lip service to Republican principles of limited government, initially opposing the Erie Canal on political principle. In time, however, he played a key role in expanding the role of government in the economic development of western New York. He was a leading figure in securing the funding for the Erie Canal. As Governor-elect in 1828, Van Buren called upon prominent state leaders to design a statewide regulatory system for banks in New York. He selected an unusual plan to create a common insurance fund to protect all banks in the state—"city banks" and "country banks."[3]

In contrast, Joshua Forman was a Federalist who embraced the United States as a union and made the development of the new republic his life's work. He dedicated the first thirty years of his adult life to the economic development of western New York, repeatedly drawing state resources to the western part of the state. As a first-time state legislator, he improbably secured state funding to survey a canal from Albany to Lake Erie. In 1828, at Van Buren's request, he developed the idea of a state-managed system of bank regulation based on mutual liability. Forman hoped to tie the financial security

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[3] The designation of "city bank" and "country bank" was contemporary common parlance to describe large banks in major commercial centers and small banks that served towns and rural areas. See Howard Bodenhorn, *State Banking in Early America: A New Economic History* (Oxford: Oxford University Press, 2003), 131-45.

of the western part of the state to banks in New York City to further strengthen the "bond of union."[4]

Order and property rights were pre-conditions for settlement and economic development of Western New York. Nineteenth century political philosopher John Stuart Mill wrote that uncertain property rights "means uncertainty whether they who sow shall reap, whether they who produce shall consume."[5] This chapter examines the rise of the political economy of New York in the Early Federal period, in which the state had a key role in the conquest, settlement, and economic development of western New York. This history of conquest established the state as a powerful risk-manager, which would define a powerful role for the state in public policy in the decades that followed. This chapter also examines the lives of the two men who commissioned and conceived of this legislation. Martin Van Buren and Joshua Forman both were shaped by these economic and political transformations and were leaders of them. The first state deposit insurance program was a product of this unique political economy and the two leaders who leveraged the power of the state to tie the newly settled western New York to its commercial center.

Head of the Dog: The Role of the State in Conquest and Settlement of Western New York, 1787-1806

Clear to any child who has assembled a puzzle of the United States, the state of New York is shaped like the head of a dog. The shape is so clearly defined in our

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[4] Joshua Forman to David Hosack, October 13, 1828, in David Hosack, MD, *Memoir of De Witt Clinton: With an Appendix Containing Numerous Documents, Illustrative of the Principles and Events of His Life* (New York: J. Seymour, 1829), 347.
[5] David Moss, *When All Else Fails: Government as the Ultimate Risk Manager* (Cambridge, MA: Harvard University Press, 2002), 338.

consciousness that it is easy to forget that at the end of the Revolutionary War, the most western eight million acres—the dog's snout—was still occupied and, according to the laws of the previous regime, owned by the Iroquois. The boundaries of the state of New York were essentially the dog's forehead in 1783. These boundaries, from the Hudson River to the Susquehanna Rivers and from Pennsylvania to Lake Ontario were identical to the boundaries claimed by the Dutch two hundred years earlier. The vast majority of the state's population lived in the Hudson River Valley between New York City and Albany, outposts anchored initially by the Dutch, and later renamed by the British. Throughout New York's history as a European colony, the western section of the state's present boundaries remained in Indian hands. The sovereignty, jurisdiction, and property rights of this part of the state were not secured until 1797. The vastly different settlement histories of these two regions of the state created a unique political economy in New York and shaped the personal ambitions and worldviews of both Joshua Forman and Martin Van Buren.

Dutch colonial control of the territory of New York was brief, but its influence shaped the political economy of the Early Federal period. In 1581, with England's help, seven provinces separated from Habsburg, Spain to establish the Dutch Republic. The confederated government of these provinces, the States-General, incorporated the Dutch East India Company (Verenigde Oostindische Compagnie or VOC) as the world's first joint-stock company in 1602. Still looking for a passage to the east one hundred years after Columbus, the VOC hired English navigator Henry Hudson in 1609 to explore the river that European settlers would later name after him. In 1621, the States-General of the Netherlands granted the Dutch West India Company (WIC) an extensive trade monopoly of territories around the world, including New Netherland, where it established trading posts at the mouth of the Hudson River and at its farthest navigable point in the interior.

The WIC populated the territory along the continental coastline north and south of New York harbor and on both sides of the Hudson River by offering massive land grants known as patroonships. Patroonships were a paternalistic economic and social arrangement similar to the English manor system. The owners of these land grants, known as patroons, contracted tenant farmers to work the land, settled them and their families into towns, provided a church and school, and collected rent from the farmers. Many of these patroonships, like one located in present-day Monmouth County, New Jersey, quickly disintegrated and became communities of freeholders, whose prominent property owners were merchants, not patroons. The county seat of Monmouth County, New Jersey, is still called “Freehold” today.

Some of the Dutch patroonships stayed intact during the colonial period. The most successful of these surrounded the Upper Hudson trading post. Rensselaerwyck was deeded in 1630 to Kiliaen van Rensselaer, one of the original WIC directors. Some tenant farmers who settled in Rensselaerwyck became freeholders over time, but the Rensselaers retained political and economic control of the region, and this social and economic order would be maintained into the 1830s. The trading post at the center of this patroonship would remain a center of political power in the province through the creation of the state of New York and the state capitol at Albany in 1797.[6]

Joshua Forman and Martin Van Buren both had deep family roots in this colonial legacy. The Formans were successful merchants who settled in New Netherland in the 1620s. In 1645, Robert Forman was one of eighteen Englishmen granted a Dutch charter to settle the east side of Flushing Creek.[7] Some of his descendants settled in what became Monmouth, New Jersey, fifty miles down the coast from New York Harbor. They were among the small population of English families who lived in the Dutch province in 1664 when the British claimed it. Meanwhile, Van Buren's family came to the province through his ancestor Cornelis Maesen (Cornelis, son of Maes, from the village of Buren in The Netherlands), who emigrated in 1631 as a tenant farmer and leased a plot of land in Rensselaerwyck. His oldest son called himself Marten Cornelisen Van Buren (Martin, son of Cornelis, from Buren) and became a freeholder in the village of Kinderhook in his lifetime. Six generations of his descendants continued to live there. The Formans were a product of the colony's thriving mercantile culture. The Van Burens were a product of the stratified class society created by the patroon system.[8]

In 1776, on the eve of the Revolution, there was still no permanent white settlement west of the Susquehanna River. The conquest and settlement of western New York during and after the American Revolution set the stage for state involvement in the

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[6] Dixon Ryan Fox, *The Decline of Aristocracy in the Politics of New York* (New York: Columbia University, 1919), 31-36.
[7] The present-day site of the Mets' Citi Stadium and the Billy Jean King Tennis Center.
[8] Charles Forman and Helen L. Fairchild, *Three Revolutionary Soldiers: David Forman (1745-1797), Jonathan Forman (1755-1809), Thomas Marsh Forman (1758-1845)* (Cleveland, OH: The Forman-Bassett-Hatch Co., 1902), 28, http://archive.org/details/threerevolutiona00form; Cole, *Martin Van Buren*, 9, 13.

region's future economic development. During the war, the Oneida and the Tuscarora, whose territory was contiguous with British settlement in the forehead of the dog, sided with the leaders of the rebellion. The easternmost tribe, the Mohawk, and the westernmost Iroquois tribes, the Seneca and the Cayuga, supported the British. The Onondaga, who maintained the Council Fire for the Iroquois Federation, lived in the middle, just west of the Susquehanna. While the other five tribes were drawn into a Civil War, the Onondaga maintained their neutrality until 1779 when George Washington ordered one-third of his forces into Iroquois territory to stop fighting a war on two fronts. Four brigades, led from Pennsylvania by John Sullivan and from Fort Stanwix by James Clinton, destroyed dozens of villages and their food stores. This campaign engaged the Onondaga, forcing them into the war. These scorched-earth tactics, which today would be considered a war crime, if not genocide, broke Iroquois sovereignty. The devastation was so complete that the entire surviving Indian population essentially became refugees. As Colin Calloway writes in *The American Revolution in Indian County,* the most important outcome of the back country war was "to transfer control of a vast frontier from the Indians and their British allies to the Whigs and the new men who emerged to lead them."[9]

The period after the Treaty of Paris of 1783 was signed was an uncertain time in government authority, within states, between states, and between the states and the Continental Congress. The Treaty settled the question of American independence but

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[9] Colin Calloway, *The American Revolution in Indian Country: Crisis and Diversity in Native American Communities* (New York: Cambridge University Press, 1995), 26-64, esp. 33-24, 156, 284-85; Alan Taylor, *The Divided Ground: Indians, Settlers and the Northern Borderland of the American Revolution* (New York: Alfred A. Knopf, 2006), 102.

determined nothing about the Indians or Indian land. New York moved to obtain full sovereignty, jurisdiction, and property rights over the western region from the Susquehanna River to the Lake Erie—an aggressive, systematic, quasi-legal process that took ten years to complete.[10]

The first question to settle was the sovereignty of that western land. This territory was claimed by both Massachusetts and New York. Both the Massachusetts charter of 1628 and the New York charter of 1664 laid claim, rather grandly, to all the territory west of their colonial boundaries as far as the Pacific Ocean. In 1786, the Treaty of Hartford resolved that Massachusetts would cede its claim for the sovereignty and jurisdiction of the entire region. Although Massachusetts ceded its political rights, the state made money on the deal by retaining a pre-emptive right to purchase the most western five million acres. In 1788, Massachusetts exercised that right and sold the land to American speculators who then, with murky authority, privately negotiated for the title from the Iroquois tribes who lived there. With clear title in 1797, the land was sold and resold to British and Dutch investment bankers. Dutch bankers eventually purchased the westernmost three million acres and formed the Holland Land Company. The company hoped to turn a quick profit.[11]

The land that lay east of the "Pre-emption Line" to the Susquehanna became the property of the state of New York. This land contained more than a million acres. The

[10] Calloway, *Revolution in Indian Country*, 272-91; Lawrence M. Hauptman, *Conspiracy of Interests: Iroquois Dispossession and the Rise of New York State* (Syracuse, NY: Syracuse University Press, 1999); Treaty with Six Nations, 1784, http://digital.library.okstate.edu/kappler/Vol2/treaties/nat0005.htm.

[11] John L. Wakelyn, ed. *America's Founding Charters: Primary Documents of the Colonial and Revolutionary Era Governance, Vol. 1* (Westport, CT: Greenwood Press, 2006), 586; William Chazanof, *Joseph Ellicott and the Holland Land Company* (Syracuse, NY: Syracuse University Press, 1970).

state's plan was to allocate this land to veterans. The state of New York also needed to acquire the title to this land from the Iroquois. The U.S. Constitution, ratified in June 1788, reserved the power to negotiate treaties to the federal government. New York ratified the Constitution a month later, but before the federal document took effect in March of 1789, the state of New York, led by Governor George Clinton (brother of brigade leader, James), negotiated individual treaties with each tribe for title to their land, ignoring the authority of both the federal government and the Iroquois Confederacy.[12] The postwar resettlement of each tribe into reservations eventually transformed the Indian population into wards of the state. The Iroquois have contested the legality of these treaties ever since.[13]

The Onondaga territory became known as the Military Tract. The land was surveyed in 1792 by Simeon De Witt (who was trained as a surveyor by his uncle, the ubiquitous James Clinton) and divided into twenty-seven equally-sized squares; twenty-five were designated as townships, and the remaining two were set aside for the Onondaga and Cayuga reservations. The state distributed the land to veterans of the Revolutionary War in six hundred-acre plots. Soldiers were initially promised one hundred acres for their military service, but in the last eight months of the war, the New York legislature promised soldiers five hundred more acres to persuade soldiers to enlist and to stay enlisted. That same year, the entire Military Tract became Onondaga County.

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[12] Mohawks, Oneidas, Tuscaroras, Onondagas, Cayugas, and Senecas.

[13] Taylor, *The Divided Ground*, 118-19; *New York (State) Commissioners of Indian Affairs, Proceedings of the Commissioners of Indian Affairs, Appointed by Law for the Extinguishment of Indian Titles in the State of New York: Published from the Original Manuscript in the Library of the Albany Institute with an Introduction and Notes by Benjamin Hough Vol. 1* (New York: J. Munsell, 1961), 198-99, https://archive.org/stream/proceedingsofcom01newy#page/n12/mode/1up.

The territory from the Susquehanna to Lake Erie was entirely comprised of titled private property within the state of New York for the first time in 1797. In the far west, where the Holland Land Company controlled the land titles, sales were slow. The state's distribution of the Military Tract to veterans drove white settlement into western New York for the first time. The creation of distinct counties in western New York—Ontario, Genesee, and Onondaga—marked the beginning of direct political representation for the region. As the population increased, the three counties quickly subdivided into twelve by 1808 and twenty-four by 1828. The newly created political precincts would soon exert their own agency.[14]

The state did retain control of the Onondaga salt marshes as a state-owned natural resource and steadily increased its control during the Early Federal period. The territory around the salt marshes became known as the Onondaga Salt Spring Reservation, but its nine hundred acres were owned by the state. The first white settlers to the salt marsh, a handful of men called salt-pointers, arrived as already bilingual squatters in 1786. The Onondaga taught them how to produce salt. In 1788, two families arrived and founded the town of Onondaga Hollow. In 1792, there were six white families living there. Malaria was rampant. In 1793, sixty-three people died of malaria, but the salt settlers continued to arrive.[15]

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[15] Lilian Steele Munson, *Syracuse: The City That Salt Built* (New York: Pageant Press International Corp., 1969), 35; Joshua V. H. Clark, *Onondaga, Or Reminiscences of Earlier and Later Times: Being a Series of Historical Sketches Relative to Onondaga, with Notes on the Several Towns in the County, and Oswega, Vol. II, Syracuse* (Syracuse, NY: Stoddard and Babcock, 1840), 7-44, 69-117; Gurney S. Strong, *Early Landmarks of Syracuse* (Syracuse, NY: The Times Publishing Company, 1894), 303-10.

In 1797, the state took over the supervision of salt production. The state granted the people manufacturing salt leases that required them to make a minimum of 10 bushels (352 liters) of salt each year for every kettle or pan used and to pay the state 4 cents per bushel of salt they produced. The state set the price of salt and required that salt be stored for a fee in state warehouses until sold. The state also inspected and certified the quality and quantity of all salt produced. There was no actual charge for the brine, just for the finished product. In 1807, a Salt Superintendent was appointed by the governor to oversee the reservation. In 1808, the state assembly drew up articles of agreement between the Salt Superintendent, William Kirkpatrick "for, and in behalf of the people of the state of New-York." Joshua Forman signed the agreement on behalf of the people of New York. While the operation was regulated on paper, initially the salt marshes were poorly run and state managers engaged in fraud. Over time, better regulations and more competent superintendents improved the standards of production and the quality of the salt. By 1825, the state assumed control of the large reservoirs and pump houses needed on the salt reservation for production and retained control until the resource was depleted. About ninety-five percent of the salt in the United States came from this site through the end of the nineteenth century. The Salt Reservation was a remarkable experiment of a state-owned natural resource and a state-managed extraction operation.[16]

[16] Valerie Jackson Bell, Curator, Onondaga Office of Museums, "Onondaga New York Salt Works, 1664-1926,", *Science Tribune* (October 1988), http://www.tribunes.com/tribune/sel/bell.htm; Articles of Agreement, Between William Kirkpatrick, Superintendent of the Onondaga Salt Springs, for, and in behalf of the people of the state of New-York, April 3, 1807, ff: 2002.233, MS Box 2, Onondaga Historical Society (OHS), Syracuse, New York.

In sum, this history shows that in the period following the Revolutionary War, the state of New York established control of the remaining Indian tribes by confining them in reservations. At a time when other states had to relinquish their western land claims to the federal government, the state of New York acquired jurisdiction of eight million acres, transformed the former Iroquois Territory, which once stretched from the Hudson River to Lake Erie and Lake Ontario to the Allegany Mountains, into titled, private property, and established the first major white settlement west of the Susquehanna. The state retained the mineral rights to the Onondaga salt marsh, which became an ongoing source of revenue for the state.

Joshua Forman and Martin Van Buren were both born in the Hudson River Valley in the formative years of the Republic between the Declaration of Independence and the call to order of the First United States Congress in 1789. Forman was born September 6, 1877; Van Buren was born December 5, 1782. In some respects, their lives were very similar. At a time when two- and three-masted sloops graced the Hudson, both of their families were settled in small villages on the east side of the river between New York City and Albany. Both of their fathers were small freeholders and small slaveholders. Forman's father had been a merchant in New York City, but moved his family to Pleasant Valley in Dutchess County as the war began, prior to Forman's birth in 1777. Van Buren's family lived in Kinderhook in Columbia County, the next county north.[17]

Both men were trained as lawyers. The social status of their families was not identical, but both men sought entry to the middle class through the legal profession. As

[17] Cole, *Martin Van Buren*, 6-13, 60; Martin Van Buren, *The Autobiography of Martin Van Buren* (Washington, DC: GPO, 1920).

Alexis de Tocqueville commented when he travelled in America in 1831, "Lawyers belong to the people by birth and interest, and to the aristocracy by habit and taste; they may be looked upon as the connecting link between the two great classes of society." As lawyers in a new republic, the law also bound Forman and Van Buren to the service of the state.[18]

Forman's family had the resources to send him to college. He was a member of one of the first graduating classes of Union College along the Mohawk River in Schenectady, New York, northwest of Albany. The school was the first college chartered by the New York State Board of Regents in 1795 to serve residents in western New York. At a time when the classical curriculum was most common, Union College emphasized history, science, modern languages, and mathematics. The curriculum of the fourth and final year was still devoted entirely to the study of ethics. After college, Forman read the law with Peter Radcliff in Poughkeepsie, a few miles from his family's home in Dutchess County.[19]

In contrast, Van Buren was formally educated in a one-room schoolhouse until the age of thirteen. In a family with eight children, he wore homespun clothes and did his share of farm work and chores in his father's tavern on the Albany Post Road. At fourteen, he began a five-year clerkship in the law office of Francis Sylvester, a prominent Federalist lawyer in Kinderhook. This position was an excellent opportunity, but essentially indentured work. In exchange for a room in the back of Sylvester's

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[18] Alexis de Tocqueville, *Democracy in America* (New York: A. A. Knopf, 1945), 274.
[19] Strong, *Early Landmarks*, 311-32; Gerald T. Koeppel, *Bond of Union: Building the Erie Canal and the American Empire* (Cambridge, MA: Da Capo Press, 2009), 43; Samuel B. Fortenbaugh, *In Order to Form a More Perfect Union: An Inquiry into the Origins of a College* (Schenectady, NY: Union College Press, 1978).

brother's store, Van Buren swept the store and the law office, laid the fires in the law office, and clerked at the store. After those duties, Van Buren began to read the law.[20]

Both men finished their legal training in New York City—Forman with Miles Hopkins, and Van Buren with William P. Van Ness. After they were admitted as counselors by the supreme court of New York, they each decided to forgo the opportunities of the city and moved upstate to begin their law practices and enter politics. Forman met and married Margaret Alexander in New York City, but he did not return to Dutchess County. In 1802, he persuaded his wife to move to Onondaga County and brought her to the town of Onondaga Hollow in mid-winter by sleigh. In a letter to a colleague, he wrote, "I have not as yet had a sufficient trial of this country to know how it will answer me—however from the present aspect of things I am inclined to believe that I shall make a living."[21] Onondaga Hollow was the village founded by the first salt pointers in 1892 on land carved out of the Onondaga Salt Marsh Reservation. Forman started a law practice with his brother-in-law. Meanwhile, Van Buren returned to his hometown of Kinderhook in 1803, married his childhood sweetheart, Hannah Hoes, and joined his step-brother's law practice. Over the next five years, Van Buren built up his law practice. In 1808, he moved his family twenty miles south to the riverside town of Hudson, New York.[22]

The differences in each man's upbringing shaped their politics as adults. Van Buren grew up in a Federalist stronghold among the landed estates of the Dutch and

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[20] Van Buren, *The Autobiography*, 13-14; John Niven, *Martin Van Buren: The Romantic Age of American Politics* (New York: Oxford University Press, 1983), 7-8.
[21] Joshua Forman to James Watson, February 26, 1802, ff: 2002.233, MS Box 2, OHS.
[22] Munson, *Syracuse*, 35, 87; Strong, *Early Landmarks of Syracuse*, 311-32; Cole, *Martin Van Buren*, 20-21.

British provincial aristocracy. Federalism flourished in New York City, but it earned its reputation as the party of privilege among the patroonships and manors of the Upper Hudson. Although people of English descent outnumbered people of Dutch descent in Albany County by 1800, the van Rensselaers remained at the center of a Dutch aristocracy that had been in place for two hundred years and were deeply entrenched in Federalist politics in New York. To patroons like the van Rensselaers, republican government meant leadership by the elite.[23]

New York politics under the first party system demanded fierce loyalty. There were banks in Albany and New York where a Republican patron would not be served. Tenant farmers were expected to vote according to the wishes of their patroons. In one story that survives from a Hudson River community, a local priest refused to give the name of Thomas Jefferson to an infant to be baptized; a follower of Adams, the cleric christened the child John instead, giving his reason that "Jefferson was an infidel."[24]

Van Buren was determined to build a career in politics that challenged the power of established elites. His father, a freeholder, was involved in local Republican politics. From a young age, Van Buren wanted to follow in his father's footsteps. Van Buren's first employers pressed him to become a Federalist but failed to persuade him. To ascend in the Republican Party, Van Buren navigated a field of political factions. In November 1800, with the Republicans in power, New York's ranking Republican was the Vice President-elect, Aaron Burr, a close associate of Van Buren's mentor, William P. Van

[23] Cole, *Martin Van Buren*, 21; Fox, *The Decline of Aristocracy*, 31-35, 56, 140-141.
[24] Cole, *Martin Van Buren*, 21, Fox, *The Decline of the Aristocracy*, 31-35, 56, 140-141; H. H. Morse, *Historic Old Rhinebeck, Echoes of Two Centuries, A Hudson River and Post Road Colonial Town* (Rhinebeck, NY: Pocantico Printery, 1908), 242-4.

Ness. Jefferson began to separate himself from Burr immediately after the election of 1800 and anointed the Clintons as his political partners in New York. Jefferson tapped DeWitt Clinton for the U.S. Senate in 1802 and his uncle, George Clinton, for Vice President in 1804. Burr ran for governor of New York in 1804, but Van Buren deeply disappointed his mentor by voting for Morgan Lewis, who won. Days after Morgan took office in July, Van Ness was Burr's second in Burr's famous duel with former Treasury Secretary Alexander Hamilton. Both men faced criminal charges after Hamilton's death, but Van Buren successfully defended Van Ness on the charge of accessory to murder.[25]

The Lewis faction, which initially included the powerful Clinton family, represented the interests of the most powerful Republican families in New York, politically and financially. In a gubernatorial race in 1807, the Clintons split from the Morgan Lewis faction and threw their support to Daniel Tompkins, a man with more humble origins. Van Buren backed Tompkins as well, also angering the Lewisites. Van Buren became a leader in the Republican faction, the "Bucktails," associated with Tammany Hall in New York City, and then started developing his own political base of power.[26]

Van Buren was never anointed by Jefferson as a leader in the Democratic-Republican Party, but Van Buren claimed that he carried the ideological mantle of pure "Jeffersonian Republicanism." Throughout his career, Van Buren adhered to the rhetoric of strict constitutionalism and states' rights of the "Old Republicans." Van Buren later wrote, "Ours was a confederacy of sovereign states" in which the federal government had

[25] Cole, *Martin Van Buren*, 16-19.
[26] Ibid., 46-48.

only those powers the states "deemed necessary." In practice, like many Republicans who came to power, Van Buren was more pragmatic than dogmatic. Van Buren was more willing than Jefferson to accept nationalism, political democracy, party structure, and a commercial economy.[27]

Beyond party and ideology, Van Buren's political beliefs were most broadly informed by his experience of class. Van Buren claimed his father had been prosperous, but by the time young Martin was born, his father's fortunes had declined. As Van Buren's political and financial fortunes rose, he was always self-conscious of his humble origins and lack of education. His contemporaries were well aware of his deficits. James Hamilton, a Tammany member and son of the Founding Father, introduced Van Buren this way: "He was native of the country; of obscure parentage, he wanted of an early education. His knowledge of books outside of his profession was more limited than that of any other public man I ever knew." Van Buren compensated, perhaps to excess, with hard work and a smooth demeanor. Van Buren was well-liked and grew to be respected but was always considered an outsider to the upper class. The boy who was dressed in homespun was meticulous about his dress all his adult life and famously became more conspicuous about his attire as he grew wealthier and more corpulent. A crowning achievement in Van Buren's personal life was the acquisition of the family estate in Kinderhook of his early mentor, William P. Van Ness. Although Van Buren unapologetically embraced the trappings of wealth, his fundamental outlook was broadly democratic. He was not as much a champion for the downtrodden as he was a challenger

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[27] Martin Van Buren, *Inquiry,* 227, 258, 265, 281, 297, 299, 307; Cole, *Martin Van Buren*, 28, 45.

of the privileged. Throughout the first two hundred pages of his treatise on politics, Van Buren frames his long political career in the conventions of a popular revolt against the "money power" of the Federalists.[28]

In 1811, Van Buren made his reputation as a lawyer in a high-profile case against the most prominent Federalist lawyers in the county, Elisha Williams and J. R. Van Rensselaer, and before the county's most prominent Federalist judge, William W. Van Ness. The attorneys were defending the Livingston family, the most prominent Republican family in the county. The original tract of the Livingston's Clermont Manor was granted by the crown in 1664, but the expansion of that property through much of Columbia County was built through faulty titles. Many of the Dutch and English manors owned by Loyalists had been dismantled and sold to their tenant farmers after the Revolutionary War. By the Early Federal period, the tenant farmers on the remaining manors of the Patriot aristocracy were "restless, litigious and sometimes violent." Van Buren defended the claims of tenant farmers who believed they were freeholders against agents of the Livingston family who were trying to collect rent. Van Buren won. The judge allegedly chided Williams for being bested by Van Buren: "How could you for want of a little industry, allow that little Democrat to get so much of the advantage of you?"[29]

This type of case was a specialty of Van Buren and his firm in a time of transition when the last Hudson valley estates were being dismantled. Van Buren also took cases

[28] James A. Hamilton, *Reminiscences of James A. Hamilton, Or Men and Events, at Home and Abroad, during Three Quarters of a Century* (New York: Scribner, 1869), 42; Cole, *Martin Van Buren*, 10-16, 27, 34, 431; Van Buren, *The Autobiography,* 11-12; Van Buren, *Inquiry*, 449.
[29] Hamilton, *Reminiscences*, 42.

that defended the interests of the Livingston's and the Rensselaer's, including tenant eviction cases, but in his childhood and young adulthood, he remained highly conscious of class, a worldview cultivated throughout his own rise from the bottom up. The following year he leveraged his win in the Livingston case to get elected to the state senate by less than two hundred votes.[30]

In sum, to succeed as a politician who opposed "money power" in a Federalist stronghold, Van Buren had to make up for what he lacked in education, social standing, and perhaps height. Van Buren was famously hardworking, courteous, and charming. These were the traits that made him an effective politician. He worked assiduously to maintain his relationships with members of both parties. When it came to building his own political organization, he aligned with self-made men like himself.[31]

Less is known about the formation of Joshua Forman's political beliefs. What is known is that he was a Federalist, and was known as a Federalist long after the political party ceased to exist. Forman started life in more fortunate circumstances than Van Buren, but he was not part of the landed aristocracy. His alma mater, Union College, located twenty miles northwest of Albany, was established as a low-cost alternative to Columbia, the Federalist training ground for the sons of elite families.[32] Unlike Columbia, once known as Kings College and known for its loyalty to the King, Union

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[30] Van Buren, *The Autobiography*, 22-28; Cole, *Martin Van Buren*, 28-30.
[31] Niven, *Martin Van Buren*, 19-20.
[32] Strong, *Early Landmarks*, 311-332; Samuel B. Fortenbaugh, Jr., *In Order to Form a More Perfect Union*, 58.

College was a new college on the western frontier of a new republic. Its progressive curriculum and final year of ethics must have been a heady experience for Forman.[33]

Certainly, his family's history as merchants in New York City informed Forman's world view. When he was living in New York studying for the bar, Forman's social circle was cosmopolitan enough that he met and married the daughter of a Scottish Member of Parliament. His choice to start his career in the newly opened territory in western New York the same year he was admitted to bar was pioneering, although not the same as moving west in a covered wagon. Many of the first white settlers in western New York were educated men who came to build the new republic. Titled property was cleared of Native settlement and secured for white settlement before they arrived. Forman founded the first church of Onondaga Hollow in 1806, where he became a church elder, and he founded Onondaga Academy in 1809, where he served as a board member. Forman entered government service when he became the judge of the Court of Common Pleas.[34]

In 1807, Judge Forman ran for state assembly from Onondaga County. He ran as a Federalist on a "Canal Ticket" with Democrat John McWhorter, with the intent of securing an appropriation from the legislature for a canal through western New York. Federalists had controlled both New York State and the national government since New York signed its state constitution in 1777, but by 1800, Democratic-Republicans had taken control in Albany and Washington, D.C. Forman was a Federalist in a brand new county of independent freeholders that was heavily Democratic-Republican. Forman

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[33] Fox, *The Decline of the Aristocracy*, 29.
[34] Strong, *Early Landmarks*, 311-32.

solicited support from prominent Democrats like Dr. William Kirkpatrick, the Superintendent of the Salt Springs Reservation, as well as Kirkpatrick's deputy, Thomas Wheeler, and argued for the value of a canal to the salt industry in western New York. With the support of these Democrats, Forman won by a landslide.[35]

Contemporaries distinguished the Federalism of western New York from the Federalism of the Rensselaers. Forman's Federalism was not focused on limited representation by large property owners. His viewpoint was aligned with the Federalism of Alexander Hamilton who worked to strengthen the national project as a whole. When Forman arrived in Albany in 1808, it was with a project in mind that he conceived of in national terms.[36]

The Erie Canal: The Role of the State in the Economic Development of Western New York, 1807-1828

In the first decade of the nineteenth century, the main concerns of the state legislature in New York were the protection of the state, promoting the public interest, and economic development. The state maintained militias and armories and established schools, hospitals, and alms houses. The business that dominated the attention of the legislature was the economic development of the state through land sales and internal improvements. The legislature reviewed petitions for improvement projects from all over the state, practically on a daily basis. The state funded some proposals directly and incorporated private companies for others. Both Joshua Forman and Martin Van Buren

[35] Strong, *Early Landmarks*, 311-32; Munson, *Syracuse*, 124-7.
[36] Strong, *Early Landmarks of Syracuse*, 311-32.

had small but pivotal roles in the legislative process that built the Erie Canal as a state-funded project.[37]

In the eighteenth century, canal building in New York extended to short detours around elevation changes and connectors between waterways. In 1792, the Western Inland Lock Navigation Company was the first company incorporated by the state, with authorization to raise $250,000 through loan or stock purchase to undertake canal building. The state charged the company to connect the Hudson River to Lake Ontario, but the company did not have the technical capacity, the power of eminent domain, or adequate financial resources to complete the project. By 1803, the company was deeply in debt. A positive result of this foray into canal building was that many people later associated with the Erie Canal gained experience with the company, including DeWitt Clinton and Benjamin Wright, but the failure suggested the limits of public-private enterprise at this time to take on a project of this magnitude.[38]

Part of the problem was ideological. Both New York and the nation had been in hands of Democratic-Republicans since the turn of the nineteenth century. The Republican political philosophy eschewed the involvement of the government in economic development, but as the economy expanded, so did state involvement. In 1805, Jefferson's second inaugural address appeared to signal a new receptiveness to using the revenues of the federal government for national economic development:

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[37] *New York Assembly Journal*, February 4, 1808 in David Hosack, *Memoir of De Witt Clinton*, 344-5.
[38] Evan Cornog, *The Birth of Empire: DeWitt Clinton and the American Experience* (New York: Oxford University Press, 1998), 107; Chazanof, *Joseph Ellicott*, 69; Koeppel, *Bond of Union*, 278-9.

> The remaining revenue on the consumption of foreign articles enables us to support the current expenses of the government, to fulfill contracts with foreign nations, to extinguish the native right of soil within our limits, to extend those limits, and to apply such a surplus to our public debts as places at a short day their final redemption, and that redemption once effected the revenue thereby liberated may, by a just repartition of it among the states and a corresponding amendment of the Constitution, be applied in time of peace to rivers, canals, roads, arts, manufactures, education, and other great objects within each State.[39]

In the summer of 1807, Robert Fulton's steamship, Clermont, had just cut the travel time from New York to Albany from three days to thirty-two hours. That fall, two first-time legislators, Benjamin Wright and Joshua Forman, shared quarters in Albany. Benjamin Wright came from Rome, New York, the former center of the Oneida nation on the Mohawk River. Wright had surveyed the Mohawk Valley for the Western Inland Navigation and Lock Company in 1791 and advocated for a canal route from Albany to Lake Ontario. Forman advocated for a much longer route from Albany to Lake Erie.[40]

The idea of a canal, even one that crossed to Lake Erie, had been proposed many times, but it was Joshua Forman, the freshman representative from Onondaga County, who brought the idea to the state legislature.[41] Forman often repeated his original story for the idea: He and Wright debated the idea in the fall of 1807 after they received their installment of Rees' Cyclopedia and were inspired by its article on canals. The article enumerated the advantages of a man-made waterway versus a re-engineered waterway.

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[39] *Thomas Jefferson, III President of the United States, Inaugural Address, March 4, 1805*, The American Presidency Project, University of California, Santa Barbara, http://www.presidency.ucsb.edu/ inaugurals.php.
[40] Cole, *Martin Van Buren*, 21; Strong, *Early Landmarks of Syracuse*, 311-32.
[41] Jesse Hawley to David Hosack, July 24, 1828 in Hosack, *Memoir of De Witt Clinton*, 301-42. Jesse Hawley published a series of fifteen articles proposing a canal from the Hudson. The first article was published in *Commonwealth*, a Pittsburgh, Pennsylvania, newspaper on January 14, 1807; fourteen more articles appeared in *The Messenger*, a Genesee, New York, newspaper circulated in western New York in the winter of 1807, all under the pen name Hercules and reprinted in Hosack, *Memoir of De Witt Clinton*.

In the spring of 1808, Forman wrote and presented the resolution that proposed "the most eligible and direct route of a canal, to open a communication between the tide-waters of the Hudson River and Lake Erie." Writing many years later, Forman remembered that the proposal "produced such expressions of surprise and ridicule as are due to a very wild foolish project." Wright similarly recalled the "astonishment of many members by whose look and manner it was easily seen that they considered it a wild visionary project." Forman boldly projected the canal would cost millions of dollars on a proposed route of more than three hundred miles. At the time, the Western Inland Lock Navigation Company was hundreds of thousands of dollars in debt. The longest canal in the world was one hundred and thirty miles and in France.[42]

Forman was a gifted and persuasive speaker, in the term of the day, a "promoter." Politician and prominent newspaper publisher Thurlow Weed, from upstate Hudson Valley in Green County, once declared that "to hear Judge Forman express an opinion was to be convinced." Against the odds, Forman's proposal was successful, albeit modestly. When the proposal came out of committee, the legislature approved the measure, appropriated six hundred dollars to survey the Ontario and Erie routes, and created the Canal Commission to supervise the work. The survey was completed by James Geddes, one of the first Onondaga salt settlers, and supervised by Simeon De Witt. De Witt ordered Geddes to complete the Ontario route first. Geddes ran out of money at

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[42] Joshua Forman to David Hosack, October 13, 1929, in Hosack, *Memoir of De Witt Clinton*, 343-55, 502; J. T. W. Hubbard, *For Each the Strength of All: A History of Banking in the State of New York* (New York: New York University Press, 1995), 60.

the end of the first survey, and although he was reimbursed by the state, he completed the second survey to Lake Erie at his own expense.[43]

Forman was the first person to advocate before a government body for a canal that would cross the length of the state. If it was built, this canal would certainly pass through Onondaga County, and Forman stood to make a fortune. However, in his remarks to the Assembly, Forman presented his potential personal gain as a collective opportunity. In his speech to the legislature, Forman presented his case: wherein 1) Jefferson had publicly pledged his support for appropriating federal money for "great national objects of opening canals and making turnpike roads," 2) New York held "the best commercial rank" and had "the best route of communication between the Atlantic and western waters," through which the trade from the Great Lakes region would "flow to our great commercial emporium," 3) "Several of our sister states have made great exertions to secure their own states," which had "natural advantages vastly inferior to those of this state," and 4) It was "highly important" to capitalize on New York's advantages "as speedily as possible" to preserve and increase the commercial and national importance of the state. Forman proposed "an accurate survey to be made of the most eligible and direct route for a canal, to open communication between the tide-waters of the Hudson River and Lake Erie." The survey results showed the Albany-Erie route would be far more expensive but technically viable. In January 1809, Forman went to Washington to pitch the project to Jefferson.[44]

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[43] Hubbard, *For Each the Strength of All*, 60-61; Chazanof, *Joseph Ellicott*, 161.
[44] *New York Assembly Journal*, February, 4, 1808 in Hosack, *Memoir of De Witt Clinton*, 344-45; Koeppel, *Bond of Union*, 62-63.

In January 1898, Joshua Forman and former Salt Superintendent William Kirkpatrick of Salina, then a member of Congress, met with Jefferson. In Forman's recollection of the conversation, he told Jefferson that

> in view of [Jefferson's] proposal to expend the surplus revenues of the nation in making roads and canals, the state of New-York had explored a route of a canal from the Hudson River to Lake Erie, and found it practicable beyond their most sanguine expectations; after recapitulating in as laconic a manner as I could, some of the most important advantages it offered to the nation as inducements to undertake it—enhancing the value of their lands—settling the frontier—opening a channel of commerce for the western country to our own sea-ports—a military way in time of war, and a bond of union to the states.[45]

Forman went on to report that Jefferson replied,

> It was a very fine project, and might be executed a century hence. Why Sir, here is a canal of a few miles, projected by General Washington, which if completed, would render this fine a commercial city, which has languished for many years because of the small sum of 200,000 dollars necessary to complete it, cannot be obtained from the general government, the state government, or from individuals—and you talk of making a canal 350 miles through the wilderness—it is little short of madness to think of it this day.

Forman replied, "I thought the state of New York would never rest until it was accomplished."[46]

In a letter regarding this conversation, Jefferson later wrote,

> I do not recollect the conversation with Judge Forman, but I have no doubt that it is correct, for that I know was my opinion at the time; and many, dare I say, still think with me that New-York has anticipated, by a full century, the ordinary progress of improvement.

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[45] Joshua Forman to David, Hosack October 13, 1828 in Hosack, *Memoir of De Witt Clinton*, 347.
[46] Ibid.

Jefferson went on to reflect,

> This great work suggests a question, both curious and difficult, as to the comparative capability of nations to execute great enterprises. It is not from greater surplus of produce, after supplying their own wants, for in this New York is not beyond some of the states; is it from other source of industry additional to her produce? This may be;—or is it a moral superiority? a sounder calculating mind, as to the most profitable employments of surplus, by improvements of capital, instead of useless consumption? I should lean to the latter hypothesis, were I disposed to puzzle myself with such investigations; but at the age of 80, it would be an idle labour, which I leave to the generation which is to see and feel its effects, and add therefore only, the assurance of my great esteem and respect.[47]

At the age of eighty, Jefferson recognized that he had been wrong about the capacity of the state to complete the project at that time. His ruminations about New York's entrepreneurial spirit are bittersweet. Jefferson's political ideals may have reflected the aspirations of the American Republic, but his letter of 1822 suggests that he came to recognize that his political principles as they related to America's best course of economic development had grown obsolete in his lifetime.

The War of 1812 tabled the idea of a canal and any notion of a federally funded one. During the war, fighting took place on the shores of Lake Erie; Buffalo was burned to the ground. At the conclusion of the war in January 1815, the idea for the canal was revisited, but it took four years to build the political will to commit the state to fund it.[48]

DeWitt Clinton, as the chairman of the Canal Commission and the governor of New York, was the canal's most sustained champion. He collected one hundred thousand signatures statewide in favor of building it. In Onondaga County, Judge

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[47] Thomas Jefferson, Monticello, Virginia to Governor De Witt Clinton, December 12, 1822, in Hosack, *Memoir of De Witt Clinton*, 347-8.
[48] Koeppel, *Bond of Union*, 219.

Forman wrote the memorial that collected three thousand signatures and published a series of anonymous editorials in the Onondaga Register to promote the idea. These petitions were presented to the state legislature in early 1816.[49]

By 1816, the first party system had disintegrated. The Federalists were no longer a viable political party, and the Democratic-Republican Party in New York was made up of competing factions. Clinton was the leader of the dominant faction but seen by the other factions as a Federalist in a Democratic-Republican's clothing. Van Buren's Bucktails were one of the opposing factions. He saw Clinton as his main opponent. Van Buren distinguished himself in the political landscape by disparaging Clinton as devoid of political principles and by claiming, for himself, the mantle of Jefferson's "Old Republicanism."[50]

Van Buren initially blocked legislation to build the canal in 1816 on ideological grounds. As a Republican, he was opposed to the state funding internal improvements on principle. His motivations were also political because the passage of the legislation would only strengthen his adversary. But in 1817, Van Buren changed both his position and his strategy and gave an impassioned speech in defense of the canal on the Senate floor. William L. Stone, a young reporter of the *Commercial Advertiser*, was in the legislature that day taking notes as Van Buren opined that he "must trespass upon the committee," while he stated the general considerations which induced him to vote for the bill. After a thorough review and endorsement of the financial plan, Van Buren turned to

[49] The Canal Commission was created in 1808. Clinton was Chairman of the Commission from 1808 to 1824 and governor of New York from 1817 to 1822 and then again from 1825 to 1828 in Hosack, *Memoir of De Witt Clinton*, 1-135; Munson, *Syracuse*, 160-165; Strong, *Early Landmarks of Syracuse*, 311-32, esp. 321.
[50] Martin Van Buren, *Inquiry*, 227, 258, 265, 281, 297, 299, 307; Cole, *Martin Van Buren*, 32-64.

public opinion: "We are told that the people cannot bear the burden. Sir, I assume it is a fact that the people have already consented to it. During this time our tables have groaned with the petitions of people from every section of our country in favor of it." Hosack reported that this was Van Buren's greatest speech of the session. Van Buren concluded that he "considered it the most important vote he ever gave in his life—but the project, if executed, would raise the state to the highest possible pitch of fame and grandeur." First, Van Buren made his speech. Then he used his political capital to get the votes needed to pass the bill that committed the state to build the canal and fund it.[51]

Van Buren's influence was decisive. The 1817 law directed the state to build a canal to connect the Mohawk and the Seneca Rivers, as well as a second canal from Lake Champlain to Albany. By October, a thousand men were at work. The full authorization to build the canal from Seneca River to Lake Erie came in April 1819. In the floor debate, multiple amendments were proposed to limit the length of the canal, but Van Buren voted against them all. He celebrated his political victory by participating in the opening of the canal from Albany to Lake Champlain in November 1819. Tragically, Van Buren's wife died earlier that year, leaving him with four sons between the ages of two and nine. Van Buren never remarried.[52]

As Van Buren built his political career, he increasingly took into account the constituencies of western New York. In 1819, Van Buren had justified voting for the canal in terms of its benefits to the western part of the state. The farmers and

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[51] William L. Stone, *Commercial Advertiser* editor to David Hosack, February 20, 1829 in Hosack, *Memoir of De Witt Clinton*, 430-61, esp. 451-2.

[52] Jabez D. Hammond, *The History of Political Parties in the State of New-York from the Ratification of the Federal Constitution to December, 1840* (Albany, NY: C. Van Benthuysen, 1840), 482, 493; Koeppel, *Bond of Union*, 261; Cole, *Martin Van Buren*, 49-53.

manufacturers of the state would begin to supply the west, while the produce of the "wilderness" of the Great Lakes region would make its way east via Albany to New York City. Three years later, during the redrafting of the New York state constitution in 1821, he took a political position that belied one of the hallmarks of the national party he later founded. Van Buren's awareness of the west as an important Democratic-Republican constituency led him to advocate limiting voting rights to property holders for fear that universal suffrage would take representation away from the "hardy sons of the west" and instead give it to "the worst population" in the cities.[53]

Van Buren launched his national career in 1821 when he became a U.S. Senator. Before leaving Albany, he organized a political alliance among a group of largely self-made men, like himself, several of them connected by personal relationships and by marriage that became known as the "Democracy" by their supporters and the "Albany Regency" by their critics. After 1822, most of the seats in the New York legislature and most of the leading offices in the state, including governor, were held by Van Buren Bucktails. Van Buren later admitted that he "left the service of the State for that of the Federal Government with my friends in full and almost unquestioned possession of the States Government in all its branches." The political power of this group would be forcefully challenged, but the group's dedication to public service and the welfare of the state was acknowledged by contemporaries, supporters, opponents, and later by historians. New York publisher and politician Thurlow Weed called them men "of great

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[53] William L. Stone to David Hosack, February 20, 1829 in Hosack, *Memoir of De Witt Clinton*, 451-3; *Reports of the Proceedings and Debates of the Convention of 1821 Assembled for the Purpose of Amending the Constitution of the State of New-York: Containing All the Official Documents Relating to the Subject, and Other Valuable Matter* (New York: E. and E. Hosford, 1821), 356-68, 690, https://archive.org/stream/reportsofproceed00newy#page/n10/mode/1up; Cole, *Martin Van Buren*, 73.

ability, great industry, indomitable courage, and strict personal integrity." Membership in the Democracy was based on loyalty and merit. Many members of this inner circle went on to national positions.[54]

As Van Buren prepared for a national career, Forman re-positioned his life to take advantage of the coming canal. In 1819, he moved his family a few miles north of Onondaga Hollow. Forman was certainly motivated to achieve financial success, but unlike Van Buren, he was drawn to the civic activities of building a new community. Like many towns in western New York at the time, new cities and counties were given the names of the ancient world. This new town was named Syracuse in 1820, after the Greek provincial capital of the island of Sicily that itself was named for a nearby salt marsh. Every new town in western New York aspired to be the Athens of the west; Syracuse was no exception. Taking a real-world opportunity to realize the moral philosophy inculcated during his college education, Forman became heavily involved in the economic and civic development of the town.[55]

Forman continued to work as a lawyer, but he also became involved in the Onondaga salt works. In the first thirty years of salt production, the salt brine of the marshes was boiled down into salt using firewood. The industry had relied on free firewood as well as free salt, but by the 1820s the supply of firewood in the area was becoming exhausted. In 1820, the state legislature encouraged the erection of solar manufactories. Twenty-year leases were offered, with the privilege of carrying surplus

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[54] Robert V. Remini, "The Albany Regency," *New York History* 39, no. 4 (October 1958): 341-55, esp. 343, 346; Robert V. Remini, *Martin Van Buren and the Making of the Democratic Party* (New York: Columbia University Press, 1959), 11.
[55] Munson, *Syracuse*, 176; Strong, *Early Landmarks of Syracuse*, 303-36, esp. 313.

brine from Salina to supply solar works and the use of surplus canal water to work the pumps. The salt pointers in Salina were not interested, but Forman recognized opportunity for Syracuse. Solar evaporation produced a product that was classified as "coarse salt," while boiling produced a product classified as "fine salt." In 1822 Forman organized the Syracuse Coarse Salt Company in 1822. This company was taken over by the other business partners and Forman was forced to organize a second company, the Onondaga Solar Coarse Salt Company. As the head of this company, Forman was recognized for his contributions to the technology of solar evaporation.[56]

Forman also spearheaded lowering the level of Onondaga Lake with funding from the state. Lowering the lake was a technical requirement for the second phase of the canal. Lowering the lake finally solved the malaria problem caused by the marshes. A thousand men died of malaria building the canal. This public-works project turned the salt marches into real estate and removed a major impediment blocking the safe settlement of the town. Forman's reputation as an entrepreneurial maverick who partnered with the state on the development of western New York continued to grow.[57]

The funding of the Erie Canal was a watershed in the debate about public and private responsibility for internal improvements. The estimated cost of the project was $6 million, equal to nearly a third of all the banking and insurance capital in the state. As the chairman of the Canal Commission, DeWitt Clinton tried to raise funds from those states that could expect to benefit from the canal, including Vermont, Ohio, and Kentucky, but they all refused to participate. Federal assistance again seemed like a

[56] Munson, *Syracuse*, 176; Strong, *Early Landmarks of Syracuse*, 303-36, esp. 313.
[57] Chazanof, *Joseph Ellicott*, 175; Koeppel, *Bond of Union*, 268; *Munson, Syracuse*, 185-91.

possibility when Congress passed the "Bonus bill" sponsored by John C. Calhoun in 1817, but on March 3, 1817, a day before leaving office, James Madison vetoed the bill, and the hope for federal funding ended.[58]

In the end, the Erie Canal was a landmark example of a massive state-funded public works project undertaken by a single state. The canal was financed by a combination of state loans and a state fund that paid the interest on those loans and provided working capital for the project. The state supervising board, the Canal Commission, headed by Clinton, was created by the state in 1810. In 1817, the Commission was authorized to borrow money by issuing bonds on the credit of the state. These bonds were sold to the public through banks in Albany, New York City, other states, and eventually abroad.[59]

In addition to bond sales, the canal fund was built through a range of sources. Duties from auction sales, the sale of property from the old navigation companies, and the donation of one hundred thousand acres from the Holland Land Company in 1813 all fed the canal fund. Far more important to the canal fund was the state's revenue from the Onondaga Salt Reservation. In 1821, the legislature raised the duty for salt to twelve and a half cents per bushel until the canal debt was repaid. The Salt Reservation tax contributed more than $2 million to the fund.[60]

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[58] Hosack, *Memoir of De Witt Clinton*, 306-7, 344-5; Thomas Jefferson, *Public and Private Papers* (New York: Vintage Books, 1990), 193; Charles Sellers, *The Market Revolution: Jacksonian America, 1815-1846* (New York: Oxford University Press, 1991), 79.
[59] Koeppel, *Bond of Union,* 268.
[60] Dorothie De Bear Bobbé, *De Witt Clinton* (New York: Minton, Balch & Company, 1933), 214; Chazanof, *Joseph Ellicott*, 164-165; *Munson*, Syracuse, 187.

The canal broke ground July 4, 1817, a snub to Jefferson and Madison, who had refused to help. The first section of the canal from Syracuse to Rome was completed in April 1820, which immediately reduced the cost of transporting salt to market. Toll rates were published in May 1820; toll collections began in July. Forman became the top salaried toll collector in Syracuse at $250 per year. As an incentive to the salt manufacturers whose duties were augmenting the Canal Fund, any fuel used in the manufacture of salt would pass through the canals lock's for free. Comfort Tyler, one of the two original Onondaga salt settlers, founded the first canal boat company in 1820. Joshua Forman was one of that company's original subscribers at $100 per share. When it became clear the Canal Commission would repay its bonds on schedule, Forman also used his influence to build a spur to run north from the canal directly to the salt spring, one of the first feeder canals to be completed. Tyler's first boat, the Montezuma, arrived in Salina in April 1820. Twelve years after Forman petitioned the New York legislature, the inland waterway built by the state of New York had arrived at his door step.[61]

The opening of the entire canal five years later was heralded by a more than three-hour cannon salute that boomed audibly from one town to another, from Buffalo to New York City and back, a signal that the real terminus of the canal was New York City, not Albany. As the president of the village of Syracuse, Forman was at the Syracuse lock to greet Governor Clinton when the inaugural canal boat *Seneca Chief* came through in October 1825. In his welcoming remarks, the once and future Federalist Forman still cast the importance of the canal in national terms:

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[61] Koeppel, *Bond of Union*, 267; Hubbard, *For Each the Strength of All: A History of Banking in the State of New York*, 64-67, 257, 263-5; Munson, *Syracuse*, 178-9.

> This marks a new era in the history of man, the example of a nation whose whole physical power and intelligence are employed to advance the improvement, comfort and happiness of the people. The introduction of steamboats on our lakes, and running rivers and canal to connect waters which nature has disjoined have broken down the old barriers of nature, and promise the wide spread regions of the west all the blessings of a seaboard district.[62]

Three broad impacts of the canal are relevant to this study. First, the canal became the economic engine that its “projectors” promised it would be. The canal opened one thousand, six hundred and sixty miles of inland navigation from New York City to the Chicago River. Within seven years, Ohio connectors from Cincinnati and Toledo to the Ohio River, and thus the Mississippi, completed the transformation of the United States from a string of coastal economies to a continental empire. Not only did the canal create a literally fluid national market, but also the financial success of this massive state-funded project strengthened the credit of the United States as a whole, giving the country much larger access to markets and credit at home and abroad.[63]

Second, New York City was the undisputed financial center of the country, but the state as a whole earned the moniker, “The Empire State.” The fact that the canal was financed, constructed, owned, and operated by the state government of New York represented a transformation of the role of the state in economic development. At the time the canal was built, it was projected to cost $6,000,000, which was equal to one-third of all the banking and insurance capital in the state. The state was the only institution large enough to undertake the project. Economic historian Julius Rubin

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[62] Joshua Forman to David Hosack, October, 13, 1828, Hosack, *Memoir of De Witt Clinton*, 343-55. Forman also furnished and Hosack re-printed Forman’s speech on the day of the opening of the canal published in the *Syracuse Gazette*, November 2, 1825, 353.
[63] Clark, *Onondaga*, 62; Hosack, *Memoir of De Witt Clinton*, 306-42; Hulsebosch, *Constituting Empire*, 162-3.

emphasizes that the 1817 decision to build the Erie Canal from Albany to Buffalo was "an unlikely choice among several alternatives; it was an investment of vast funds in an unlikely enterprise; and it was an example of long-range planning in a democracy." The management of the canal's revenues transformed the economy of the western part of the state and spurred the rapid expansion of banking. Managing this influx of capital from western New York would drive New York legislators towards greater bank regulation.[64]

Third, the canal also drove large demographic changes that changed the politics of the state of New York. Thousands emigrated from abroad, mostly from Ireland, to build the canal. When it was completed, the far western counties, Genesee and Ontario, were finally settled. At long last, the Holland Land Company and other speculators holding land in western New York realized outstanding profits on an investment they had held for more than thirty years. In 1810, when the Canal Commission first investigated the route, Clinton noted in his diary that Buffalo had "five lawyers and no church." The population of Buffalo grew to 2,095 in 1820 and to 42,261 in 1850, a 2,000 percent increase in thirty years.[65]

In addition to the settlement of farm families across the state was the development Forman had foreseen, the rise of new towns along the canal route that served as markets for farmers' produce and incubators for manufacturing. As urban historian Richard Wade has noted, the story of western movement is not only or even mainly a story of farmlands, but also the story of the "urban frontier." The number of people engaged in

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[64] Hulsebosch, *Constituting Empire*, 162-3; Julius Rubin, *An Innovating Public Improvement: The Erie Canal in Carter Goodrich, Canals and American Economic Development* (New York: Columbia University Press, 1961); Sellers, *The Market Revolution*, 43-44; Hammond, *Political Parties in the State of New-York*, 294.

[65] Cornog, *Birth of Empire*, 160-161.

manufacturing in the western part of the state increased by 262 percent between 1829 and 1849, and the number of those employed in commerce and navigation increased tenfold. This demographic shift led to a political one. In 1828, Van Buren was the first governor of New York elected with votes from western New York.[66]

Forman and Van Buren each had small but pivotal roles in building the canal. As the freshman representative from a newly formed county, Forman proposed the outlandish plan to the state legislature in 1808 and secured the state funding that demonstrated the technical feasibility of the route. Although many people had discussed building a canal to connect the Hudson to interior waterways since the eighteenth century, Forman would be remembered as "the first legislative projector of the greatest improvement of the age." Van Buren, unlike Jefferson, revised his political views about the role of government in economic development and used his political capital to push through the legislation that committed the state to fund the project using state funds and the state's credit.[67]

Skepticism that the canal would ever be built by the state or ever completed should not be underestimated. Jefferson was not the only doubting Thomas. Forman was asked a hundred times if he ever expected to live to see the canal completed, to which he uniformly answered, "as surely as he lived to the ordinary age he did; that it might take

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[66] Richard C. Wade, *The Urban Frontier*: *The Rise of Western Cities, 1790-1830* (Cambridge, MA: Harvard University Press, 1959); Ronald E. Shaw, *Erie Water West: A History of the Erie Canal* (Lexington: University of Kentucky Press, 1966), 264.
[67] Hosack, *Memoir of De Witt Clinton*, 352.

ten years to prepare the public mind for the undertaking, and as many more to accomplish it, never the less it would be done."[68]

Forman's long-time political partner in this epic endeavor, DeWitt Clinton, died in February 1828. Dr. David Hosack, a long-time New York politician and friend of Clinton's from their days at Columbia, was soliciting letters from everyone associated with the Erie Canal to make a memorial to Clinton's life's work. Forman's letter to Hosack continued to cast the canal in the broadest national terms. The value of the canal, he wrote, outweighed its cost because

> whether considered in relation to the state in improving the western district, and enriching the city of New-York by the trade of the rich and growing country bordering on the western lakes; or [in relation to] the United States whose forty of fifty millions of acres of land, bordering on the lakes, would enhance in value beyond the whole expanse by causing their rapid settlement, and by forming an outlet for their trade through our own territory, it would be an indissoluble bond of union between the Western and Atlantic states that would chain them to our destinies in any national convulsion.[69]

Forman was not the main driver of the canal; Clinton earned that honor, but Forman's efforts secured his reputation as a man who envisioned the state as a nation-builder that could tie a newly settled western frontier to the coastal economy that had been operating for two hundred years. He understood that it was the interdependence of the west and east fostered through the power the state that formed the "bond of union."

Van Buren left for Washington in 1821, but the canal vastly increased the power of his political base. The Bucktails and their leadership, known as the Albany Regency

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[68] Shaw, *Erie Water West*, 171; Clark, *Onondaga*, 72.
[69] Joshua Forman to David Hosack, October 13, 1828 in Hosack, *Memoir of De Witt Clinton*, 345-6.

to their opponents and the Democracy to their supporters, took political control of the canal and then took financial control as well. In 1824, the Bucktail-dominated state legislature voted to remove DeWitt Clinton from the Canal Commission and thereafter controlled the commission. Van Buren claimed not to have engineered this move. Although Clinton was his great political rival, Van Buren famously remarked, "There's such a thing as killing a man too dead." The Mechanics and Farmers Bank, founded by Benjamin Knower, was known as "The Regency Bank" in Albany. Van Buren was a director. The Mechanics and Farmer's Bank became the main depository for the canal funds, which greatly benefited the personal fortunes of its principals.[70]

By 1828, the canal was a cash cow for the state; banks were vying for its deposits, which the commission allocated. The combination of economic and population growth exploded the demand for banking facilities. Western communities, especially the towns along the canal route, were vying with the state for bank charters. Joshua Forman and Martin Van Buren had different roles at different times in the creation of the canal, but both were effective politicians who persuaded the state to undertake the project. The canal showed that both men could think in terms of statewide economic development and saw the state taking the lead in that development. They would reprise these roles in 1829, this time working together.

[70] Koeppel, *Bond of Union*, 317; Cole, *Martin Van Buren*, 431; Frank Otto Gatell, "Sober Second thought on Van Buren, the Albany Regency, and the Wall Street Conspiracy," *The Journal of American History* 53, no. 1 (June 1966): 25; William Lyon Mackenzie, *The Life and Times of Martin Van Buren: The Correspondence of His Friends, Family and Pupils* (New York: Cooke & Co., 1846), 94; Niven, *Martin Van Buren*, 220; Forman to Van Buren, January 24, 1829, and Van Buren to Jackson, September 4, 1833 in Lucy Fisher West, ed., *The Papers of Martin Van Buren* (Alexandria, VA: Chadwick-Healey, 1989); John Spencer Bassett, *Correspondence of Andrew Jackson, Vol. V* (Washington, DC: Carnegie Institution of Washington, 1925), 181-2.

CHAPTER III

MARTIN VAN BUREN, JOSHUA FORMAN, THE NEW YORK SAFETY FUND, AND THE SPREAD OF *STATE* BANK INSURANCE WEST ALONG THE AMERICAN FRONTIER, 1829-1866

When the first state bank insurance program was proposed in New York it was novel and it was radical. For the first time, the law applied the insurance principle to secure all bank obligations in the state of New York, which in 1829 included bank notes and bank deposits.[1] The New York Safety Fund, as it came to be known, was the centerpiece of the first state bank regulatory system that was intended to bring effective supervision to the state's banks, stabilize the state's money supply, and protect individual note holders and depositors from loss in the case of bank failure. The law was radical because it proposed using the power of the state to tie the developing economy in the western part of the state to its commercial center in New York City by compelling all banks to participate in an insurance fund that called for mutual financial responsibility.[2]

The New York Safety Fund was created at the confluence of major economic and political transformations in New York and the country. On the one hand, the law was the product of a state banking system that was rooted in mercantilism, controlled by the state,

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[1] The term "state bank obligation insurance" is used to describe pre-Civil War programs which insured both bank notes and bank deposits. The term "state bank deposit insurance" is used to describe the twentieth century bank insurance programs whose main purpose was to insure deposits. In this study, the term "state bank insurance" and "bank insurance" is often used as short-hand for both "state bank obligation insurance" and "state bank deposit insurance" in the context of discussions about those programs.

[2] Before the Civil War, the money supply or circulating medium in the United States of gold and silver minted by the federal government, the bank notes of the Bank of the United States when one existed, and the bank notes and bank deposits of individual state banks throughout the country. In the common phrase "credit and currency," currency refers to the circulating medium.

and about to be replaced. The very concept of using the insurance principle to protect the liabilities of all actors in a given marketplace was borrowed from mercantile trade practices in China. On the other hand, the law also emerged because of a new national political party which eschewed the state control of banking through the charter system and embraced an ideology of laissez-faire capitalism, but tipped the balance of political power west.[3]

Martin Van Buren was at the center of these transformations in New York and nationwide. As a U.S. Senator, he partnered with Andrew Jackson in 1828 to build the Democratic Party, which brought Jackson to Washington and Van Buren to Albany. The Jacksonian Era would usher in a major change to the role of the government in banking at the state and federal level, but in 1828 Van Buren was still politically invested in preserving the state's power to charter banks and in serving the western counties that had just elected him governor and were clamoring for bank charters. When Jackson took office as President in March of 1829, he named Van Buren as his Secretary of State. Before Van Buren left for Washington, he commissioned Joshua Forman, a former state legislator and a key "promoter" of economic development in western New York, to design the first statewide system of bank regulation. Its centerpiece, the first state bank insurance program, was Forman's idea.[4]

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[3] Howard Bodenhorn, *A History of Banking in Antebellum America: Financial Markets and Economic Development in an Era of Nation Building* (Cambridge: Cambridge University Press, 2000); Howard Bodenhorn, *State Banking in Early America: A New Economic* History (New York: Oxford University Press, 2003), 181.
[4] Robert V. Remini, ed., *The Age of Jackson* (Columbia: University of South Carolina Press, 1972); Howard Bodenhorn, *Banking in Antebellum America*, 2000.

The New York Safety Fund was the first state bank insurance program, but five more states carried this idea west. Vermont, Ohio, Indiana, Michigan, and Iowa copied and adapted the New York law, but the idea spread independently; it was not franchised. These states were all admitted to the Union after 1789 and were all part of the growing market economy that flowed to New York. When the Banking Acts of 1863 and 1865 put the authority to issue bank notes in the hands of the federal government, most state banks converted into national banks. All the state insurance programs closed by 1866.[5]

The six state bank insurance programs in operation before the Civil War were radical experiments in mutual financial responsibility. The overarching thesis of this chapter is that state bank obligation insurance was fundamentally a democratic impulse that came from regions and states in the geographic, political, and economic periphery to leverage the power of the state to stabilize their developing economies and better tie them to the established coastal centers of commerce. State bank insurance represented a renegotiation of the balance of power between the state and private banks. Its principle of mutual responsibility represented a renegotiation of the balance of power among all banks in a state, from the largest "city banks" to the smallest "country banks."[6] This chapter will locate the first state bank insurance program in New York in the mercantilist roots of American banking in the Early Federal period and the rise of the Democratic Party in 1828, and then examine the growth of this legislative idea as it moved west to five other states prior to the Civil War. More broadly, this chapter will continue to

[5] Carter H. Golembe and Clark Warburton, "Insurance of Bank Obligations in Six States During the Period 1829-1866," (Washington, DC: Federal Deposit Insurance Corporation, 1958).
[6] The designation of "city bank" and "country bank" was contemporary common parlance to describe large banks in major commercial centers and small banks in that served towns and rural areas. See Bodenhorn, *State Banking in Early America*, 131-45.

examine the expansion of the role of government in the United States in banking and the economy.

One of the underlying themes of this study is the expansion of the full faith and credit of the United States to secure the nation's money supply. The phrase "full faith and credit" was originally used in Article IV, Section 1 of the Constitution in reference to the obligation of states to respect the laws of other states. The phrase "full faith and credit of the United States" as a signifier of the U.S. government as a financial guarantor was not in common use until after 1933, but this term has come to define the source of the guaranty of federal deposit insurance, and this study provides a window on the development of this concept in its current usage over time. The assertion of federal power to secure the credit and currency of the United States evolved in stages over one hundred and fifty years. This expansion of power tended to take place in times of extreme national economic crisis and was politically contested at every step.[7]

This chapter is built on a combination of sources. The history of banking in the Early Federal period draws from secondary source material. The political history of the New York Safety Fund is based on the records of the state legislature, newspaper accounts, and the biographies, memoirs, and personal papers of the principal actors involved. The financial analysis of the six programs draws from data gathered and tabulated by the FDIC between 1934 and 1958. For each program, this chapter puts this data into historical context and examines the key provisions of each program—eligibility,

[7] John Jay Knox, *A History of Banking in the United States* (New York: Augustus M. Kelly, 1969); Richard H. Timberlake, *Monetary Policy in the United States: An Intellectual and Institutional History* (Chicago: The University of Chicago Press, 1993).

liability, supervision, and the source of the guaranty. This structure allows the reader to understand the history of state bank insurance on two levels. The analysis of state records, news accounts, and writings and recollections of key leader provide insight into the political capital required to pass a state bank insurance program and show how the ideological battle over the role of government in money, banking, and the economy played out among different stakeholders. The financial analysis of the programs based on specific criteria creates a framework for analysis of all the state bank insurance programs discussed in this study and offers insight into the evolution of this legislative idea as the product of the democratic process.

Banking, Bank Panics, and Bank Regulation in the Early Federal Period

The New York Safety Fund was a radical assertion of state power over the private sector for the general welfare. The enactment of this law needs to be understood in the broader context of the history of banking and the volatile economic expansion in the United States. This political and economic history shaped the ideas of Martin Van Buren, Andrew Jackson, and Joshua Forman in different ways with respect to the role of government in banking and the economy. This historical context also helps to explain the unusual historical moment in which the first state bank insurance program was created. In a time of transition from mercantilism to market capitalism and the transition from the first party system to the second party system, the first bank insurance program was created at the tail-end of the Early Federal period before the cement dried with respect to Hamilton and Jefferson's epic debate regarding the relationship between the state and federal government and the role of the state in the economy. The first bank insurance program was created in literally the eleventh hour of that debate before the cement hardened around Jackson's particular synthesis with respect to banking and the laissez-faire ideology that underwrote capitalist expansion for the next hundred years.[8]

The development of banking in the Early Federal period was dynamic but chaotic. At the core of this chaos was an ideological debate about the role of the federal government in banking and the economy. Except for the power to mint silver and gold into legal tender, the Constitution delineated no other financial powers to the federal government. It was left to Congress to define those powers. Democratic-Republicans who wanted to limit the role of the federal government in economic matters argued that all federal powers not delineated by the Constitution should be left to the states. The Federalist vision laid out by Alexander Hamilton embraced the idea that the financial strength of the federal government would create economic stability for the nation as a whole. Hamilton called for a three-pronged approach to establish the financial powers of the federal government by establishing the credit and the currency of the country through the institutional structure of a central bank.[9]

Behind these Constitutional and ideological debates was an economic one. The economy of the new republic was driven by two interdependent but geographically separate economic sectors, the established centers of finance and commerce in the North and a plantation agricultural system in the South that had used chattel slavery for two hundred years to grow cash crops which, since the 1790s, consisted mainly of cotton. A

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[8] Bodenhorn, *State Banking in Early America*, 8, 181; L. Ray Gunn, *The Decline of Authority: Public Economic Policy and Political Development in New York, 1800-1860* (Ithaca, NY: Cornell University Press, 1988), 256.
[9] Knox, *Banking in the United States*, 1969; Timberlake, *Monetary Policy,* 1993.

majority of the population was engaged in subsistence family farming. The slave-dependent South generally resisted a strong federal government with financial powers that would supersede the rights of the states and federal monetary policies that conflicted with the needs of agriculture. Thus, the power of the federal government with respect to credit, currency, and banking evolved in stages. In times of extreme economic stress, the federal government moved to secure the credit and currency of the country.[10]

When the First Congress assembled in 1789, the economy was in shambles. The wartime government had defaulted on its loan payments and the states still carried substantial war debt. The Funding Act of 1790 empowered the federal government to assume one hundred percent of the war debts of the former Continental Congress and those of all thirteen states. That debt was refinanced with new government bonds guaranteed by the new federal government.[11]

The Funding Act of 1790 established the credit of the United States and laid a foundation for future economic development. The Act increased the confidence of the creditors holding the new nation's war debt and it increased the value of all American securities. Behind this new nation with the potential for explosive economic growth, stood a national government that would pay its debts. This law did not pass without a political negotiation, however. Hamilton called upon Congress to consider the debts of

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[10] Eugene Genovese, *The Political Economy of Slavery: Studies in the Economy and Society of the Slave South* (Middletown, CT: Wesleyan University Press, 1989); Eric Williams, *Capitalism & Slavery* (Chapel Hill: University of North Carolina Press, 1994); Ira Berlin, *Many Thousands Gone: The First Two Centuries of Slavery in North America* (Cambridge, MA: Belknap Press, 1988); Douglass North, *The Economic Growth of the United States 1790-1860* (New York: W.W. Norton & Co., 1966); John Jay Knox, *A History of Banking in the United States* (New York: Augustus M. Kelly, 1969); Knox, *Banking in the United States*, 1969; Timberlake, *Monetary Policy,* 1993.

[11] A. Barton Hepburn, *A History of Currency in the United States* (New York: Augustus M. Kelly Publishers, 1967), 1-41.

each of the individual states as a common debt incurred in a common cause. Virginia and Maryland agreed to support the measure, if the seat of government was relocated to the banks of the Potomac River on the border between the two states. The nation's capital moved to Washington, and the Funding Act was passed.[12]

The creation of a single, national currency fully secured by the federal government evolved over the course of one hundred and fifty years in the United States. The Constitution specified federally minted silver and gold as the only legal tender. The Coinage Act of 1792 established the U.S. Mint and created a monetary system based on a U.S. silver dollar pegged to the value of the Spanish silver dollar. The federal government minted specie, coins up to a value of five dollars that could be physically carried and flow through the economy. Transactions above that value used government-minted gold. Federally minted gold and silver was referred to as "hard money." Its value was guaranteed by the federal government, but its supply was limited by the physical amount of silver and gold held by the U.S. Mint.[13]

Specie was only a small part of the total circulating medium in the Early Federal period. The majority of the circulating medium included federal bank notes, state bank notes, and state bank deposits. Federal bank notes were redeemable at par value for specie, but the value of state bank notes varied at the point of exchange between and within states and bank by bank, which added volatility to the economy.[14]

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[12] A. Barton Hepburn, *A History of Currency in the United States* (New York: Augustus M. Kelly Publishers, 1967), 1-41.
[13] Ibid.
[14] Ibid.

The political debate over the creation of a central federal bank also created economic volatility. The first Bank of the United States was established in 1791, but Congress voted not to renew its charter in 1811. The tie-breaking vote was made by Vice President George Clinton of New York. A second Bank of the United States was established in 1816. In response to the uncertainty over the continuity of a central federal bank, separate banking systems developed in every state. At the state level, economic historian Howard Bodenhorn argues that the development of independent state banks was "a fundamental element" of the economic development of a geographically expanding nation. But these small, often unregulated banks were prone to failure and a plethora of independent unit banks were prone to bank panics. As the economy of a physically growing nation grew and sometimes contracted, the uneven development of banking at the federal and state level sometimes initiated and often amplified these economic swings.[15]

Banking was built on a fragile business model of fractional reserves, where banks loaned a portion of their capital, which included its bank deposits. State banks in the early federal period were engaged in two businesses: the business of lending money and the business of printing and circulating bank notes. The risk of lending money was loan default. The risk of holding bank deposits and issuing bank notes was that these deposits and notes were, when the law required, redeemable in specie. The system of fractional reserves meant that individual banks never had sufficient specie on hand to redeem all of

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[15] Bodenhorn, *Banking in Antebellum America*, 22-27; Carter Golembe, *State Banks and the Economic Development of the West, 1830-1844* (New York: Arno Press, 1978); Elmus R. Wicker, *Federal Reserve Monetary Policy, 1917-1933* (New York: Random House, 1996); Elmus R. Wicker, *Banking Panics of the Gilded Age* (Cambridge: Cambridge University Press, 2000); Wicker, *Panics of the Great Depression* (Cambridge: Cambridge University Press, 1996), 1-23.

their deposits and their bank notes in specie at once. The system ran on the public's faith in its perpetual operation and was vulnerable to panics.

City banks in the center of commerce attracted the majority of bank deposits, developed enormous capital reserves, and served the short-term or working capital credit needs of diverse and growing businesses. The main business of city banks was based on lending money. Country banks were smaller than city banks and less diversified; primarily they served the agricultural sector. The main business of country banks relied on issuing bank notes. In the Early Federal period, country banks issued bank notes in multiples far above their capital reserves, often many times higher than city banks. As a result, country banks faced a higher risk of failure. The value of bank notes issued by city banks was always much higher and more stable than that of country banks.[16]

The banking systems varied from state to state, but country banks that operated independently of a larger banking system and without state supervision were the most vulnerable to bank failure and bank panics. Virginia, for example, established a branch banking system with a central state bank and supervised local branch banks, while Mississippi did not pass a bank regulation until the twentieth century. The state of Mississippi is not even referenced in Bodenhorn's history of banking in antebellum America. In New York, there was a charter system whereby the state legislature voted to approve every bank charter. It is important to emphasize that banking in the state of New York was distinct from every other state. Between 1800 and 1810, New York became the nation's most populous state, and New York City the nation's largest city. After

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[16] Bodenhorn, *Banking in Antebellum America,* 24.

1811, New York became the financial center of the United States with the most capital of any state in the union. By 1815, New York banks were capitalized at $18.9 million, 63% of all bank capital in the country.[17]

In this fragile state banking system bank failure could lead to bank panics. A bank could fail due to poor management or corruption. A bank could also fail because its biggest customer's businesses or investments collapsed. The reliance on bank notes as a business model made small unit banks the most vulnerable. All banks issued currency in multiples above their capital reserves, so bank notes circulated through the economy on faith. No bank could redeem all its bank notes and bank deposits in specie at one time. The federal laws concerning the "redemption" of bank notes into specie changed in the Early Federal period with the presence and absence of a central federal bank, but following the creation of the Second Bank in 1816 state banks were required to redeem their state's bank in specie. When an economic downturn led to a crisis in confidence and all customers tried to redeem their bank notes and deposits in specie, a bank failure could lead to a bank panic. Bank panics were endemic in the economic development of the United States and devastating to the people and communities that were affected.[18]

The first major panic took place in 1819. President James Madison and his first Treasury Secretary, Albert Gallatin, had come to see that having a central federal bank was necessary, especially in a time of war. When Madison re-chartered the Bank of the United States in 1816, he took steps not to create problems in the economy, gradually

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[17] Cole, *Martin Van Buren*, 26-27.
[18] Bodenhorn, *Banking in Antebellum America,* 41; Sellers, *The Market Revolution*, 134-6; Evan Cornog, *The Birth of Empire: Dewitt Clinton and the American Experience, 1769-1828* (New York: Oxford University Press, 1998), 113.

making paper money redeemable again for specie. The result of this classic mistake in business planning was that the expansion of the supply of federal bank notes failed to account for the impact of this expansion on the total number of bank notes in the aggregate. Madison did not attempt to reduce the total number of bank notes in circulation. As a result, the creation of the Second Bank of the United States flooded the economy with additional credit and currency, which fueled inflation. The value of state bank notes collapsed and many communities resorted to printing their own paper money. Then, on October 30, 1818, in an abrupt reversal in monetary policy, Madison made the same mistake in reverse—he contracted the supply of specie without taking into account the impact of that contraction on local communities. In particular, the Second Bank of the United States withdrew large amounts of specie from the western banks and shipped it east. A bank panic ensued. The Panic of 1819 was the nation's first systemic bank crisis. Two banks failed in New York. In the west, the impact of the contraction was catastrophic. A majority of banks in Tennessee and Kentucky failed.[19]

Jackson and Van Buren were both impacted by this panic. Jackson was always circumspect about his personal losses in 1819, but the rigidity of his views regarding banks, particularly the Bank of the United States, suggests his losses were substantial. Jackson came to the White House with hard money views. The comments he did make suggested he carried a personal grudge. In a meeting with Nicholas Biddle in November 1829, Jackson told Biddle, "I do not dislike your Bank any more than all banks." He was

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[19] J. Van Fenstermaker, *The Development of American Commercial Banking*, 1782-1837, *Bureau of Economic and Business Research* (Kent, OH: Kent State University, 1965), 53-73; Charles Sellers, *The Market Revolution: Jacksonian America, 1815-1846* (New York: Oxford University Press, 1991), 135-6.

not just an opponent of the Bank of the United States; he objected to the business of banking. He believed that the government should only deal in "hard money"—gold and silver—to eliminate the risk of dealing with banks altogether.[20]

Van Buren was personally affected by the Panic of 1819 as well. The Bank of Hudson was one of two New York banks that failed. Van Buren had been the attorney who petitioned for the bank's charter in 1808 and was a director at the bank. Two of his closest friends, John C. Hogeboom and Gorham Worth, were president and cashier (roughly the equivalent of CEO and CFO), respectively. In a county where Republicans made up the minority of voters, the bank was considered a Republican bank. Van Buren lost his investment, and as a stockholder of the bank, he was liable for the bank's losses. His professional colleagues, relations, and friends in Columbia County may have lost money as well. Van Buren is silent in his autobiography about the Bank of Hudson, whose charter was no doubt a professional victory early in his career. Certainly the bank's failure was a source of personal embarrassment. The surviving bank in Columbia County, the Bank of Columbia, was the only other bank in the county and was a "Federalist" bank, whose prominent principals represented Columbia's landed elite. It must have stung Van Buren that the "Federalist" bank survived when his bank did not.[21]

The Panic of 1819 ignited the process of creating a comprehensive state regulatory system in New York. New York was the financial center of the country, with more capital than the rest of the country put together. This increased the imperative for

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[20] Robert V. Remini, *The Life of Andrew Jackson* (New York: Harper & Row, 1988); Sean Wilentz, *Andrew Jackson* (New York: Henry Holt and Company, 2005), 21, 41; Cole, *Martin Van Buren*, 28.
[21] Cole, *Martin Van Buren*, 28; Niven, *Martin Van Buren*, 220-221.

financial stability, but its charter system made bank regulation difficult. The charter banking system was established in New York in 1791. Hamilton's Bank of New York received its charter from the state legislature in 1791, the same year that Hamilton's First Bank of the United States was chartered. Hamilton had modeled the Bank of the United States on the Bank of England, which was modeled on the Dutch joint stock companies. The bank charter system in New York mirrored that model of incorporation. The state legislature had the sole power to establish a bank by issuing a charter through an act of the legislature. The charter set the guidelines through which the bank would operate. State banks were established as joint stock companies. The charter determined the level of initial capitalization and set the parameters for how much capital the applicants had to contribute and how much stock the bank was authorized to issue. It set how much of that capital had to be "paid-in" in specie and specified assets, like government bonds, before the bank started operation. The charter set the multiple at which a bank could issue bank notes above its total capital. Like the charters of mercantilist trading companies, bank charters in New York were granted as a monopoly in a given geographic area. Bank charters were also usually granted with an expiration date and had to be renewed. To its supporters, initially Federalists, the charter system asserted a measure of state control over banking and the economic growth of the states. To its detractors, initially Republicans, the charter system was a political monopoly that was subject to corruption and controlled the expansion of credit and capital by an act of the legislature, rather than the market.[22]

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[22] John Jay Knox, *A History of Banking in the United States* (New York: Augustus M. Kelly Publishers,

There were a number of institutional and political challenges to enacting bank reform. Every charter granted by the state legislature in New York was a little different. Once a charter was granted, there was little in the way of government regulation to guarantee compliance. As a result, the bank regulations passed in New York between 1791 and 1819 were mostly focused on limiting the businesses of banking—lending and issuing notes—to banks alone, but the Panic of 1819 led the legislature to move towards more comprehensive bank regulation. The prospect of expanding the state's power over banking, however, was highly contested. Republicans were ostensibly against state interference and effective bank regulation required private banks to open their books to state examination. To act on the information discovered in a bank audit, the state required even more authority. As the state legislature struggled to come to a consensus about bank reform, it stopped renewing charters altogether. Meanwhile, banks continued to fail, all of which were country banks. At the same time, the Erie Canal became fully operational in 1825, and western communities who wanted the expansion of credit in the west under local control were demanding new bank charters.[23]

In 1828, the charters of thirty-one of the state's forty banks were coming up for renewal in the next three years. The charter system prevented the state from changing bank charters retroactively, but the state could impose new regulations on new and renewed charters. The fortuitous circumstance of the majority of the state's charters

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1969), 1-14, 25-50, 390-429.

[23] Niven, *Martin Van Buren*, 303.

coming up for renewal at the same time provided the state with an opportunity to reform the system; Van Buren grabbed it.[24]

Rise of the Democratic Party and the Creation of the Safety Fund

The ascension of Martin Van Buren as governor of New York and then Secretary of State was a matter of happenstance. In January 1828, George Clinton was the clear frontrunner for governor and Jackson's first choice as a political partner, but Clinton died in February 1828. It was James Hamilton who travelled to Nashville and brokered a political alliance between Jackson and Van Buren, who knew each other from the Senate, but had never been allies. At the same time as Martin Van Buren was about to reap the benefits of an astoundingly successful national political partnership with a man who was intent on checking the power of the Bank of the United States, he commissioned a former federalist legislator to create a state regulatory system which established the largest extension of government power over banking in the Early Federal period. In a political climate that augured the disestablishment of the Bank of the United States for a second time, Van Buren laid the groundwork for the state of New York to operate with the powers of a central bank.[25]

In 1828, there was a political shift in the thirty-nine-year-old republic that was successfully engineered by a political partnership between Martin Van Buren and Andrew Jackson. Jackson was the first president to hail from west of the Appalachians, Van Buren the first New York governor elected by western New York. This political

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[24] Niven, *Martin Van Buren*, 220-221; Cole, *Martin Van Buren*, 26-44.
[25] Cole, *Martin Van Buren*, 159; James A. Hamilton, *Reminiscences of James A. Hamilton or Men and Events at Home and Abroad During Three Quarters of a Century* (New York: Charles Scribner & Company, 1869), 67-86; Fritz Redlich, *The Molding of American Banking: Men and Ideas* (New York: Johnson Reprint Corporation, 1968), 88-95.

shift engaged the broadest electorate to date.[26] The election of Jackson and Van Buren, both self-made men from humble beginnings, signaled a check on the power of east coast elites. Jackson and Van Buren shared a Republican ideology of limited government, but their shared views diverged regarding the role of the federal government in banking. Jackson came to Washington with "hard money" views; he wanted to limit the government's transactions to specie. Jackson was convinced the actions of the Second Bank of the United States were responsible for the collapse of the banks in Tennessee, and he was determined to check the power of the bank, if not eliminate it entirely. Jackson's public comments about banking were circumspect during the election of 1828, but the actions of others make his intentions clear.[27]

Van Buren's views on banking were decidedly more statist, but he was in the subordinate position in that political partnership. Van Buren's political career suggests that he did not apply the Republican ideology of limited government to banking. His first attempt at creating a national political alliance was with a Republican politician, William H. Crawford, who had backed the renewal of the First Bank of the United States as a senator and who ushered in the Second Bank of the United States as Madison's Treasury Secretary in 1817. Van Buren did not make comments in writing or in public about Jackson and his intentions regarding the Second Bank of the United States, but within a week of being elected governor of New York in 1828, Van Buren solicited fresh ideas for comprehensive bank legislation. The fact that Van Buren moved so quickly and with

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[26] Donald B. Cole, *Vindicating Andrew Jackson: The 1828 Election and the Rise of the Two-Party System* (Lawrence: University Press of Kansas, 2009), 185.
[27] Robert V. Remini, *Martin Van Buren and the Making of the Democratic Party* (New York: Columbia University Press, 1959); Wilentz, *Andrew Jackson*, 21, 41.

such urgency to enact the safety fund suggests that he knew, or at least deduced what was coming next in Washington.[28]

The choices Van Buren made in crafting this bank reform legislation reflected the shift in state political power towards the western part of the state in 1828. Van Buren conducted his campaign by taking an extended tour of the western part in the state in late summer and early fall of 1828. He also picked Enos Throop from Auburn, New York, in western Cayuga County as his running mate. Throop was New York's first candidate for Lieutenant Governor chosen from western New York. Auburn was located along the Erie Canal and one of the first four western communities granted a bank charter before 1819. Throop was certainly vested in the stable economic development of the western part of the state. Throop was a personal friend Van Buren had known in Albany when they both were apprenticed to lawyers. Throop was also an able politician who knew how to thread a needle through party factions. Van Buren's choice of deputy ensured the continuation of his legislative agenda, if and when he left the governorship to take a position in Jackson's cabinet.[29]

Van Buren was elected by the middle-western counties, west of the Hudson River, south of Lake Ontario and north of the Pennsylvania border, including Cayuga, Onondaga, Oswego, Herkimer, Cortland, Tompkins, and Tioga, the territory west of the Susquehanna River that had been cleared for white settlement as a military tract for

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[28] Cole, *Martin Van Buren*.
[29] Robert V. Remini, *Martin Van Buren*.

Revolutionary War veterans. These middle-western counties were defined for the first time after 1789. In 1828 the bulk of the western population lived in them.[30]

Van Buren was born in Columbia County, but did not carry it in the election. Van Buren attributed this to the "manor influence." Regency insider Michael Hoffman admitted to another Regency member, A. C. Flagg, that "the real Federal counties" including Columbia, Rensselaer, Albany, Saratoga, and Washington in the Upper Hudson Valley "have gone against us." Michael Hoffmann interpreted the Democracy's 1828 victory in starkly class terms. He remarked, "The Aristocracy and the Democracy are arrayed against each other. If we will now avow our principles and reduce them to practice in a judicious system of reforms in the state and federal governments, the country will prosper and the Democratic party prevail. [sic]" Hoffmann summed up the Democracy's limited government agenda this way: "We must reduce both the number and the salaries of officers, civil, naval and military. Make them work harder, live more economically, and of course, live longer. I fear only the excess of Government, and consider occasional reforms as indispensable." Van Buren's agenda to create a state-managed bank regulatory system was not part of the state party platform.[31]

Van Buren consulted with a number of people regarding bank reform legislation. His correspondence at the time shows that he was in communication with several prominent bankers in Albany and New York City. One of them was Isaac Bronson, an experienced banker from New York City and a published theorist on banking and

[30] Fox, *The Decline of the Aristocracy*, 350.
[31] A. C. Flagg to Michael Hoffmann, November 8, 1828, Flagg Mss., New York Public Library (NYPL), New York, New York; M. Van Buren to Michael Flagg, Nov 8, 1828, Flagg Mss., NYPL.

monetary policy. Bronson pressed Van Buren to replace the charter system with standard laws of incorporation and a method to secure bank notes by investing a portion of each bank's capital in government bonds. Having just brought his new political party to power at the state and national level, Van Buren elected to use that power to reform the charter system.[32]

Van Buren needed someone who could think big and out-of-the-box, someone who was also a persuasive lawyer, with a state-wide reputation and a legislative track record of bringing the resources the state to its economic development. He tapped Joshua Forman. Van Buren's choice of someone who was not a banker echoed the fundamental suspicions of Democratic-Republicans from Jefferson to Jackson of "money power." In choosing Forman, Van Buren made a choice to privilege the perspective and experience of someone invested in the economic development of western New York. Forman wanted commercial banks to follow the canal that were as strong as the banks in New York City.[33]

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[32] Grant Morrison, *Isaac Bronson and the Search for System in American Capitalism, 1789-1838* (New York: Arno Press, 1978), 217-366; John Van Fenstermaker, "The Development of American Commercial Banking" (PhD diss., New York University, 1961), 11-12, 53-54; J. Van Fenstermaker, "The Statistics of American Commercial Banking, 1781-1818," *Journal of Economic History* 25 (1965): 400-413; J. Van Fenstermaker, "The Development of American Commercial Banking, 1782-1837," *Bureau of Economic and Business Research* (Kent State University) 40, Issue 1 (1965): xiv-247.

[33] Van Buren and Forman are not known to have previously met before 1828, as cited in Niven, *Martin Van Buren*, 220. They were indirectly connected in the fall of 1828 when David Hosack was compiling his memorial to DeWitt Clinton. Hosack wrote both Forman and Van Buren, and Hosack referenced Forman in his letter to Van Buren in David Hosack to Martin Van Buren, October 10, 1828 as cited in *The Papers of Martin Van Buren,* ed. Lucy Fisher West (Alexandria, VA: Chadwick-Healey, 1989). In addition, Van Buren's good friend and former-business partner in the Bank of Hudson served with Forman on the Canal Committee formed after Forman's 1808 proposal to the New York State Assembly as cited in David Hosack, *Memoir of De Witt Clinton: With an Appendix Containing Numerous Document Illustrative of The Principal Events of His Life* (New York: J. Seymour, 1829), 345. Van Buren and Forman were in touch within a month of the presidential election which concluded November 14 in 1828 as cited in Cole, *Vindicating Andrew Jackson: The 1828 Election and the Rise of the Two-Party System* (Lawrence: University Press of Kansas, 2009), 179. Van Buren may have initiated drafting bank reform legislation

Forman did not hesitate to be of service. He put himself to the task of studying banking and risk management and came to Van Buren with a novel proposal. His central idea was a common insurance fund to which all member banks would contribute. The fund would be used to pay the financial obligations any member failed to meet. Forman based his original idea on the trade practices of Chinese merchants in Canton, known as the Co-Hong, that were developed in the seventeenth century. The shipments of the Co-Hong were insured through the Consoo Fund, a common fund to which all the merchants contributed. It was used to pay the financial obligations that any member failed to meet.[34]

After the American ship *Empress of China* successfully established commercial relations with China in 1784, the business practices of the Chinese became more known to the American public who followed the commercial papers. Extant commercial papers of this period are fragmentary, and those papers that are not scanned are literally in fragments, but an 1840 article, from Philadelphia's *North American and Daily Advertiser* "China and the Canton Trade," gives a succinct front-page account of the Co-Hong and their business practices. This article was reprinted from the *Baltimore American*, which

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even before James Polk was officially notified that he won the election as cited in James Polk to Andrew Jackson, December 5, 1828 in John Spencer Bassett, *Correspondence of Andrew Jackson*, Vol. III (Washington, DC: Carnegie Institute of Washington, DC, 1928), 448-9. Forman's first preserved letter to Van Buren's papers is dated December 17. Forman writes to Van Buren after he had shared his proposal with George Newbold, the cashier of Bank of America in New York as cited in Joshua Forman, Franklin, New Jersey to Martin Van Buren, December 17, 1828, *The Papers of Martin Van Buren,* ed. Lucy Fisher West (Alexandria, VA: Chadwick-Healey, 1989). All this suggests that Van Buren's decision to draft bank reform legislation was in the works as soon as, if not before, the election results were official. And this urgency underscores his anticipation of Jackson's disestablishment of the Bank of the United States.

[34] Margaret C. S. Christman, *Adventurous Pursuits, Americans and The China Trade, 1784-1844* (Washington, DC: Smithsonian Institution, 1984); Weng Eang Cheong, *The Hong Merchants of Canton: Chinese Merchants in Sino-Western Trade* (Surry, UK: Curzon Press, 1997).

shows how accounts of trade practices were disseminated in the nineteenth century, even from state to state.[35]

THE NORTH AMERICAN

From the Baltimore American
CHINA AND THE CHINESE
Hong Merchants – Life in Canton – Fashionable Eating

> The next requisite in the routine of life and business, according to not only custom but law, was to see to the proper establishment of our commercial and domestic relation, we therefore placed ourselves under the charge of a HONG MERCHANT, one of the eleven or twelve individuals licensed, by Government for foreign trade, and who forming a company, become responsible for each others [sic] debts and contacts [sic].
>
> It is the duty of this HONG MERCHANTS [sic] to acts as security for the faithful performance of all engagements made by foreigners with the natives,—to see the payment of all export duties on articles purchased, and shipped, and further to become pledged for your good conduct while in the Empire. For these duties and obligations you stipulate to transact a large share of your business with him, and, usually employ him before the Tea trade opens in November, as your banker and broker. In turn for this favor he becomes security to you for the care and guardianship of the government over your interests and for the faithful conduct of the Comprador or butler you engage in your domestic establishments. This latter personage is usually a respectable man of substance, who purchases your food, hires your servants, disburses your money, looks over your bills, prevents impositions in small purchases, hunts up bargains, and sees to the comfort and order of your household. His pay is commission on purchases--for which pickings he, in turn, becomes security to you for the fidelity of your servants, and being himself secured by the Hong Merchants, you find yourself entrenched with a fortification of indemnity greater and better than any other country in the world. Bound together by the love of money, the strongest passion known to a mere mercantile people, [with whom, alone, of all the empire [sic] you have intercourse] you are protected amply at every point both in purse and person, from the moment you set foot in Canton.[36]

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[35] "China & The Chinese, Hong Merchants—Life in Canton—Fashionable Eating," 1940, *The North American and Daily Advertiser* (Philadelphia, PA), June 5, 1840, Vol. 2, No. 373, 1.
[36] "China & The Chinese, Hong Merchants—Life in Canton—Fashionable Eating," 1940, *The North American and Daily Advertiser* (Philadelphia, PA), June 5, 1840, Vol. 2, No. 373, 1.

This article demonstrates the depth of cultural ties in the Canton system. The Chinese merchants were obligated to each other and to their business partners, down to the provision of personal services during the time an American merchant conducted business in Canton. This feudal sense of mutual obligation clearly resonated with Forman's Federalism, which envisioned a strong state for the benefit of the whole, and Van Buren's Republicanism, which leaned against the power and privilege of established elites. In 1828, Van Buren was part of that elite, but he used that power to conduct an experiment in mutual financial cooperation among banks in New York just as the western part of the state fully connected to the market revolution.

Van Buren then sent Forman to present a draft of the legislation to bankers in the state for comment. Forman received input from Benjamin Knower and Thomas Olcott, the president and cashier of the Merchant and Farmer's Bank in Albany that was the central holder of the Canal Funds. Forman also consulted with George Newbold, the cashier of the powerful Bank of America in New York City, who himself discussed the proposed law with other New York City bankers. Isaac Bronson, the New York City banker who presented his own legislative plan, also reviewed Forman's plan. James Hamilton, the middle son of the founding father and a political confidant to Van Buren and later to Jackson, was also in communication with Van Buren about the bank reform legislation at this time. Perhaps there were others in discussion with Forman and Van Buren, but the group was undoubtedly small. The extant letters from these stakeholders show there was a good representation of the interests of city banks and country banks. Both sets of bankers gave their input and support. Where the Albany bankers were more enthusiastic, the support of the city bankers was more qualified. Within six weeks of Van Buren's election in November 1828, Forman's Safety Fund idea was chosen to be the centerpiece of the legislation.[37]

In his inaugural address on January 1, 1829, Van Buren used all his powers of persuasion to pave the way for the Forman's Safety Fund idea, carefully framing it as a public good but knowing it would set off a political bomb. His long—and long remembered—inaugural speech to the Assembly on January 6 marked the ascendancy of his political party. Bank reform was at the top of his legislative agenda. Van Buren got right to the point:

> The question as to the renewal of the bank charters which are about to expire will deservedly receive your early and most deliberate attention. I do not, I think, deceive myself in believing that it must become the important business of your session, upon a wise and successful disposition of which, its credit with the people and usefulness to the state, will materially depend.[38]

Van Buren rejected the idea of dispensing with banks all together as an idea with "no advocate," and he rejected the idea of branch banking on the grounds that it was too much state interference in the private sector. Instead, he proposed to work within the charter system and asked the legislature to "consider the conditions upon which the new grants [charters] ought to be made. You will," he instructed, "devise some more [laws]

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[37] J. Forman to M. Van Buren, December 17, 1828; J. Forman to M. Van Buren, January 24, 1829, J. Forman, Franklin, New Jersey to M. Van Buren, February, 12 1829, *The Papers of Martin Van Buren,* ed. Lucy Fisher West (Alexandria, VA: Chadwick-Healey, 1989); James A Hamilton to Governor Van Buren, December 1828 in Hamilton, *Reminiscences*, 82-86; T. Olcott to G. Newbold, December 13, 1828, G. Newbold to T. Olcott, December 17, 1828, T. Olcott to G. Newbold, December 20, 1828, George Newbold MSS, ff: 1820s, Box 1820-1839, New York Historical Society (NYHS), New York, NY; Niven, *Martin Van Buren*, 220-221.
[38] *New York State Assembly Journal*, January 6, 1829, 9-19, New York Public Library (NYPL), New York, NY.

by which the public interest will be secured." Without giving the specifics of Forman's plan, Van Buren gave the contours of it and framed it as a public good:[39]

> My own reflections upon this point, have derived much assistance from a sensible and apparently well considered plan that has been submitted to me, and which will, in due season, be laid before you. I have every reason to believe that the suggestions come from a disinterested source and have the public good for their leading object. It proposes to make all the banks responsible for any loss the public may have by the failure of any one or more of them. The idea is not entirely new to the commercial world, although it has not hereforto been applied in this form.[40]

Van Buren also reminded the legislature that the state of New York had traditionally treated banking as a public good. Bank charters had traditionally required "the payment of a large bonus to the state, or the performance of some specious service, as the price of bank charters." Van Buren reminded the legislature that this practice had been "condemned by experience. Its tendency has been, and must always be, to weaken the security of the public in those institutions, for the performance of that in which the public interest mainly consists—the faithful redemption of their papers." Van Buren argued that while this state-required public service by banks had been discredited, the proposed Safety Fund should be supported as a public good as well as in interest of all banks.[41]

On January 26, Van Buren presented the bank legislation to the assembly through his private secretary who read Van Buren's remarks and Forman's letter to the legislature:

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[39] *New York State Assembly Journal*, January 6, 1829, 9-19, NYPL.
[40] Ibid.
[41] Ibid..

> In my communication to the legislature at the opening of the session I alluded briefly to the outlines of a plan suggested to me relative to the renewal of bank charters. Understanding that it was the general expectation, that a full development of its details would be laud before you by me, I have requested the author to furnish me with an ampler statement of his views; and now have the honor to transmit the communication which I have received from him.

Van Buren continued to prepare and engage his listeners: "Although this plan is of a character somewhat novel, yet as it connected with the most important object of your present duties, it is at least worthy of your deliberate consideration."[42]

Forman's letter was presented to the Assembly the same day. In thirteen single-spaced pages reproduced in the *New York Assembly Journal*, Forman made his argument for placing "the banking operations of the state under a system of regulations calculated to produce the good management of the banks, secure the public interest against loss by their failure, and furnish a sound and well-regulated currency adequate to the necessities of this great and highly commercial state." He proposed the creation of a common fund paid into by all banks to cover its debts and mandated that all banks be subject to the act. He proposed the creation of a bank commission to monitor the ongoing viability of banks. He also proposed two provisions that would add to security of country bank operations: that all capital be paid in full before bank operations commenced and that bank notes issued be limited to two times capital. In a direct appeal to the bill's anticipated opponents—bank stockholders—the proposal dropped the requirement of stockholders to be obligated by personal liability law to creditors. The central feature of the proposal was an insurance fund. If a bank became insolvent, the insurance would

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[42] *New York State Assembly Journal*, January 6, 1829, 9-19, NYPL.

cover "the total amount of its debts," which included bank deposits and bank notes. The former Federalist closed his argument with the language of new nationalism:

> [This plan] recommends itself to the patriot, statesmen, philanthropist, as the most powerful and certain means of producing those regular habits of business, good morals, and progressive prosperity, necessary to realize and perpetuate to distant ages those anticipations of future greatness, virtue and happiness of their beloved country, which sustained our forefathers in their arduous struggle for its independence.[43]

The press covered the legislation avidly. The mouthpiece of the Democracy, the *Albany Argus*, did its part to galvanize public support on February 14, 1829. An editorial emphasized the bill's goal of stabilizing the state's currency and the importance of establishing more banks in the west. Quoting Mr. Paige from the committee on banks:

> it will not only create a complete and infallible security to the creditors of monied corporation against all losses; but will impart to the bank paper of this state a solidity of currency equal if not superior to any in the world. The committee urges as a paramount object the renewal of the existing sound and solvent banks and recommend the granting of new charters particularly in the western counties, adequate to the wants an increasing commercial prosperity of the state.[44]

Another Hudson Valley paper, *The Cabinet* in Schenectady, New York, carried a summary of provisions on February 18, 1829.

The New York City papers also covered the proposed law and some of the floor debates. The *New York Evening Post* carried the February 14, *Albany Argus* article verbatim.[45] *The Commercial Advertiser* carried just the abstract of the provisions of the

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[43] *New York State Assembly Journal*, January 26, 1829, 173-86, NYPL.
[44] *Albany Argus* (Albany, NY), February 5, 1829, America's Historical Newspapers, New York State Archives (NYSA), Albany, NY.
[45] *New York Evening Post* (New York, NY), February 16, 1829, America's Historical Newspapers, NYSA.

bill on February 16, 1829 without the plug for new western banks.[46] On March 3, the Albany Correspondent of the *Commercial Advertiser* covered a Van Buren speech denouncing an alternative bank bill as "a mere dummy. I have played at whist with dummy; but I have never played with bank with that representative of nothing."[47] On March 10, the *Commercial Advertiser* reported the debate about the bank bill in the committee of the whole regarding liability. The Albany correspondent for the *Commercial Advertiser* reported that "significant discussion arose upon a proposition which went to exclude depositors from any benefit of the fund in case of failure of the bank" with strong arguments made for and against including depositors, but "the amendment was lost."[48] On March 16, the bill continued to be negotiated.[49] On March 18, the bill was amended and agreed to in the House 76-29. The terms of the bill were printed in the *Albany Argus* verbatim.[50] On March 20, the *Commercial Advertiser* reported on the bank bill with threatening editorial commentary:

> The Bank bill yet lingers in the Senate, and it may well there remain there forever. The news brief made some fair points with some inflamatory language: The proposed Bank Commissioners office would be understaffed and ineffective unless there was complete transparency with each bank's finances. The editorial characterized the Safety Fund as "odious as it is manifectly unjust." Calculating assessments as a percent of capital was "disproportionate," making the largest banks unfairly the biggest contributors to the fund. The editorial also cast the fund assessments as a tax that would represent "double" taxation in addition to corporate taxes. The editorial concluded "The banks will sooner draw their

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[46] *Commercial Advertiser* (New York, NY), February 16, 1829, America's Historical Newspapers, NYSA.
[47] *Commercial Advertiser* (New York, NY), March 6, 1829, 2, NYHS, New York, NY.
[48] *Commercial Advertiser* (New York, NY), March 13, 1829, NYHS; *Commercial Advertiser* (New York, NY), March 19, 1829, NYHS.
[49] *Commercial Advertiser* (New York, NY), March 19, 1829, NYHS.
[50] *Commercial Advertiser* (New York, NY), March 20, 1829, NYHS.

> affairs to a close and seek other employment for their capital. How direful for the whole community! We tremble to think of it.[51]

The *Commercial Advertiser* gave its full-throated opposition to the bank bill.

There was strong support for the bill in the State Assembly, led by the chair of the committee on banking and currency, Alonzo Paige, from Schenectady County in upstate New York. On March 12, Van Buren resigned to become Jackson's Secretary of State. A week later, on March 18, the state assembly passed the law, "An act to create a fund for the benefit of the creditors of certain monied corporations, and for other purposes," with seventy-six "Ayes" and twenty-nine "Nays." On March 29, 1829, the Senate resolved itself into a committee of the whole on the bill from the Assembly. On Monday, March, 30, 1829, Mr. Stephen Allen, a State Senator from the first district in New York City, presented a lengthy memorial on behalf of the New York City banks to petition that the act "now pending before the Senate to create a fund for the benefit of certain monied corporations, may not be passed in the law."[52] The memorial was duly read in to the senate record, ordered printed, and then the bill was referred to a committee of the whole. The *Commercial Advertiser* reported Allen's objections two days later, but by then it was too late.[53] Despite this formal and considered opposition, on April 2, 1829, "The Act to Create a Fund for the Benefit of the Creditors of Certain Monied Corporations" passed in the Senate. Van Buren was already in Washington, but his old friend, Lieutenant

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[51] *Commercial Advertiser* (New York, NY), March 28, 1829, 2, NYHS.
[52] *New York State Senate Journal*, March, 29-30, 1829, NYPL; No 2., Allen, Stephen, Miscellaneous Papers on Various Subjects, "Report drawn up by me as Chairman of the committee on banks and Insurance in opposition to a plan proposed by Joshua Forman," 1-13, ff: "12 or 13 folders BV, Allen, Stephen," Box: BV Allen, Steven 1819-1849, NYHS.
[53] *Commercial Advertiser* (New York, NY), April 2, 1829, NYHS.

Governor, Enos T. Throop, signed the bill into law. It was the first time American legislators recognized an obligation on the part of public authorities to protect the creditors of private banks.[54]

The implementation of the Safety Fund law was a trial by fire, but the legislature continued to improve the program in ways that would be replicated and built upon by future programs. There were four key components that defined the state-managed bank insurance program: *eligibility*, *supervision*, *liability*, and the *source of the guaranty*. The bank insurance law also defined the operation of the fund: how assessments were calculated, how often they were collected, the size of the assessments, the total size of the fund, and the method of payout.

Eligibility determined which banks could participate. The more banks that could participate, the more the risk of bank default would be spread across all banks. In New York, as long as the charter system was in place, the state had the authority to compel the participation of all banks renewing their charter or those who were applying for one. Supervision determined the state authority over the bank insurance program and the power of that authority to examine and supervise member banks. In New York, a new office of Bank Commissioner was created with a staff of three paid employees to examine banks. Liability defined the obligations covered by the insurance fund. The New York law specified that all bank "debts" would be covered. Although there was debate at the time and since about whether this included bank notes only or both bank

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[54] *New York State Assembly Journal*, April 2, 1829; *New York State Senate Journal*, April 2, 1829, NYPL; Fritz Redlich, *The Moulding of American Banking: Men and Ideas* (New York: Johnson Reprint Corporation, 1968), 88.

notes and bank deposits, the fact that this issue was debated and an amendment to remove deposits from the fund's liability was proposed and rejected suggests the intention to include both deposits and bank notes was clear to all legislators. The New York courts ultimately determined that the law insured both.[55]

The source of the guaranty specified who or what was responsible for the guaranty. In New York law, the source of the guaranty was the insurance fund financed by member bank assessments. These assessments were calculated based on one-half of 1 percent of total capital stock until the bank's contribution represented a total of 3 percent of its capital stock. The payment of creditors was to take place after the complete liquidation of the failed bank's assets. As bank assets often included less liquid assets like real estate, this process could take many years.

The first challenge of the New York Safety Fund was membership. In New York, the state had the authority to charter banks; the Safety Fund law required all banks to join as a condition of renewing a charter or applying for a new charter. The full participation of all banks in the state was one of the most important criteria for the success of the program and the point that was the most politically contested. New York City banks and the legislators who represented their interests did not want the state to have that kind of power over the private sector. They did not want the Democratic Party to control bank charters and they did not want city banks, who would contribute proportionately more to the fund, to pay for the failure of country banks. Initially, the New York City banks

[55] Golembe and Warburton, "Insurance of Bank Obligations in Six States," II:1-54.

refused to join and finagled a delay. It was critical to the success of the system that the city banks join because they had twice the capital of all the country banks put together.[56]

The day after the legislation was passed, the New York banks withdrew their charter renewal applications. During the following year, the city bankers lobbied hard to reverse the legislation, but as Jackson made more public rumblings against the Second Bank of the United States, New York City banks became more inclined to participate. Jackson's comments about the Bank of the United States in his speech in the fall of 1829 signaled his antagonism towards the bank. James Hamilton helped Jackson prepare this speech and toned down Jackson's comments on the bank considerably. Jackson was unused to the political effects of a president's public statements. After hearing Jackson's speech, General Erastus Root, a New York politician who had railed against the bank insurance law on the floor of the State Assembly in 1829 as "undoubtedly one of the most gigantic schemes of political power, and monied monopoly ever devised and brought into operation in any country," reconsidered his position on the Safety Fund. Writing in late 1829, he remarked,

> Seizing upon this expression of the President as one of hostility to the Bank, the city banks were encouraged to enter into the combination and contribute their share to the fund—now hoping and expecting that the Bank of the United States would be put down and that they would have not only the great emporium of commerce but in addition all the deposits of the government and thus become the arbiter of the fiscal affairs of the nation.

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[56] Robert E. Chaddock, *The Safety Fund Banking System in New York, 1829-1866* (Washington: GPO, 1910); Carter H. Golembe and Clark Warburton, "Insurance of Bank Obligations in Six States," (Washington, DC, Federal Deposit Insurance Corporation, 1958), II:6-11; By a Stockholder, *An Examination of Some of the Provisions of the Act to Create a Fund for the Benefit of the Creditors of Certain Monied Corporations, and for Other Purposes, Passed April 1829 Particularly as to its effects on the City of New York* (New York: Ludwig & Tolefree, 1829), Pamphlet 234, Banks and Currency, New York Society Library (NYSL), New York, NY.

George Newbold knew if the Second Bank of the United States was going to be disestablished, large New York banks stood to gain. By January of 1831, nearly every bank in the state of New York became a member, and the New York Safety Fund went into operation. Newbold's Bank of America became one of Jackson's pet banks, which would hold the funds of the U.S. Treasury after the disestablishment of the Bank of the United States.[57]

The Fund worked well for a number of years. In 1837, 90.7 percent of the state banks were participating in the fund. In 1840, 90.6 percent of the state's bank obligations were still insured by the Safety Fund. But after the Panic of 1837, multiple banks failed at the same time. The insurance fund of $800,000 was completely depleted. It continued to operate in the red and pay out reimbursements as the assets of failed banks were sold and new assessments came in.[58]

The impact of the 1837 panic on the insurance fund proved to many people that the Safety Fund was not viable. This contributed to a complete revision of bank incorporation laws in 1838 that would compromise the success of the safety fund. The New York legislature passed a new bank incorporation law that became known as "free-banking," and the period from 1838 to 1863 became known as the free-banking era. The free-banking law ended the charter system in New York—and the state's power to

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[57] *Commercial Advertiser* (New York, NY) April 6, 1829, 2, NYHS; By a Stockholder, *An Examination*, 1829, NYSL; President's Jackson's Message, 1829 in Hamilton, *Reminiscences*, 149-51; R. K. Moulton, *Legislative and Documentary History of the Banks of the United States, From the Time of Establishing the Bank of North America, 1781, to October 1834: with Notes and Comments* (New York: C. & C. Carville & Co., 1834), 67; Forman to M. Van Buren, December 17, 1828; G. Newbold to T. Olcott, December 17, 1828, J. Forman to M. Van Buren, January 24, 1829, J. Forman, Franklin, New Jersey to M. Van Buren, February, 12, 1829, *The Papers of Martin Van Buren,* ed. Lucy Fisher West (Alexandria, VA: Chadwick-Healey, 1989); John N. McFaul, "The Establishment of Pet Banks" in *The Politics of Jacksonian Finance* (Ithaca, NY: Cornell University Press, 1972), 58-81, esp. 58-61 and 156-8.
[58] Golembe and Warburton, "Insurance of Bank Obligations in Six States," I-5.

compel banks to participate in the Safety Fund. The free-banking law allowed banks to incorporate like any other business with a uniform set of criteria. No act of the legislature was necessary for incorporation. A new bank could compete in any market. The legislature discussed requiring new "free banks" to become Safety Fund members, but this was rejected. In its place, bank notes were secured by having the bank invest a certain percentage of its bank capital in government securities.[59]

Despite the establishment of free-banking, the New York Safety Fund continued to gain purchase. In 1839, more than 90 percent of all new banks in New York were still in the Safety Fund system. In 1840, the Safety Fund still covered more than 90 percent of the total bank obligations in the state.[60] The program achieved one of its primary goals. The notes of Safety Fund-protected banks were redeemable in New York City banks at par, where the bank notes of "wild cat" banks in Pennsylvania were still redeemed in New York at a discount.[61] The Safety Fund was particularly popular in upstate New York. By 1839, the Safety Fund system had survived a bank panic and the introduction of "free-banking." An editorial in the *Troy Daily Whig* from March 12, 1839 argued, "The circulation furnished by the banks under the Safety Fund system, enjoys the public confidence to such an extent that it can be no great evil that the bills in distant banks in the State should have a common circulation with those of our own

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[59] Grant Morrison, *Isaac Bronson*, 217-366; Golembe and Warburton, "Insurance of Bank Obligations in Six States," I-5.
[60] Grant Morrison, *Isaac Bronson*, 217-366; Golembe and Warburton, "Insurance of Bank Obligations in Six States," I-5.
[61] Gurney S. Strong, *Early Landmarks* of Syracuse (Syracuse, NY: The Times Publishing Company, 1894), 58-65.

neighborhood."[62] In 1830, former Secretary of the Treasury Albert Gallatin was more circumspect. He called the program "a laudable intent to protect the community.[63]

Over time, the legislature made a number of significant changes to the operation of the Safety Fund. In 1842, the legislature restricted the liability to cover bank notes only. Had this liability limit been set from the beginning, the system would have fared much better. The second important change to the operation of the fund was that the legislature gave the Bank Commissioner the authority to fund the debt of the insurance fund. This change showed the state recognized that an insurance fund could withstand average business fluctuations, but not a systemic bank panic. This was important in New York, which had $70 million in bank obligations; each of the other five programs never insured even $10 million. The law also recognized that the power of the state was required to fund the debt of a bankrupt insurance fund when it was overdrawn. This authority strengthened the supervision over the program, but it also changed the character of the guaranty. Implicitly, the credit of the state became the source of the guaranty. The state would be repaid over time as the fund re-built, but the credit of the state also became the lender of last resort. These changes indicate the state considered the Fund to be a stabilizing force for the bank notes in the remaining charter banks and reflected the state's commitment to keep the fund operational.[64]

The New York Safety Fund continued running until 1866, but participation in the fund diminished over time, as chartered banks converted to free banks when their charters

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[62] "Report of the Committee on Banks and Insurance," *Troy Daily Whig* (Troy, NY), March 12, 1839, 1, America's Historical Newspapers, NYSA.
[63] Albert Gallatin, "Considerations on the Currency and Banking System of the United States, 1831" in Henry Adams, ed. *Writings of Albert Gallatin, Vol. III* (New York: Antiquarian Press, 1960), 231-64.
[64] Golembe and Warburton, "Insurance of Bank Obligations in Six States," I-3, I-6.

were up. In 1865, only two percent of the banks in the state were still part of the system. The Safety Fund continued to work to meet its obligations and only closed in 1866 after the federal Banking Act of 1865 taxed state bank notes out of existence, making the primary purpose of the fund obsolete. In the analysis of the FDIC many years later, safety-fund banks fared better than free banks, but the charter system had become so politically contested that the qualities of the Safety Fund idea were lost.[65]

Forman never drew attention to his contribution to the Safety Fund and its unusual inspiration, although virtually every contemporary and historical reference credits his contribution. In 1826, his business affairs in Syracuse had become troubled "through his attention to the interests of other people than his own." He was living and working in Franklin, New Jersey when Van Buren contacted him in the fall of 1828. His wife had recently died in July. Forman tried to engage Van Buren a number of times after the Safety Fund legislation was passed, offering advice on a number of topics. In the summer of 1829, Isaac Bronson offered Forman an opportunity as a land agent for a tract in Statesville, North Carolina. The investors were anticipating the construction of a North Carolina railroad. It was the kind of challenge Forman was best suited for, and he moved to North Carolina, where he remarried. Forman went back to Syracuse several times in connection with celebrations of the founding of the town, but lived in Statesville the rest of his life, well-respected and involved with many aspects of Statesville's development. Forman may not have been a banker, but he was certainly familiar with the risks associated with entrepreneurship. In the volatile days of the Early Federal period,

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[65] Golembe and Warburton, "Insurance of Bank Obligations in Six States," I-5.

Forman's most successful ventures were in cooperation with the power of the state. Joshua Forman made a historic contribution to an industry he never worked in based on the mercantile business practices of Chinese merchants. What Forman did understand was the power of the state to manage risk and economic development for the benefit of western New York and the financial welfare of the state. This knowledge informed Forman's own view of federalism, which always envisioned the national project as a common endeavor from any point within it.[66]

Van Buren, who tied his political career to Jackson's coat tails, was destined to suffer political whiplash when Jackson's disestablishment of the Bank of the United States did nothing to dispel future economic downturns.[67] Although Van Buren's political opponents criticized his party's control of the charter system, Van Buren's decision to enact Forman's plan, which faced by far the highest political hurdle of any bank reform legislation he could have proposed, reflected Van Buren's Republicanism defined by his opposition to the established power and privilege on a very basic level. When he had the opportunity, Van Buren used his political power and the power of the state to level the playing field between the largest financial interests in the state and the

[66] Joshua V. H. Clark, *Onondaga, Or Reminiscences of Earlier and Later Times: Being a Series of Historical Sketches Relative to Onondaga, with Notes on the Several Towns in the County, and Oswega, Vol. II, Syracuse* (Syracuse, NY: Stoddard and Babcock, 1840), 69-117; Gurney S. Strong, *Early Landmarks of Syracuse* (Syracuse, NY: The Times Publishing Company, 1894), 303-10; Joshua Forman to David, Hosack October 13, 1828 in David Hosack, MD, *Memoir of De Witt Clinton: With an Appendix Containing Numerous Documents, Illustrative of the Principles and Events of His Life* (New York: J. Seymour, 1829), 347; Forman to Van Buren, February 12, 1829, Forman to Van Buren, March 26, 1829, MVBP.

[67] Van Buren was elected president in 1836 and took office the year of the Panic of 1837.

smallest. Writing his memoirs from Sorrento, Italy in 1854, Van Buren continued to count the Safety Fund among his successes.[68]

Expansion of Bank Insurance Programs West

The Safety Fund idea expanded to five other states between 1831 and 1858: Vermont, Indiana, Michigan, Ohio, and Iowa. Four out of five of these states were directly tied to New York City by water routes through the canal system built by the state of New York. In 1819, the canal spur from Lake Champlain to Albany connected Vermont to New York City. In 1825, the Erie Canal connected Ohio, Indiana, and Michigan by water to New York City. Iowa was closed to white settlement until the 1830s, becoming a state in 1846. Its banking system was similar to Indiana and Ohio, and the state mimicked their bank insurance programs as well.[69]

The two states with charter systems copied the New York bank law closely: Vermont in 1831 and Michigan in 1836. Similar to New York, Vermont and Michigan could not compel the participation of a previously chartered bank, but the state government did have the power to compel the membership of all banks that were established or re-chartered after the passage of the bank insurance law. The Vermont and Michigan programs both covered all debts, bank notes, and bank deposits. The Vermont assessment method was a little different: three-fourths of 1 percent of capital stock up to a total contribution of 4 ½ percent. The Michigan program copied the New York

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[68] Martin Van Buren, *The Autobiography of Martin Van Buren, Vol. II* (Washington, DC: GPO, 1920) 1, 7, 221-3.

[69] Gerard Koeppel, *Bond of Union: Building the Erie Canal and the American Empire* (Cambridge, MA: Da Capo Press, 2009), 261.

assessment method exactly. Both Vermont and Michigan called for the bank note holders and depositors to be reimbursed after the complete liquidation of the failed bank.[70]

These two programs were less successful than New York's. Vermont had a very small number of total banks over which to distribute default risk. By the mid-1840s, more than 80 percent of all banks were participating, covering close to 80 percent of all bank obligations in the states, but this amounted to a total of thirteen banks. After the Panic of 1857, participation in the program dropped in Vermont, and at the time the program ended in 1866, it included less than 10 percent of all banks and represented less than 10 percent of all bank obligations. Michigan had the misfortune to enact its program in 1836, the year before the Panic of 1837 led to the collapse of all the banks in that state. Michigan did not become a state until 1837, and the state chartered a large number of banks at once. In 1838, there were forty-four banks participating in the insurance fund, representing 85 percent of all banks in the state and more than 60 percent of all bank obligations, but within two years most banks in the state collapsed and there was only one bank left in the system. The program ended in 1842.[71]

The outcomes of the Vermont and Michigan programs were not impressive, but the replication of the New York program in states that had charter systems represented an effort to use the state's power to emulate New York to better connect to the market economy that literally flowed there. The creation of the Vermont program was not surprising. The two states were adjacent. The canal spur completed in November 1819 efficiently connected Vermont to New York City. The main issue with the Vermont

[70] Golembe and Warburton, "Insurance of Bank Obligations in Six States," I-3, I-5.
[71] Joshua Forman to His Excellency Martin Van Buren, January 21, 1829, MVBP.

system was the size of its banking system. The function of an insurance program is to spread default risk as widely as possible. In Vermont, the risk-pool was not large. The timing of the creation of the Michigan program was a fatal blow to its success, but the fact that this western territory mimicked the banking system of New York even before it became a state and then chartered forty-four banks indicates both the volatility in the developing west and Michigan's desire to connect to the most important commercial center of the country it was about to join.[72]

The three other bank insurance programs made significant structural improvements and saw significantly better results. State bank insurance programs were established in Indiana in 1834, Ohio in 1845, and Iowa in 1858. The banking systems in these three states shared the same structure as Virginia's successful branch-banking system. Indiana, Ohio, and Iowa all had a central state bank with smaller branch banks throughout the state. These branch banks operated as independent unit banks, but the central state bank had the powers of a central bank to compel participation and supervision at a much more effective level. For states that had recently joined the Union and wanted to catch up with the economic development of the rest of the country, branch banking and bank insurance programs were clearly attempts to borrow the best practices from the strongest states in the country to better engage in trade with them.[73]

The Indiana program was the most successful. Indiana only had ten banks in 1834, but over the next twenty years, the number of banks doubled. Between 1834 and 1851, 100 percent of the banks in the state participated in the insurance program and 100

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[72] Golembe and Warburton, "Insurance of Bank Obligations in Six States," I-3, I-5.
[73] Ibid.

percent of the state obligations were insured during that time. Like the New York program, the Indiana program secured all debts, bank notes, and bank deposits, and compelled all branch banks to participate. Between 1834 and 1851, this included 100 percent of all the banks in the state, and 100 percent of the state's bank obligations. After 1851, free-banking laws were passed in these states, and in a few years the branch banks soon only represented 12.5 percent of the state's banks and 25.5 percent of the state's bank obligations. However, during the years the system was complete, no banks failed. The twenty banks in the branch system continued to participate in the insurance system until 1865.[74]

The Indiana system made some novel provisions that vastly improved the success of the fund. First, there was no insurance fund. The source of the guarantee was the mutual liability of all banks for each other's obligations. The insurance law only called for special assessments if necessary. This was a much stronger liability law than the New York model, which called for mutual responsibility mediated through an insurance fund. The direct liability law in Indiana motivated each bank to promote good management practices in all the banks. The Indiana system also raised the priority of the needs of note holders. If, within one year of bank failure, asset liquidation and stockholder contribution were insufficient, the special assessments would be assigned to reimburse note holders at that time.

The most important aspect of the Indiana fund was effective supervision by the state. With a branch banking system, the state had more authority and capacity to

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[74] Golembe and Warburton, "Insurance of Bank Obligations in Six States," I-3, I-5.

thoroughly inspect its branch banks than a state bank commissioner with three staff members could accomplish with nearly one hundred banks in New York. In Indiana, the state also had the authority to close and liquidate a failing bank. With this authority, the state's central bank in the branch system approached the power of a central bank of a national government.[75]

The Ohio and Iowa programs, started in 1845 and 1848, respectively, also incorporated some novel approaches. Both programs began in the free-banking era, which shows the bank insurance idea was compelling to state legislatures in the presence of other, simpler options of bank incorporation. The state bank insurance also had continued appeal even when previously established programs ran into trouble. The success of the Indiana program was certainly a factor. The Ohio and Iowa programs emulated the Indiana program in two important respects. Both states' bank insurance laws directly obligated the banks for each other's liabilities and gave the states the authority to close and liquidate failing banks. As in Indiana, there was powerful motivation for the bank to support the healthy operation of all banks.[76]

The Ohio innovations greatly improved the insurance fund's chances for success. The first innovation in the Ohio and Iowa programs was that they limited the liability to circulating notes. This cut the total liabilities the insurance fund had to cover in half. A second innovation was that the insurance fund was created by charging a single assessment prior to the opening of a bank. The one-time assessment was 10 percent of circulating notes in Ohio and 12.5 percent in Iowa. Thereafter, assessments were only

[75] Golembe and Warburton, "Insurance of Bank Obligations in Six States," I-3, I-5.
[76] Ibid., I-6, I-11.

permissible if additional circulating notes were issued by the banks. This initial assessment idea resembled the protection method of free-banking laws, which required banks to invest a percentage of their capital reserves in government securities and had the strong advantage of funding the insurance fund from the beginning, with no waiting for the fund to accumulate through assessments. A third innovation of these two programs was that reimbursements were disbursed immediately upon the failure of a bank through a special assessment on solvent branches. These assessments would then be re-paid from the insurance fund, and then the fund was re-paid from the proceeds from the liquidation of the assets. These provisions established a liquidation process which prioritized the needs of the note holder like no other program had previously. At its peak in 1864, the Ohio program included more than 85 percent of all banks in the state and covered bank notes only, 55.1 percent of the total bank obligations in the state. The Iowa program had 100 percent of the banks participating from 1858 to 1865, and, like the Ohio program, covered bank notes only, 46.1 percent of all the total bank obligations in the state. Both programs continued to operate until they were ended in 1865 and 1866, respectively.[77]

These six state programs were important precedents for government-managed bank insurance and ultimately government-guaranteed bank insurance. The enactment of a state deposit insurance program took enormous political capital. These programs were experimental and they were radical, calling for mutual responsibility and mutual liability at a time when the political and economic centers of the country were embracing a laissez-faire ideology of less government regulation. This period of experimentation

[77] Golembe and Warburton, "Insurance of Bank Obligations in Six States," I-3, I-5.

demonstrated that a successful bank insurance program was not necessarily dependent upon the size of the insurance fund, or even a fund at all, although the Ohio and Iowa innovation of funding the program from the beginning with a single payment proved valuable. The most important factors were the state's authority to compel all banks to participate and to supervise all member banks through bank examinations. The best way to reduce default risk was first to spread that risk across the largest number of banks and then to supervise banks effectively. The development of banking and the economy in the Early Federal period and the free-banking era was disjointed and prone to bank panics. In times of extreme economic crisis, a state bank insurance fund could fail as well. At that time, the guaranty of bank obligations required the power of the state to take over the management of failed banks and fund the debt of the insurance fund with the credit of the state. In this way, states with deposit insurance programs operated with some of the powers of a central bank, in lieu of a federal one.

CHAPTER IV

THE EXPANSION AND DENIAL OF ***FEDERAL*** GUARANTY OBLIGATIONS DURING THE NATIONAL BANKING ERA, 1863-1913

The historical path that led to the creation of deposit insurance at the *federal* level began in 1863. This history can best be understood by following two distinct but connected arcs. This chapter will examine a series of decisions made by Congress in times of economic crisis between 1863 and 1913. Economic historians refer to this period as the National Banking era to denote the period of time between the National Banking Act of 1863 and the Federal Reserve Act of 1913, when the federal government created a single national currency through a national system of federally incorporated private banks, in the absence of a central federal bank. Each decision Congress made engaged the question of a federal guaranty; in the first case, of the money supply, and in two additional cases, of individual savings accounts. In each case, the federal guaranty of bank deposits was denied. Chapters VI and VII will complete the federal story by following the legislative history of federal deposit insurance, which began with the first federal deposit insurance proposal in Congress in 1886, rose to national prominence along with the creation of the Federal Reserve Act in 1913, and then came to fruition in the Banking Act of 1933. Together, these three chapters tell the *federal* history of bank insurance.

Congress made three decisions during the National Banking era that charted the course of federal deposit insurance through the political landscape. The first concerned the creation of a stable national currency during the Civil War. The National Banking Acts of 1863, 1864, and 1865 created a single, stable federal currency for the first time in the United States. Of particular relevance to this study, this currency was, also for the first time, effectively guaranteed by the federal government. This guaranty covered the circulating medium, paper money, but not bank deposits. The second and third decisions were cases where the federal government ventured into the realm of individual protection in institutional frameworks, which the government viewed as charities. The second decision involved the failure of the Freedmen's Savings and Trust Company following the bank panic of 1873. The federal government had been instrumental in establishing this institution in 1865 to uplift people freed from slavery. Many people believed that the bank's deposits were secured by the federal government, but they were not. When the bank failed in 1874, the federal guaranty of the bank's deposits was denied. Bank panics continued to disrupt the American economy in the last half of the nineteenth century with increasing frequency and severity. The Panic of 1907 tipped the apple cart in favor of federal reform. The third decision examined in this chapter involves the creation of the United States Postal Savings System in 1910. For the first time, the federal government guaranteed savings deposits in limited accounts offered through U.S. Post Offices. The savings and checking deposits in commercial banks and savings banks were not included. In each of these cases, the federal guaranty of bank deposits was denied, but, for the first time, the federal government approached questions about its obligation to the economic security of the nation as a whole and to its citizens. These institutional precedents shaped the path along which federal deposit insurance would eventually follow.

Federal Guaranty Supplied: The Circulating Medium, 1863-1865

Seventy-five years after the founding of the United States, the National Banking Acts constituted a landmark decision in government policy regarding the financial obligations of the federal government with respect to money and banking. Several aspects of this legislation impacted the future enactment of federal deposit insurance: 1) the creation of a uniform federal currency that was guaranteed by the federal government, 2) the creation of a federal system of national banks that was entirely separate from the state system, and 3) the creation of the first federal regulatory structure to supervise those national banks.

The most important aspect of the National Banking Acts to the history of deposit insurance was the creation of a uniform national currency that was secured by the federal government. The role of the federal government in banking and the economy had been fiercely contested since the beginning of the republic. As the two previous chapters discussed, prior to the Civil War, a central national bank of the United States had been created and dismantled twice, with jarring economic consequences each time. Since Jackson disestablished the Second Bank of the United States in 1836, local banking, credit, and currency had been in the hands of the states. The creation of a uniform federal monetary system was an epic struggle in the history of the United States. Between 1836 and 1863, state banks and their representatives in Congress fought to retain their rights to print and circulate paper money, knowing the creation of a national monetary system would threaten their existence.

The federal government took over the issue and management of currency in stages during the Civil War. In the absence of the states that seceded, consensus slowly began to build among the remaining states in the Union that it was the responsibility of the federal government to establish and manage the monetary system of the United States. This centralization was driven by the urgent need for funds to prosecute the war. The cost of the Union army was on the order of $2 million a day. In the summer and fall of 1861, banks in New York, Philadelphia, and Boston had lent the government $150 million in gold. The Union government also began to print money. It first issued Demand Notes, which were redeemable in gold, but by December, there was no more gold to loan or for redemption. On December 31, 1861, U.S. banks and the federal government suspended specie payments, after which the value of American currency was allowed to fluctuate against the currencies of other countries. U.S. currency was not exchangeable for gold again for eighteen years, until January 1, 1879.[1]

To raise money for the war effort, Treasury Secretary Salmon P. Chase had a few options. One was taxation. A second option was to sell government bonds. A third was to simply print money by fiat (government decree). He used all three. He had a long-term plan to set up a permanent monetary system in the United States that combined all these elements, but this plan would take time to implement. For expedience, he requested that Congress issue government bonds and raise taxes to pay the interest on those bonds.

[1] E. G. Spaulding, *A Resource of War—The Credit of the Government Made Immediately Available: History of the Legal Tender Paper Money Issued During the Great Rebellion: Being a Loan Without Interest and a National Currency* (Buffalo, NY: Express Print. Co., 1869), 7-9. E.G. Spaulding was the chairman of the National Currency subcommittee which created the Legal Tender Act (1862). This text is a legislative history.

While the government waited for those bonds to be sold, it printed money by fiat that could be used immediately to pay for the war.[2]

Prior to the Civil War, a state bank note was a promise to exchange that note for legal tender. Up until December 31, 1861, the legal tender of the United States was gold and silver. Printing money by fiat was strongly contested in Congress during the Civil War and later in the courts, on constitutional grounds as well as for the economic reason that fiat money would have severe inflationary consequences. However, the exigencies of war prevailed, and starting on February 25, 1862, unsecured, inconvertible federal money, known as United States Notes, became the legal tender in the United States.[3]

Chase justified the printing of fiat money in terms of its benefit to the nation as a whole. He argued that printing government notes by fiat was essentially a free loan to the federal government, where the government issued paper money and paid its bills with that money without borrowing. At the outset of the war, there was $200 million in circulation, $150 million in the Union, and $50 million in the states that seceded. In Chase's view:

> The whole of the [additional] circulation constitutes a loan without interest from the people to the banks, costing them nothing except the expense of issues and redemption and the interest on the specie kept on hand for the latter purpose; and it deserves consideration whether sound policy does not require that the advantages of this loan be transferred, in part at least, from the banks representing the interests of the stock holders, to the Government representing the aggregate interests of the whole people.[4]

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[2] Spaulding, *A Resource of War,* 7-9.
[3] Legal Tender Act of 1862, Cong. Globe, 37th Cong., 2d Sess. 881-91 (Feb. 19, 1862).
[4] Spaulding, *A Resource of War*, 7-9.

Chase wanted to take that economic advantage from the states and give it to the federal government. In total, Congress authorized the Treasury to print a total of $450 million inconvertible, unsecured notes between 1862 and 1865. These notes were informally known as greenbacks because of the color of the ink used to print the back of the notes.

Greenbacks were authorized as legal tender of the United States, but that promise was limited and the value of the paper money varied. The federal government was obligated to accept these notes as payment for taxes, but banks were not. In California, for example, where gold was more readily available, banks refused to accept greenbacks. Nor did that promise guaranty their value. These notes were not redeemable for specie. During the war, the rate at which greenbacks could be traded for gold varied with the value of gold and the perceived value of the currency. An important factor in the value of the notes was the public's expectation that the government would continue to accept the notes as legal tender. Greenbacks could be used to purchase 6 percent, twenty-year government bonds. That the federal government faithfully continued to pay the interest on those bonds during the war supported the value of the currency. However, as the Union's prospects to win the war waxed and waned, so did the value of the notes. In addition, there was an inflationary effect from printing so much money by fiat, and the bonds did not sell as well on the open market as the government had hoped. As the government issued hundreds of millions of dollars of unsecured notes during the war, the value of those notes were highly variable. The price that greenbacks traded for gold ranged from 97 cents on the dollar to 33 cents on the dollar.[5]

The Bank Acts of 1863, 1864, and 1865 enacted Chase's long-term vision for a federal monetary system. The National Banking Acts created a national currency that offered a categorically stronger guaranty than the United States Notes. This new national currency was based on the "free banking" laws first passed in the New York State banking act of 1838, which secured bank notes through the investment by each bank in government bonds held by the federal government. By 1860, fourteen states had passed free banking laws. The National Banking Acts created a system of federally regulated, but privately held national banks in seventeen states from Maine to Minnesota, north of the Confederacy. These banks were required to purchase federal bonds to go into business, and then each bank could issue bank notes proportional to its level of capital invested in Treasury securities. The national banks were both a mechanism to distribute this new national currency and the means to market the government bonds that backed the currency and funded the war.[6]

This new currency was, in effect, guaranteed by the federal government in that the Treasury securities were ultimately backed by a federal guaranty to pay the interest on those securities. The first National Banking Act, first known as the National Currency

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[5] Spaulding, *A Resource of War*, 7, 154; Gretchen Ritter, *Goldbugs and Greenbacks: The Antimonopoly Tradition and the Politics of Finance in America* (Cambridge: Cambridge University Press, 1997); Franklin Noll, "The United States Monopolization of Bank Note Production: Politics, Government, and the Greenback, 1862–1878," *American Nineteenth Century History* 13 (March 2012): 15-43.

[6] *Annual Report of the Comptroller of the Currency for 1863* (Washington, DC: GPO, 1864), 49. The states with national banks included: ME, NH, VT, MA, RI, CT, NY, NJ, PA, IL, IN IW, KY, MI, MO, OH, WI plus DC; Ritter, *Goldbugs and Greenbacks*, 7; Andrew McFarland Davis, *The Origin of the National Banking System* (Washington, DC: GPO, 1910), 10-12.

Act passed on February 25, 1863, was titled "A BILL To provide a national currency, secured by a pledge of United States stocks, and to provide for the circulation and redemption thereof." Section 4 specified, "And be it further enacted, that the term 'United States bonds,' as used in this act shall be construed to mean all coupon and registered bonds now issued, or that may hereafter be issued, on the faith of the United States by the Secretary of the Treasury in pursuance of law." The National Banking Act of 1863 was repealed and replaced by another act bearing the same title on June 3, 1864. It was the 1864 Act that established the national banking system, which directed the federal government to charter national banks across the United States that could issue federal U.S. bank notes in proportion to the U.S. government securities each bank held and to establish the regulatory structure to supervise that system. The National Banking Act of 1865 completed the transition to one uniform national currency by taxing state bank notes out of existence. Public confidence in this new federal currency, backed by federal securities, was much higher than in greenbacks. The new currency held its value throughout the Civil War and the financial and institutional structure that supported it remained in place until the Federal Reserve Act of 1913.[7]

Contemporaries, economic historians, and subsequent institutional histories written by the Federal Deposit Insurance Corporation (FDIC) have emphasized the importance of this federal guaranty. As early as 1861, when Secretary Chase was still

[7] Currency Act of 1863, An Act to provide a national Currency, secured by a Pledge of United States Stocks, and to provide the Circulation and Redemption thereof, Cong. Globe, 37th Cong., 2d Sess. 666 (Feb. 25, 1863), https://www.loc.gov/law/help/statutes-at-large/37th-congress/session-3/c37s3ch58.pdf; Davis, *National Banking System*, 98; *Annual Report of the Federal Deposit Insurance Corporation for the Year Ended December 31, 1950* (Washington, DC: Federal Deposit Insurance Corporation, 1951), 63-101, hereafter *1950 FDIC Annual Report.*

asking Congress for money by fiat, he enumerated the advantages of the monetary system he hoped to build that would offer "uniformity in currency" and "uniformity in security."[8] Later in the war, the Secretary of the Treasury made speeches to support the creation of the national monetary system. In his speeches, he emphasized the government guaranty of the currency. In a 1863 address in Indianapolis, he argued, "I think the capital of the country employed in furnishing circulation will be organized under this system and that, when in full operation, we shall have no note circulating in this country which does not bear the national imprint and guaranty."[9] Even Thomas W. Olcott, the president of the Mechanics and Farmer's Bank of Albany and a founding supporter of the New York Safety Fund System, wrote Secretary Chase on January 23, 1864, to say that while he did not regard the bill as perfect, he believed "the currency of a State should be supplied only by the nation, either directly or by institutions organized under national law."[10] Part of the institutional structure created by the National Banking Acts was the office of the Comptroller of the Currency, the head of an independent bureau in the Department of the Treasury that would govern the national banking system. The first Comptroller of the Currency, Hugh McCulloch, stated in his report to Congress in 1864,

> If the banks fail, and the bonds of the government are depressed in the market, the notes of the national banks must still be redeemed in full at the treasury of the United States. The holder not only has the public securities, but the faith of the nation pledged for their redemption.[11]

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[8] Davis, *National Banking System*, 107-8.
[9] Davis, *National Banking System*, 92.
[10] Ibid., 98.
[11] *Annual Report of the Comptroller of the Currency for 1863* (Washington, DC: GPO, 1864), 58.

Later histories concurred. In their magnum opus, *The Monetary History of the United States*, economists Anna Schwartz and Milton Friedman emphasized the importance of the new monetary structure. They emphasized that the national bank notes created by the Banking Acts of 1863-1865 were "indirect government liabilities," as they were backed by government bonds rather than "liabilities of banks comparable to their deposits."[12] A 1998 history of the Federal Deposit Insurance Corporation (FDIC) written by the agency itself also underscored the importance of the government guaranty behind the national currency created in 1863. The value of the currency and the bonds that backed it was based on the expectation that the federal government would pay the interest on its treasury bonds. In the crucible of the Civil War, the faith and credit of the United States became the ultimate backer of the nation's monetary system. A loss in that faith caused by a failure of the federal government to pay the interest on its bonds would have inexorably led to a collapse in the value of the bonds and the dollar.[13]

The Banking Acts effectively guaranteed the money supply for the first time, but this guaranty was partial. In addition to paper money, another portion of the money supply came from bank deposits in checking and savings accounts that could be liquidated quickly at face value. An institutional history of the FDIC argues that in the 1860s, bank deposits were a relatively less significant part of the total money supply and therefore not considered in the Banking Acts.[14] A study commissioned by the National Monetary Commission published in 1914 shows that government regulators were well

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[12] Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton, NJ: Princeton University Press, 1963), 50.
[13] *FDIC: A Brief History of Deposit Insurance in the United States* (Washington, DC: Federal Deposit Insurance Corporation, 1998), 12.
[14] *1950 FDIC Annual Report*, 63-101.

aware even before the Civil War that deposits were an increasingly larger and unprotected portion of the money supply.[15] The New York Safety Fund had originally offered a guaranty of all bank liabilities, currency, and deposits, but the inclusion of bank deposits contributed to the early stresses on that insurance system, and after the bank panic of 1837 put the fund in the red, the guaranty of savings deposits was rescinded. From the outset, the National Banking Acts of 1863-1865 declined to secure bank deposits. The federal protection of bank deposits remained a conundrum in the politics of banking and currency.

After the Civil War, rapid economic expansion dramatically changed the nature of the money supply. Bank deposits steadily increased and became an increasingly important portion of the money supply. By 1870, bank deposits were about twice as large as circulating notes. By 1900, bank deposits were seven times larger than circulating notes. In the National Banking era, this portion of the money supply was increasingly vulnerable to bank panics. Ultimately, the losses to individual depositors led to political agitation for government deposit insurance at both the state and federal level.[16]

A second significant impact of the National Banking Acts on the history of deposit insurance was the creation of the national banking system, which ultimately left the United States with a two-tiered bank system of state banks and national banks. The national banking system, which gave the name to the National Banking era of 1863-1913,

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[15] Robert E. Chaddock, *The Safety Fund Banking System in New York, 1829-1866* (Washington, DC: GPO, 1910), 382-8.
[16] *1950 FDIC Annual Report*, 63-66; *FDIC: A Brief History*, 12.

nearly superseded the state banking system in the United States. The total number of state banks dropped from 1,492 in 1862 to 247 in 1868.[17] However, after the Civil War, local demands for credit and the monetary policies of the federal government rekindled state banking. The industrial and agricultural sectors of the economy were at odds. Financiers and industrialists seeking foreign capital wanted to strengthen the value of the dollar against foreign currencies by reinstating the government exchange of dollars for specie. The federal government wanted to strengthen the dollar as it repaid its war debts. To achieve this end, Congress began to take some greenbacks out of circulation. In another effort to strengthen the value of the dollar, the Coinage Act of 1873 ended bimetallism. Then, on January 1, 1879, the United States resumed the convertibility of dollars for gold. As a result of these policies, currency and credit that served the agricultural sector in the rural expanses of the U.S. interior became increasingly scarce. State banks, which had been almost entirely eliminated by the economic devastation of the war, by the loss of slaves as capital and collateral, and by the loss of profit from issuing currency, started to sprout up again, with the highest concentration in the West and South.[18] The two-tiered bank system that emerged in the last half of the nineteenth century reflected the divergence of economic interests in the United States, a growing creditor class of financiers and industrialists centered in the urban Northeast, and an increasingly disenfranchised creditor class of independent farmers in the rural South and

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[17] Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics, 1914-1941* (Washington, DC: National Capital Press, 1943), 6, https://fraser.stlouisfed.org/files/docs/publications/bms/1914-1941/BMS14-41_complete.pdf.
[18] Sharon Ann Murphy, "Banking on Slavery in the Antebellum South," for a presentation at the Yale University Economic History Workshop, May 17, 2017, New Haven, CT, http://economics.yale.edu/sites/default/files/banks_and_slavery_yale.pdf.

West. This divergence between national banks and state banks, between industrial interests and agricultural interests, would shape the politics around deposit insurance through the National Banking era to 1933.

The third aspect of the National Banking Acts relevant to the history of deposit insurance is the federal regulatory structure it created. Although the collective contribution to a common fund is the defining feature of bank deposit insurance, bank regulation is a key, if not the key, component of a successful deposit insurance system. The system is only as sound as its weakest members. Although it was not effectively implemented, recall that the New York Safety Fund created the first comprehensive regulatory structure for banks in the state of New York. The National Banking Acts of 1863-1865 established the first national regulatory apparatus for banking in the United States. The new national currency and the national bank system were both supervised by the Department of the Treasury. Within that department, the Comptroller of the Currency, a new office, supervised the currency and national bank system. Hugh McCulloch, the first Comptroller of the Currency appointed by Salmon P. Chase, served from 1863-1865. Under his leadership, eight hundred and sixty-eight national banks were created and no failures occurred.[19]

In a time that historians have often characterized as dominated by an ethos of laissez-faire liberalism, in banking, Congress created a regulatory structure that was national and uniform for the first time.[20] In the postwar years, as the states of the

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[19] Spaulding, *A Resource of War*, 7, 154.
[20] Howard Bodenhorn, *State Banking in Early America: A New Economic* History (New York: Oxford University Press, 2003), 181.

Confederacy were readmitted to the Union, Congress continued to build a national consensus built around the federal control of the monetary system. The establishment of a federal regulatory structure was an important precursor to the development of bank deposit insurance at the federal level. The federal regulatory structure that monitored national banks would become the basis of the regulatory structure of the FDIC, which, for the first time, offered a uniform regulatory system for effectively all banks in the United States, state and federal. The people who held positions of leadership in this government bureaucracy, such as the Secretary of the Treasury and the Comptroller of the Currency, would become important voices in the debates that led to the creation of federal deposit insurance in 1933.

Although national banks performed well during the Civil War, local bank failures following the war, combined with exogenous economic shocks, continued to trigger bank panics. The action of all depositors trying to withdraw their deposits at once created a liquidity shock across the system, where the demand for bank balances could not be met. Both national banks and state banks were vulnerable to bank failure and panics. Rural banks, in particular, had lower capital requirements to be chartered, less diverse loan portfolios than banks in urban centers, and vastly different oversight from state to state, and as a result were prone to failure and to panics. As the national economy grew to be more interdependent, bank deposits became a more important portion of the money supply that was unsecured by the federal government and vulnerable to bank panic.

In lieu of a federal central bank, clearinghouses were private financial institutions, which provided settlement services for transactions between banks. First established in

New York in 1857 and then in other major cities, these financial institutions sometimes operated as the lender of last resort in periods of crisis by pooling the resources of member banks to issue clearinghouse loan certificates as a substitute for insufficient reserves. At times, the resources of clearinghouses and the U.S. Treasury were not sufficient to diffuse a panic. Three times during the National Banking era, panics were ended by suspending the conversion of currency into specie. The first of these major panics took place in 1873.[21]

Federal Guaranty Denied: The Failure of the Freedmen's Savings and Trust Company, 1874

As black soldiers and runaway slaves came into the Union during the Civil War, small "banks" were set up throughout Union-held territory to "save" the wages of former slaves who were working for the Union Army. In Beaufort, South Carolina, General Rufus Saxton created the Beaufort Military Savings Bank. Other Union generals set up similar banks in Norfolk, Virginia, and Louisiana. In January 1865, an Oberlin College graduate, Congregational minister, and long-time abolitionist John W. Alvord had recently returned to New York from volunteering in Union-held territory.[22] He had met General O. O. Howard during the march through Georgia led by General William T. Sherman in 1864. In early 1865, Howard appointed Alvord the general superintendent of education for the Freedmen's Bureau. Alvord spent January and February touring the South for the Bureau. When he came home to New York, he moved to extend the

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[21] Elmus R. Wicker, *Banking Panics of the Gilded Age* (Cambridge: Cambridge University Press, 2000); Richard H. Timberlake, *Monetary Policy in the United States: An Intellectual and Institutional History* (Chicago: University of Chicago Press, 1993), 198-212.

[22] Beginning in 1835, Oberlin College was the first predominantly white collegiate institution in the United States to admit African-Americans males, https://www.oberlin.edu/about-oberlin/oberlin-history.

institutional support for freedmen to banking. He gathered twenty businessmen to discuss the creation of a non-profit bank for former slaves that would supersede the military institutions. After three meetings, the group drafted an act of incorporation that Alvord took to Washington.[23]

In Congress, there was vocal opposition to the proposal presented by Senator Charles Sumner of Massachusetts. When Senator Sumner made a motion for deliberation, James A. Powell of California opposed the bill categorically, as did Senator James A. McDougall from California, who flatly stated, "I object to the whole thing."[24] The Freedman's Savings and Trust Company's articles of incorporation proposed a national savings bank with branches in multiple states. Although the savings bank was to be a non-profit institution dedicated to the uplift of former slaves, it would create a precedent for national branch banking that threatened state banks. California, which had a strong state bank system and would never host a branch of Freedmen's Bank, was not interested. Lazarus A. Powell of Kentucky opposed the bill on constitutional grounds. Powell argued:

> I find by the reading of that bill that it is a roving kind of commission for these persons to establish a savings bank in any part of the United States. I think the bill is wholly unconstitutional. I do not believe Congress has any right to establish a savings bank outside of the District of Columbia.[25]

However, with most of the South still seceded and most of the western territories not yet admitted, on March 3, 1865, the last day of the thirty-eighth Congress and the day before

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[23] Carl R. Osthaus, *Freedmen, Philanthropy and Fraud: A History of the Freedmen's Savings Bank* (Urbana: University of Illinois Press, 1976), 60-61.
[24] Cong. Globe, 38th Cong., 2d Sess. 1311 (Mar. 2, 1865).
[25] Ibid.

Lincoln's second inauguration, the bill creating the Freedmen's Savings and Trust Company passed at 9:00 PM.[26]

The Freedmen's Savings and Trust Company was established as a typical savings bank with an extraordinary customer. In Senator Sumner's word to Congress, it was to be "an ordinary savings bank," with "no extraordinary privileges."[27] In his remarks to his colleagues Sumner emphasized, "its object is a simple charity."[28] The proposed bill called for a savings bank

> to receive on deposit such sums of money as may, from time to time, be offered therefor, by or on behalf of persons hereforeto held in slavery in the United States or their descendants, and investing the same in the stocks, bonds, Treasury notes, or other securities of the United States.[29]

The business model was that of a mutual savings bank, a non-profit, with no stockholders. The assets of the bank were owned by depositors in proportion to each of their deposits. All profits would be returned to the depositors with interest.

The statute charged a board of trustees with oversight. Trustees were responsible for vetting bank officers and agents. No trustee could receive any payment from the bank. The charter emphasized safeguards for the investment of the deposits. Two-thirds of the deposits were invested in government securities, while the remaining third was

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[26] Cong. Globe, 38th Cong., 2d Sess. 1401-1408 (Mar. 3, 1865). S443 passed in the Senate, House floor votes 72 ayes and 36 noes. The District of Columbia was specified as the location of the bank's headquarters. Salmon Chase was added to the Board of Directors.
[27] Cong. Globe, 38th Cong., 2d Sess. 1311 (Mar. 2, 1865).
[28] Ibid.
[29] U.S. Statutes at Large, 13, 511.

kept in an operating fund. The savings bank was explicitly forbidden to make loans. The bank's books would be open to Congress for examination.[30]

The Freedmen's Savings and Trust Company struggled to become profitable during its first few years of operation. It had no start-up funds and no shareholders. Initially, it could not cover its overhead costs, and trustees were asked to contribute small amounts to keep the bank afloat. In these years, the bank struggled to attract depositors and could not pay interest on accounts, but in time, the bank achieved some success. By 1872, there were thirty-three branch offices. Twenty-six of these were in the former Confederacy; four more were in Maryland, Kentucky, and Missouri. Eventually, the bank opened its doors to immigrants. There were also branches in New York, Philadelphia, and Washington, D.C. At the bank's height, it had thirty-seven branches in seventeen states and the District of Columbia. During its nine-year history, the bank received more than $57 million in deposits from 70,000 depositors.

The bank's original mission was the uplift of former slaves. The bank endeavored to teach the value of saving and thrift. Eventually, many of the tellers, cashiers, and advisory boards included former slaves, who helped to promote the bank and the development of a black middle class.[31]

Although the legislation was well-intentioned, over time, changes in the bank's governance and regulatory structure led to mismanagement and fraud. There were fifty trustees named to the bank's board initially, but many of the most prominent business leaders, such as Peter Cooper, soon resigned. The trustees who stayed had no financial

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[30] Osthaus, *Freedmen, Philanthropy and Fraud,* 3-5.
[31] Ibid., 19-20.

stake in the success of the bank. The bank ended up being managed by Alvord and one trustee, who struggled to make the bank profitable.[32] The most significant change to the structure of the bank took place in 1870, when Congress amended the bank's original charter to allow loans. At first, the bank used real estate security valued at double the amount of the loan for collateral. This provision was clearly intended as a conservative measure, but it opened the door to allow loans to be secured by assets whose value was variable and open to manipulation. This amendment changed the bank from a charitable organization to a profit-oriented institution. Soon, the bank's central office in Washington D.C. began to lend a sizable portion of the available funds on a wide variety of collateral, or with no collateral at all. A few black churches using their parish real estate as collateral were reluctantly given loans. Most of the loans, however, were made to whites with little or no security.[33] Many of the larger loans were taken out by trustees or businesses affiliated with the trustees. Default on some of these loans seriously compromised the bank's financial position. On paper, it appeared that the bank's assets equaled its liabilities, but after 1870 many of the bank's assets, especially real estate, were overvalued. In addition, the bank's books were poorly managed. Poor governance opened the door to corruption. There were incidents of employees who embezzled money from the bank.[34]

By 1872 the bank's financial statements showed signs of trouble. On January 9, 1872, the bank's actuary and an attaché of the Freedman's Bureau, D. L. Eaton, reported

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[32] Osthaus, *Freedmen, Philanthropy and Fraud*, 12.
[33] Ibid., 120.
[34] Ibid.

to the Board of Trustees that deposits for December were lower in 1871 than in 1870, a sign of economic trouble for the bank. Eaton cited a series of exogenous events that he argued were creating a crisis in confidence and causing the bank's problems. First, the Great Chicago Fire in 1871 created:

> great anxiety in the public mind with real cause of alarm in the great numbers of insurance companies that failed. The direct result of that catastrophe was to depress all stocks and to draw vast sums of money from the usual channels of business into the vortex created by that calamity.

As a result:

> insurance companies which had been making long term loans in all parts of the country not only had to cease doing that but also [had to] throw upon the market all their stocks and draw in all their matured loans. Hence, an unprecedented pressure in every bank and monied institutions.

In addition, the timing of the fire compounded its economic impact: "the moving of the crops has taken much money from ordinary channels of business, a thing usual at this season of the year." The auditor's analysis also credited additional instability in the economy at this time: "the transition period from one year to another at which time business ceases as it were while old scores are settled had been felt as almost a disturbance in the money market during the other causes alluded to." He also alluded the impact of the recent presidential election when the Freedmen's Savings and Trust apparently received some bad press: "Then there is the time before a presidential election when the partisan press are alert to seize upon every pretext and do all in their power to draw every enterprise into disrepute or the opposite as may seem to serve their purposes." He also complained that:

> some of the papers of the South have exhausted this company with their vocabulary of abuse. The burden of their charges is that Gov. Cooke, President Grant, the Seneca Stove Company and the Board of Public Works are using the funds in these banks to forward their personal ends.

Eaton made every excuse for the poor financial performance of the bank except for the poor investments made by the bank. Somewhat cryptically, Eaton concluded, "All these and other causes have combined to check deposits I have no doubt." The auditor did his best to explain the bank's downturn in terms of problems facing the larger economy. Given that the bank was under Congressional investigation at the time, this internal assessment is a remarkable exercise in obfuscation or denial in light of the bank's problems.[35]

In 1870, both Eaton and Alvord were named in a Congressional investigation of Oliver O. Howard's handling of the Freedmen's Bureau. The first charge was about the unauthorized expenditure of $500,000 of Freedmen's Bureau funds for the purchase of land for Howard University. The second charge was that Howard had mishandled the acquired lands. Howard, Eaton, and Alvord purchased parcels of the land through unofficial channels, and then all three proceeded to build mansions on their newly acquired land. The fourth, fifth, and sixth charges involved Alvord, Eaton, and Howard

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[35] D. L. Eaton, Actuary to the Board of Trustees, Freedman's Savings and Trust Company, January 9, 1872, ff: Washington DC: Letters Received, Box 7, RG 101, Records of the Office of the Comptroller of the Currency, Division of Insolvent National Banks, Freedmen's Savings and Trust Company, Letters Received by the Commissioners of the F, S & T, 1870-1914, Tennessee to Washington, National Archives at College Park (NACP), College Park, Maryland.

as principals and stockholders in a brick company that was given the contract to construct several buildings at Howard University. Ultimately, Howard was acquitted. The bank was not so fortunate. In the end, the combination of bad business practice, corruption, and exogenous forces proved ruinous.[36]

The Panic of 1873 had its origins abroad. In May 1873, a stock market crash in Vienna led European investors to liquidate their holdings of American securities, especially their holdings of railroad bonds, which were the leading American securities traded internationally. Consequently, the U.S. market became so overloaded with railroad bonds that new bond sales slowed significantly, which cut off capital to many railroad companies. Several railroad companies defaulted on the interest payments on their loans. Over time, this precarious financial situation, along with the failure of some firms associated with the railroad sector, generated a feeling of distrust toward the railroad industry. On September 18, 1873, the failure of Jay Cooke and Company, a prominent investment banking firm with connections to several railroad companies, triggered a panic, and more than one hundred banks failed.[37]

When the panic hit, depositors withdrew $1 million from the Freedmen's Savings and Trust Company. Frederick Douglass was brought in as the president of the bank to shore up confidence, but he did not have enough time or the skills to turn the bank

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[36] "Charges Against General Howard," no. 121, House Committee on Education and Labor, House of Representatives, Cong. Globe, 41st Cong., 2d Sess. 34 (Jul, 13 1870).

[37] Andrew Javed Jalil, "A New History of Banking Panics in the United States" (PhD diss., University of California, Berkley, 2010), 1-37. http://digitalassets.lib.berkeley.edu/etd/ucb/text/Jalil_berkeley_0028E_10349.pdf; Wicker, *Panics of the Gilded Age*, 143.

around. Within a year, the bank collapsed.[38] The failure of the bank raised the issue of a federal guaranty of bank deposits during a prolonged liquidation process.

The charter of the Freedmen's bank made clear that the federal government was not legally liable for the depositor's losses, but a range of evidence strongly suggests this guaranty was implied. The government's role in the way the bank was chartered, the way the bank was marketed, and the government's approval to change the original charter to allow loans all contributed to the perception that the federal government was responsible for the losses to depositors.

Many people believed that the Freedmen's Savings and Trust Company was a government institution from the outset. The bank was not a part of the Freedmen's Bureau, but it was initiated by one of its leaders. It was a private sector institution with a public sector mission. In a time when bank charters did not need Congressional approval, the Freedman's Savings and Trust Company was created by an act of Congress with the explicit intention of establishing it as charity for those who were "hereforeto held in slavery in the United States or their descendants." The structure of the bank was unique. The bank had the authority to establish and operate branches in any state where freed people lived and to supervise these banks through a central office in Washington. In a time when there was no central federal bank, the federal government had created a unique federal branch bank.

However, according to the bank's by-laws, the federal government was not liable for the bank's deposits in case of default. According to the original charter, Congress had

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[38] Osthaus, *Freedmen, Philanthropy and Fraud,* 120.

the right to inspect the bank's books, but not the obligation. Congress never exercised this right, and many people never understood that this was the only legal right Congress possessed with regard to the bank.

The marketing of the bank also led many to believe that the bank was an institution of the federal government. The special mission of the bank was embedded in the legal provisions regarding deposit accounts and in the applications of every person who applied to open one. These extant applications of particular individuals are revealing about the cultural complexity of the transaction and the institution. Ellen Leonard, for example, opened a savings account in Mobile, Alabama, on May 19, 1866. The application was a contract between the bank and the depositor with the letterhead "National "Freedman's Savings and Trust Company"" followed by "Terms of Trust and Deposit":

> I, ________________________ ["Ellen Leonard"] Do by these Presents certify and declare that I have this day deposited, and do hearby deposit with the "FREEDMEN'S SAVINGS AND TRUST COMPANY," at its office or agency at _______________ ["Mobile"] in the state of ______________["Alabama"] the sum of _______________["Five"] Dollars, and I state that I am an inhabitant of the United States, residing at ________________ ["Marion"] and that _______________ ["I"] was formerly held in slavery in the state of _______________ ["Alabama"]; that I am _______________ ["41"] years of age, _______________ ["5"] feet and _______________ ["6"] inches tall, have a _______________ [left blank] nose, _______________ ["dark"] hair and _______________ ["dark"] eyes. That the sum of aforementioned money is deposited by me, with the said Company, for the trusts and for the purposes that is to say:
>
> To pay the same to me with such interest, not exceeding seven percent per annum, and under such regulations as the Board of Trustees shall from time to time prescribe, on my being identified to the satisfaction of the officers of the Company or to any person who shall present a power of attorney from me to

> receive the same, properly executed and authenticated, or in the vent of my decease, leaving the same or any part thereof on deposit, to pay: —[39]

The account application then offered a hierarchy of recipients that can be designated in case of the account holder's death. The first provision asked for the names of the deposit holder's spouse and children. The second provision asked for alternative payees in case there is no living spouse or child. The third provision stated that if the balance of the account was not claimed within seven years of a depositor's death, it would go to the "Education and Improvement" of persons "hereforto held in slavery or their descendants." Ellen Leonard signed with her mark—an "X". Although Ms. Leonard's application clearly refers to the savings institution as "Company" and never as the "Government," both the provisions of the application and the manner in which it is filled out speak to the very special nature of this savings bank.[40]

This application represents the radical transformation of a person, who, a year earlier, was a piece of property, a commodity that could be bought and sold, used for collateral, bequeathed in an estate, or inherited from one. On May 19, 1866, Ellen Leonard was a private citizen, a person who had the right to engage in legal contracts. The physical description requirements in the application are in one sense an obvious measure to prevent fraud, but the specification for a description of her "nose" speaks to the racialized legacy of the enslavement of people originally from Africa. The fact that this requirement was omitted in this application underscores both its racism and lack of

[39] National "Freedmen's Savings and Trust Company," Terms of Trust and Deposit for Ellen Leonard, May 19, 1866, ff: Alabama: Mobile Letters Received, Box 1, RG 101 Records of the Office of the Comptroller of the Currency, Division of Insolvent National Banks, Freedmen's Savings and Trust Company, Letters Received by the Commissioners of the F, S & T, 1870-1914. Georgia to Florida, NACP.
[40] Ibid.

utility. The application also speaks to the special nature of the Freedmen's Savings and Trust Company, as it was a contract with a person who could not read it, a person who was, up until 1865, likely prohibited from learning to read.[41]

Ellen Leonard's application also demonstrates the special nature of the Freedmen's Savings and Trust Company as a private-public partnership. The third in-case-of-death provision specifies that an unclaimed account would be used for the "Education and Improvement" of other freed men. The bank failed so soon that there is no evidence of what this philanthropic provision might have looked like in practice, but this provision was not typical of a private bank. In this case, it was the bank that died in seven years, not Ellen. There was no provision in the account application for that event.[42]

Even more revealing, the imagery and language used in the bank's passbooks specifically conveyed that the power of the federal government was behind the bank. The cover of Sylas Ryan's passbook carries an image of a riveted bank safe, the front door chiseled with the words, "FREED," "MAN'S," and "SAFE," stacked in a column, where "FREED" and "MAN'S" are in a simple block font, and "**SAFE**" was emphasized by a Times New Roman type font. An American eagle hovers over the safe, its wings spread, while a guard dog with a crown of spikes on his head lies in front. Abraham Lincoln stands to the side with his right hand on the safe and a length of broken chain in his left. The portmanteau is surrounded by Civil War generals Grant, Sherman, Stanton, Farragut, and Howard. A banner above the eagle and below the center cameo of General

[41] National "Freedmen's Savings and Trust Company," Terms of Trust and Deposit for Ellen Leonard, May 19, 1866, ff: Alabama: Mobile Letters Received, Box 1, RG 101 Records of the Office of the Comptroller of the Currency, Division of Insolvent National Banks, Freedmen's Savings and Trust Company, Letters Received by the Commissioners of the F, S & T, 1870-1914. Georgia to Florida, NACP.
[42] Ibid.

Grant reads, "The Freedmen's Savings and Trust Company." The banner below the safe and Lincoln reads "Lincoln and Freedom." The cameo of General Howard visually links the Freeman's Savings and Trust Company to the Freedmen's Bureau. The very bottom of the front cover of the passbook offers three paternalistic instructions: "Keep this Book in good order. Do not fold or roll it up. Give immediate Notice if lost." These passbook covers conveyed a host of conflicting messages. They were a form of marketing that strongly associated the Freedmen's Savings and Trust Company and the security of its deposits with the Freedmen's Bureau and the federal government. At the same time, these passbook covers convey that the bank viewed its customers as children who would not know how to keep their bank documents in good order. Congress may not have enacted a legal obligation to guaranty the depositor's account, but the passbooks strongly conveyed at least a moral one.[43]

Most surprisingly, some of the Freedmen's bank's passbooks explicitly stated that the U.S. government guaranteed the safety of the deposits. To help make the bank profitable, branches in New York, Philadelphia, and Washington, D.C. were opened to attract the deposits of immigrants. Caroline Doeshner had $922.37 in her account when the bank failed. The cover of her passbook read: "Chartered by the United States, Freedmen's Savings & Trust Company (A National Savings Bank), 185 Bleeker Street, New York." The top of the inside cover of her passbook boldly stated: "THE

[43] Silas Ryan's Freedman's Savings & Trust deposit book, no. 409, 1872, ff: Louisiana: New Orleans, Box 2, RG 101 Records of the Office of the Comptroller of the Currency, Division of Insolvent National Banks, Freedmen's Savings and Trust Company, Letters Received by the Commissioners of the F, S & T, 1870-1914, Louisville, KY to Norfolk, VA, NACP.

GOVERNMENT of the UNITED STATES has made this Bank Perfectly Safe." Then this statement is translated into German and French.[44]

Some passbooks stated explicitly that "the Company" was responsible for security of the deposits. However, these same passbooks promised the bank would be a non-profit and never loan its deposits. Adeline Byrd from Wilmington, North Carolina, had the back of her passbook imprinted with the decree: "The money deposited in the Savings Bank will be kept safely on interest, and will be paid back to the depositor, principal and interest, when called for, in accordance with the Rules and Regulations of the Company." The inside cover of her passbook was explicit about the Company's special mission:

> This Savings Bank is established by Act of Congress, Approved March 3, 1865 by ABRAHAM LINCOLN. It is under the direction of fifty trustees who serve without pay. The branch offices are also under the supervision of local committees chosen from the best men in the vicinity of each branch. The Bank cannot loan its deposit or use them in any way except to invest them according to the act of Congress in the bonds of the United States and in real estate securities worth double the amount so invested. The profits are all returned to the depositors as interest, necessary expenses alone are excepted. The income from the deposits not called for goes to the "Education Fund" for the sole use of the Freedmen's depositors and their descendants.[45]

These conditions would only be true until the laws were changed. To most of the first depositors, who had never had a bank account, the passbooks promised security that was

[44] Caroline Doeschner's Freedman's Savings & Trust deposit book, no. 6084, 1873, ff: New York: New York, Box 2, RG 101 Records of the Office of the Comptroller of the Currency, Division of Insolvent National Banks, Freedmen's Savings and Trust Company, Bank Books Received by the Commissioners of the F, S & T, 1870-1914, Louisville, KY to Norfolk, VA, NACP.

[45] Adaline Byrd's Freedman's Savings & Trust deposit book, no. 4970, 1872, ff: North Carolina: Wilmington, Box 4, RG 101 Records of the Office of the Comptroller of the Currency, Division of Insolvent National Banks, Freedmen's Savings and Trust Company, Bank Books Received by the Commissioners of the F, S & T, 1870-1914. Washington, DC to Wilmington, NC, NACP.

not permanent.[46] These statements were followed by instructions that presumed the limited capability of the depositors. The passbook offered instructions on how to save, including a “Suggestive Figures” section that extrapolated the accumulated interest from saving ten cents a day for one year, followed by the calculations for saving twenty-five cents, five dollars, and ten dollars a month. The pre-1870 passbooks contained abundant verbal and visual information that clearly convey the bank as a special institution established by the federal government to serve the advancement of former slaves, with a non-profit savings institution that would be protected by the government. When the bank’s original charter changed, the original passbooks did not.[47]

As the bank’s charter changed and the bank’s financial position became compromised, the language of new passbooks was different. There was less language about civics and new language about limited liability. Rule 6 inscribed on the inside cover page of an 1873 passbook states, “The company will as a rule pay all deposits on demand, yet it reserves the right to require sixty days’ notice of intention to withdraw deposits. The intent of this rule being solely to protect the Bank and it depositors in times of public excitement and danger.” Rule 12 read:

> The trustees reserve the right to alter or amend these rules and regulations and such alterations or amendments shall be binding upon the depositors, after having been published twice a week for three successive weeks in one or more of the public newspapers of those towns and cities where the agencies of the Company are located. Approved June 12, 1873.

[46] Adaline Byrd’s Freedman’s Savings & Trust deposit book, no. 4970, 1872, ff: North Carolina: Wilmington, Box 4, RG 101 Records of the Office of the Comptroller of the Currency, Division of Insolvent National Banks, Freedmen’s Savings and Trust Company, Bank Books Received by the Commissioners of the F, S & T, 1870-1914. Washington, DC to Wilmington, NC, NACP.
[47] Ibid.

What did this language mean to an illiterate person who was previously enslaved?[48]

As the bank was failing, letters started pouring into the bank and to the government. On May 4 1874, a letter from a Mobile, Alabama attorney to F. G. Bromberly, the U.S. Representative from Alabama, on behalf of a former cashier of the bank in Mobile facing charges for incompetence stated:

> I see that the bank is in rather a bad condition which it seems to me must be the result of corrupt or incompetent management. If the money had been invested in U.S. bonds as the charter required there could have been no loss. But I see someone had an amendment proposed by Congress (see page 199-17 U.S. Statute) authorizing loans upon real estate security on 16th of May 1870 just ten days after the Bank adopted a rule authorizing loans upon collateral security on May 6, 1870.

This letter and the fact that the Alabama attorney addressed his complaint to his U.S. representative is a strong example of the public perception that failure of the Freedmen's Savings and Trust was the responsibility of the federal government.[49]

Even communications from the Freedmen's Savings and Trust Company state that a government guaranty was implied. On February 1, 1875, two years after the bank failed, a letter from the Office of the Commissioners at the Freedmen's Savings to O. W. Avery, a Chief Clerk in the Treasury Department, demanded that government employees re-pay their loans from the bank. The circumstances are not completely clear, but

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[48] United States Sons of Honor Special Fund's Freedman's Savings & Trust deposit book, no. 8335, New Orleans branch, 1874, ff: Washington, DC Archives II, Box 4, RG 101 Records of the Office of the Comptroller of the Currency, Division of Insolvent National Banks, Freedmen's Savings and Trust Company, Bank Books Received by the Commissioners of the F, S & T, 1870-1914, Washington, DC to Wilmington, NC, NACP.

[49] Mobile, Alabama attorney [name illegible] to U.S. Representative of Alabama, F. G. Bromberly, May 4 1874, ff: Alabama: Mobile a letter from a Archives II, Box 1, RG 101 Records of the Office of the Comptroller of the Currency, Division of Insolvent National Banks, Freedmen's Savings and Trust Company, Letters Received by the Commissioners of the F, S & T, 1870-1914, Georgia to Florida, NACP.

apparently there were one or more employees at the Treasury Department who owed the bank money. The letter began:

> Sir: Notwithstanding their frequent promises to pay the amount of their indebtedness to this Company, the following named employees of the Treasury Department have failed to do so. Considering that the monies that they are thus indebted were taken from the earnings of the poor many of whom are now suffering for the necessities of life I deem it but proper that these parties should be made to pay especially as the money was obtained by them upon the implied guaranty.[50]

One of the employees in question was a Miss Staunton. The Treasury Department ordered the account settled immediately, but Miss Staunton had left the employ of the government the previous year.[51]

The federal government declined to cover the depositor's losses of the Freedmen's Savings and Trust Company, but over the next decade, Congress made the unusual decision to take over the liquidation of the bank. In the absence of a federal bank, this was the assertion of the powers of a federal bank. Starting June 20, 1874, an act of Congress authorized the trustees to appoint a three-member board to assume control of the institution's assets and report its financial condition to the Secretary of the Treasury. The Freedmen's Bank closed less than a week later. The board proceeded to manage the liquidation of the bank's assets, but Congress abolished the board in 1881 and authorized the Secretary of the Treasury to appoint the Comptroller of the Currency

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[50] O. W. Avery, Chief Clerk, Office of the Commissioners of the Freedman's Savings & Trust Company, Department of Treasury to John Allison, Register, Register's Office, Department of Treasury, Feb. 1, 1875, ff: Washington, DC Letters Received, Box 8, RG 101 Records of the Office of the Comptroller of the Currency, Division of Insolvent National Banks, Freedmen's Savings and Trust Company, Letters Received by the Commissioners of the F, S & T, 1870-1914, Washington, DC to Washington, DC, NACP.
[51] Ibid.

as commissioner ex officio, who made annual reports of the bank to Congress until 1920. On February 17, 1883, Congress passed legislation that authorized Congress to pay the depositors a total 62 percent of their account balances when the bank failed. Ten thousand, four hundred and eleven account holders were paid out "dividends" in five payments in stages as the bank's remaining assets were liquidated.[52] A public notice placed by commissioner John Jay Knox, a Commissioner of the Freedmen's Savings and Trust Company, on July 25, 1883 in the Washington, D.C. *Daily Nut Shell* ("A Spicy, Newsey Sheet with a Large and Increasing Circulation Advantageous to Advertisers") reported "a final dividend of seven percent was declared on May 12, 1883 making sixty-two percent and is now being paid at the Office of the Commissioner of said company in this City." The government fulfilled its goal of repaying the depositors of the Freedman's Savings Banks 62 cents on the dollar.[53]

Although Congress passed legislation to liquidate the bank's assets and distribute the proceeds, getting those payments to depositors and their heirs was a process that was drawn out over decades. In 1895, the bank still had $30,000 in assets.[54] One claim from March 31, 1899 was made on behalf of Rachel Bryan, a depositor at the New Bern Branch of the Freedmen's Bank. The claim form tells us Rachel Bryan was born "in

[52] Office of the Commissioners of the Freedman's Savings & Trust Company, December, 1895, ff: Washington, DC Letters Received Archives II, Box 8, RG 101 Records of the Office of the Comptroller of the Currency, Division of Insolvent National Banks, Freedmen's Savings and Trust Company, Letters Received by the Commissioners of the F, S & T, 1870-1914, Washington, DC to Washington, DC, NACP.
[53] Office of the Commissioner Freedman's Savings & Trust Company, *Daily Nut Shell*, July 18, 1883, ff: North Carolina Letter's Received Archives II, Box 5, RG 101 Records of the Office of the Comptroller of the Currency, Division of Insolvent National Banks, Freedmen's Savings and Trust Company, Letters Received by the Commissioners of the F, S & T, 1870-1914. North Carolina to South Carolina, NACP.
[54] Office of the Commissioner of the Freedman's Saving's & Trust Company, December, 1895, ff: Washington, DC Letter's Received, Box 8, RG 101 Records of the Office of the Comptroller of the Currency, Division of Insolvent National Banks, Freedmen's Savings and Trust Company, Letters Received by the Commissioners of the F, S & T, 1870-1914, Washington, DC to Washington, DC, NACP.

Wilmington, NC" and brought up: "12 miles below Wilmington." She was "fifty-seven" years old and "a common laborer and farmer" who worked for her "Self." It also asked for her complexion, reported as "Light Brown," and for the names of her parents, siblings and children. The Remarks section summarized: "Rachel Bryan is a colored woman of about 57 years old and lives in a little settlement just across the river from the city of Newbern N.C. [Graysville] and says she had a small amount of money in the bank when it failed and she received some parts of it once." Handwritten notes on her claim observe that she once received twenty-four cents. On April 4, 1899 she was sent an additional eleven cents, 62 percent of her savings.[55] Many depositors were never compensated. Scholars have argued that the failure of this bank led to a fear of savings institutions among some African-Americans.[56] In sum, although the federal government did not reimburse the depositors of the Freedman's Savings and Trust, it did ultimately take responsibility for administering the liquidation of the bank. The government continued to administer the liquidation of the Freedman's Bank, into the twentieth century, a measure of the government's obligation to mediate, if not to compensate, the depositors of a bank especially chartered by the federal government to teach economic responsibility to former slaves and to provide a vehicle for capital accumulation. The Freedman's Bank was a devastating example of a failed public-private partnership in which the government did not go far enough to protect the people it had promised to help. As the last of the

[55] Claim record Rachel Bryan, March 31, 1899, ff: North Carolina Letter's Received, Box 5, RG 101 Records of the Office of the Comptroller of the Currency, Division of Insolvent National Banks, Freedmen's Savings and Trust Company, Letter's Received by the Commissioners of the F, S & T, 1870-1914, North Carolina to South Carolina, NACP.
[56] Osthaus, *Philanthropy and Fraud*, 120.

Freedman's Bank payouts were made in the early twentieth century, this mistake was corrected.

Federal Guaranty Supplied: The U.S. Postal Savings System, 1910

There were bank failures every year after the Civil War. With increasing frequency, failure led to panic. As the previous section recounts, the first major panic in September 1873 triggered the failure of more than one hundred banks and contributed to the failure of the Freedmen's Savings and Trust Company in 1874. A panic in May 1884 caused forty-four banks to collapse. In November 1890, a panic led to the collapse of eighteen banks. The magnitude of these panics escalated in the 1890s. In 1893, more than five hundred banks failed in a four-month period from May to August. In 1907, seventy-three banks failed between October and December. The 1907 crisis was the most acute due to the size of the banks that failed and the impact of the panic nationwide.[57] Demands for reform came to a head.

The main focus of Congress was on institutional reform of the banking and monetary system, but the concerns of small depositors, who were always the hardest hit in bank panics, also had a rising voice in Congress at this time. Two solutions gained traction for the protection of depositors. One idea was federal bank deposit insurance. A second idea was a national postal savings system. In the political momentum that gathered after the Panic of 1907, the first proposal was defeated; the second won out.

The creation of the U.S. Postal Savings System in 1910 marks an important precedent in the history of deposit insurance. Although Congress rejected bank deposit

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[57] Wicker, *Panics of the Gilded Age*, 143.

insurance at this time, the postal savings system did enact the first guaranty of savings deposits by the federal government. This section will recount the political history of this legislation to show how partisan politics and other factors enabled a national postal savings system to be created in this moment of reform while federal bank deposit insurance failed.

The calls for federal bank reform came to a head in 1907, but they began in 1893. Both contemporaries and historians mark the Panic of 1893 as a categorical shift in the destructive capacity of bank panics during the National Banking era. With the failure of more than five hundred banks in 1893, that panic led to a sharp rise in the call for bank reform but not the political will to achieve it.

Economic historians argue that major institutional reform was not possible in the 1890s because of the sharply divisive politics in the country at that time. Against the rising tide of industrial capitalism, the Populists, a movement of farmers hailing from the South and West, were mounting a challenge to the political order. They were looking for a host of reforms that would level the playing field for farmers. Currency reform was at the top of their agenda. The Panic of 1893 helped put Populist candidates into office. In 1896, Populists and Democrats joined forces under William Jennings Bryan. They called for a return to bimetallism, a policy they hoped would increase the money supply and have an inflationary effect on prices that would benefit farmers by making currency and credit more readily available and by helping farmers to repay their debt more easily. The Panic of 1893 made clear to urban bankers and their Republican supporters in Congress that there was a need for bank reform at the federal level, but the issues uppermost in their minds were defeating William Jennings Bryan and preserving the gold standard. GOP candidate William McKinley won the election in 1896, but the Populists were still a potent political force. Financial conservatives believed that a call for bank reform would provoke renewed agitation from Populists against Wall Street's "Money Power." Conservatives feared that pursuing federal bank reform would give Populists and their supporters an opportunity to influence that reform in the interest of agrarians and labor. Proposals for currency reform were brought forth twice: the Baltimore Plan in 1894 and the report of the Indianapolis Monetary Commission in 1898. Both proposals argued for a more elastic currency backed by bank assets as well as government bonds, but the issue was stalled politically until the next financial crisis.[58]

The proximate causes of the Panic of 1907 were clearly understood at the time. The actions of a group of New York City financiers, with controlling interests in several banks, triggered the panic. The group misappropriated bank funds to speculate on rising copper prices. The gamble did not pay off. Copper prices collapsed and the news of these events triggered runs on the banks involved in the speculation. Rumors that other banks and trust companies might be connected to the speculators undermined public confidence and a panic spread throughout the city. The panic triggered a 50 percent fall in the stock market from its high mark the previous year. Within a few days, the panic spread to most of the country. Clearinghouses in seventy-three cities suspended cash

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[58] Robert Craig West, *Banking Reform and the Federal Reserve, 1863-1923* (Ithaca, NY: Cornell University Press, 1977); Richard H. Timberlake, *The Origins of Central Banking in the United States* (Cambridge, MA: Harvard University Press, 1978), 171-85; Elizabeth Sanders, *Roots of Reform: Farmers, Workers, and the American State, 1877-1917* (Chicago: University of Chicago Press, 1999), 108-10; Wicker, *Panics of the Gilded Age*, 143; Elmus Wicker, *The Great Debate on Banking Reform: Nelson Aldrich and the Origins of the Fed* (Columbus: Ohio State University Press, 2005), 22-41.

payments. Businesses suspended their commercial activity because they did not have the cash to operate.[59]

In the public discourse around the causes of bank panics, two broader explanations took shape along partisan lines, as well as two remedies for the protection of individual depositors. The fault lines of this discourse ran along political divisions generally bounded by geography, economic interests, and bank tier. National bankers in urban areas who underwrote industrial expansion tended to argue that instability in banking was the result of the poor supervision of state banks. In their view, weak supervision enabled poor management practices to continue and left corruption unchecked. State bankers in rural areas who underwrote the business cycle in the agricultural sector tended to argue that investment bankers from the Northeast threatened the banking system by using unregulated capital markets that were vulnerable to speculation and economic bubbles. The failure of one major urban bank, they argued, had a ripple effect that could pull down weak country banks, which then could lead to a panic that even well-run rural banks could not withstand.

It was the Panic of 1907 that generated the necessary political will to make changes to the federal government's management of banking. The majority of that political capital was spent on institutional reform. Republicans strongly advocated for the creation of a central bank that could act as a banker of last resort in the event of a bank panic. Many Democrats saw the need for institutional reform, but they feared the concentration of financial power in New York and in the federal government. The

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[59] Edwin Walter Kemmerer, *Postal Saving: An Historical and Critical Study of the Postal Savings Bank System of the United States* (Princeton, NJ: Princeton University Press, 1917).

creation of the Federal Reserve System, a federal banking system made up of a federation of twelve regional banks, with a central board in Washington, took six years. The process began under a Republican Congress and presidency in 1908 and was completed under a Democratic Congress and presidency in 1913. Proponents of this system hoped that it would make bank panics obsolete.

While the negotiations for the Federal Reserve System were taking place, part of the political movement for reform continued to press the federal government to mitigate the collateral damage of bank panics to individual depositors. Public confidence in the banking system fell sharply in 1907. Both parties accepted that the concerns of individual depositors would have to be addressed.

Federal deposit insurance and a federal postal savings system were competing legislative solutions that had been proposed and discussed for decades. Up to 1907, each solution lacked the political support to enact legislation. Proposals for deposit insurance had been introduced twenty-five times in Congress between 1886 and 1906, but none of these bills made it to a floor vote. The Panic of 1907 increased advocacy for federal deposit insurance substantially. There were another forty-seven deposit insurance bills introduced in Congress between the Panic of 1907 and the creation of the Federal Reserve in 1913, but none of these proposals became law.[60] An alternative solution debated for decades before the Panic of 1907 was a postal savings system. Between 1871

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[60] *FDIC 1950 Annual Report*, 63-101.

and 1909, eight Postmasters General had recommended the establishment of a postal savings system, and eighty bills had been introduced into Congress for that purpose.[61]

Postal savings systems had the advantage of having a successful track record as a national program abroad. The first system was set up in Britain in 1861 and was in continuous operations since that time. Postal savings systems were common in Europe and Japan by the late nineteenth century. There were differences among the forty countries that had postal savings systems by 1907, but there were fundamental similarities among them all. The main goal of these systems was to encourage thrift among people with limited means in government-guaranteed savings accounts that offered interest rates somewhat below commercial banks. The popularity of the Freedmen's Savings and Trust Company with immigrants in New York and Philadelphia was certainly due in part to their experiences with postal savings systems in Europe. As the previous section showed, the most explicit and misleading language on Freedmen's bank passbooks regarding assurance of government security can be found in the passbooks marketed to immigrants in multiple languages.[62]

A postal saving system had a great deal to offer a country expanding the width of a continent. In addition to appealing to immigrants, a postal savings system offered an efficient way to bring banking services to rural areas. The country had many more post offices than banks. A postal savings system could offer the services of a savings bank in

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[61] Kemmerer, *Postal Savings*, 1; Edwin Walter Kemmerer, "The United States Postal Savings Bank," *Political Science Quarterly* 26, no. 3 (1911): 462-499; Edwin Walter Kemmerer, "Six years of Postal Savings in the United States" *American Economic Review*, 7, no 1. (1917): 46-90. Kemmerer was professor of economics and finance at Princeton University in the early twentieth century. The first postal savings system was established in Britain in 1861. Political discussions about a U.S. postal savings system began the 1870s.

[62] Kemmerer, *Postal Savings*, 1-2.

towns that were too small to support a savings bank. The Postmaster General's report to the Comptroller of the Currency in 1906 noted a particular lack of banking facilities in Southern and Western states. The Postmaster General's 1909 report again noted that bank facilities were most scarce in the South.[63]

It is perhaps surprising, then, that the first U.S. postal savings system appeared outside of the continental United States. The first one established under the American flag was in the Kingdom of Hawaii in 1886. This system continued to operate after the overthrow of Queen Lil'uokalani in 1893 but closed soon after the annexation of Hawaii as a U.S. Territory in 1898. The second postal savings system under the American flag became the template for the 1910 legislation and, significantly, followed the political career of William Howard Taft. Taft had been Territorial Governor of the Philippines from 1900-1903. He was Secretary of Defense, with responsibility for the Philippines, when the postal savings system was established there in 1906. Taft supported the creation of a U.S. postal savings system when he ran for office in 1908, and continued to support it after he was elected. In 1910, while the Federal Reserve System was still being negotiated, Taft signed the bill that created the U.S. Postal Savings System into law.[64]

Initially, proposals for federal deposit insurance and a national postal savings system came from both political parties, but after the Panic of 1907, support for the two proposals became increasingly partisan.[65] In December 1907, in his message to the country in the midst of the panic, Republican President Theodore Roosevelt signaled his

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[63] Kemmerer, *Postal Savings*, 11-15.
[64] Kemmerer, *Postal Savings*, 2-5; Walter Edwin Kemmerer, "The Philippine Postal Savings Bank," *The Annals of the American Academy of Political and Social Science*, 30, American Colonial Policy and Administration (1907): 45-51.
[65] *FDIC 1950 Annual Report*, 63-101.

support for a national postal savings bank system. At the same time, the newly admitted state of Oklahoma enacted the first state deposit insurance system since before the Civil War. One of the lead advocates for that state system, Robert L. Owen, began to advocate for federal deposit insurance when he came to Washington in December 1907 as Oklahoma's first senator. In the 1908 presidential election, Republican candidate William Howard Taft and the Republican Party platform both favored a postal savings system.[66] At the Republican convention in June 1908, the platform endorsed "the establishment of a postal savings system for the convenience of people and the encouragement of thrift."[67] For the second time, the Democratic nominee was William Jennings Bryan. In that election year, Bryan and, for the first time, the Democratic Party platform, endorsed federal deposit insurance. Although the Democratic platform favored deposit insurance, it gave qualified support to a postal savings system. The Democrats were concerned that funds accumulated through the postal savings system would leave the communities they were collected in and be funneled to New York banks. The Democratic platform read,

> [W]e favor a postal savings bank if the guaranteed bank cannot be secured, and that it be constituted so as to keep the deposited money in the communities where it is established. But we condemn the policy of the Republican Party in proposing postal savings banks under a plan of conduct by which they will aggregate the deposits of rural communities and re-deposit the same while under government charge in the banks of Wall Street, thus depleting the circulating medium of the producing regions and unjustly favoring the speculative markets.[68]

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[66] Kemmerer, *Postal Savings*, 4.
[67] Thornton Cooke, "The Insurance of Bank Deposits in the West," *The Quarterly Journal of Economics* 24, no. 1 (1909): 85-108; Thornton Cooke, "The Insurance of Bank Deposits in the West: II" *The Quarterly Journal of Economics* 24, no. 2: (1910): 327-91.
[68] Political Party Platforms, The American Presidency Project, University of California - Santa Barbara, http://www.presidency.ucsb.edu/ws/index.php?pid=29589.

Other political parties also supported a postal savings system. The Prohibition Party Platform advocated "the establishment of postal savings banks and guaranty of deposits in banks." The Populist platform demanded "that postal savings banks be instituted for the savings of the people," and the Independence League Platform declared "Government postal savings should be established where the people's deposits will be secure, the money to be loaned to the people in the locality of the several banks at a rate of interest to be set by Government." Because there was agreement among all the political parties regarding the postal savings system, it was the proposal for the federal guaranty of bank deposits that became the hot-button campaign issue.[69]

When the Republicans won both houses of Congress and the presidency, their solution to address the losses of depositors in a bank panic had the mandate.[70] However, even with this consensus, the measure took two years to enact.[71] Like the Freedman's Savings Bank, the U.S. Postal Savings System proposed a precedent-breaking branch bank system that would operate in every state. This structure was perceived as a threat to bankers, who could not establish branches outside of their state of incorporation. Bankers claimed a postal savings system would take away from their deposits. The American Bankers Association carried on a massive public relations campaign to oppose a postal savings system for three years. In a letter sent to bankers when a postal savings bill went to a floor vote on November 24, 1908, the propaganda package included: 1) a

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[69] Kemmerer, *Postal Savings*, 5.
[70] Ibid.
[71] O. M. Sprague, *History of Crisis Under the National Banking System* (New York: August M. Kelley, 1968). Originally a report to the National Monetary Commission, Sen. Doc. no. 538, 61 Cong., 2d sess., 259-260; *Annual Report of the Post Master Generals, 1906, 1907, 1908, 1909* (Washington, DC: GPO, 1906-1909).

copy of the bill, 2) a copy of a speech by a former Director of the Mint, 3) a copy of a report from the American Bankers Association, 4) a condensed synopsis of arguments against the postal savings bank to be used as a basis of newspaper articles that included counter arguments for newspaper articles, and 5) a speech before the Wyoming Bankers Association by a Nebraska banker who equated postal savings with socialism. In his words, the advocates for a postal savings system

> would have the government cast loose from its moorings of protection for the individual and plunge into the frightful plough of socialism. The American people may well pause before they take this step; for the real person's injured are not the bankers in their individual capacity, but the nation at large. Socialism is not a mere harmless dream, impossible of fulfillment, to be tolerated as the well wishings of people more poetical than practical—it is a hideous growth of positive malevolence, and it is directly opposed to every fundamental principle of our government. It is an ingrate knocking at our doors a thief in the night creeping into our domiciles. It takes from industry its every reward and dampens energy and ambition with the stifling of the incentive for success well may we wake to the hidden currents of the stream of socialistic banking, before we take the fatal plunge![72]

The campaign was effective. It took two more years to pass the postal savings bill in Congress.

The advocates of a postal savings system had a long list of arguments to support their position. The range of benefits certainly strengthened broad political support for the bill. Advocates argued that banks had nothing to fear from government competition. Banks had the advantage of an established clientele, offered higher interest rates, had higher limits on the amount that could be kept on deposit, and maintained a close

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[72] Kemmerer, *Postal Savings*, 15.

advisory relationship with their customers. In practice, a postal savings system would help commercial banks and savings banks by educating people in the habits of thrift and drawing out hoarded money, particularly from immigrants. Furthermore, the deposits that postal savings accounts received would be, for the most part, transferred to other banks for deposit. Postal savings systems successfully operated in many countries around the world. Although during the early days of the English system in the 1860s, the postal savings banks were seen as a competitor to banks, both institutions still successfully coexisted. In Italy, the Netherlands, France, and Hungary, the postal savings system had been found to be complementary to other banking services and not in competition with other banking services. A related argument for the creation of a national postal savings system was that it would place the United States more in line with the financial practices of Europe.[73]

Advocates for postal savings banks argued that postal savings accounts would be particularly attractive to immigrants. Many immigrants distrusted American banks after debacles like the Freedman's Savings and Trust Company. They were familiar with postal savings banks in their home countries and remitted money home to these institutions.[74] Money brought in from immigrants would not be sent overseas.

Advocates hoped that a postal savings system would encourage people who kept their cash at home to deposit it in a bank. It was impossible to estimate how much money people kept under their mattresses, but many people, rather than keeping piles of cash, protected their money by purchasing money orders payable to themselves. Millions of

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[73] Kemmerer, *Postal Savings*, 1-15.
[74] Ibid.

dollars were saved in this form every year, but this money earned no interest and incurred a fee for the money order.[75] Pro-banking advocates referred to this money as hoarding and wanted to bring this money into circulation.

But in the broadest sense, the core debate about the postal savings system concerned the need for a system at all. There were those who looked at banking and bank panics from an aggregate industry perspective and those who looked at the devastation of bank panics from the point of view of the individual. Opponents of the postal savings system emphasized the percentages of total deposits that had been lost in panics and argued the system was unnecessary because the average losses over time were infinitesimal as a percentage of total deposits. Advocates of a federal guaranty emphasized loss to individuals.[76] The numbers, they argued, did not tell the story. Florence Kelly wrote at this time, "among the experiences of working people none is crueler than loss of savings through failure of banks or absconding of individuals entrusted with funds."[77] She emphasized that the loss to the individual, not aggregate calculations distributed across time. The impact of the bank panic of 1907 on individual depositors was large enough to effect change at both the state and federal level.

If there were going to be government-guaranteed deposit accounts, Republicans wanted the system to be closed, controlled, and limited, and entirely outside of commercial banking. Democrats, who were not successful in gathering the political will to enact deposit insurance, ultimately supported the postal savings bill. After forty years

[75] Kemmerer, *Postal Savings*, 19; House Document no. 1445, Sixty-First Congress, 2d Session, 93.
[76] Kemmerer, *Postal Savings*, 17.
[77] Ibid.

of discussion, on the last day of the Second Session of Congress, a bill creating the United States Postal Savings System (USPSS) was signed by President Taft on June 25, 1910. Its most stunning feature was that its deposits were guaranteed by the federal government. The title of the bill was "An Act to establish postal savings depositories for depositing savings at interest with the security of the Government for repayment thereof, and for other purposes."[78]

The administrative organization of the system resembled the Philippines program. Like the Philippine's system, there was a three-person Board of Trustees that included the Postmaster, Treasury Secretary, and the Attorney General to handle administrative, financial, and legal issues. Whether the passbooks would be managed centrally or by local post offices was a decision left to the board. The savings accounts were initially limited to a balance of $500. Deposits had to be made in multiples of a dollar. The U.S. Post Office created postal savings stamps for children to save on a postal savings card that sold for ten cents. Over time, nine 10-cent stamps could be pasted to the card, bringing its value to one dollar and making it ready for deposit.

The interest on postal savings accounts was limited to 2 percent a year. The interest was kept low, so that it would not compete with savings banks, but set high enough so that the system would pay for itself. The postal deposits could then be deposited in state or national banks for 2.5 percent interest; .5 percent of that interest went to pay for the system. These deposits had to be treated separately. Among the postal savings systems in the world at the time, 2 percent was the lowest rate in the

[78] An Act to establish postal savings depositories for depositing savings at interest with the security of the Government for repayment thereof, and for other purposes, S. 5876, 61st Cong. (1910).

world. The postal savings rate abroad was 2.5 percent in the United Kingdom, 3 percent in Canada, 2.5 percent in France, 4.2 percent in Japan, 3 percent in Austria, 3 percent in Hungary, 3.6 percent in Sweden, and 2.5 percent in the Philippines.[79]

The financial management of the postal savings system was structured to be conservative and secure. Similar to the original charter of the Freedmen's Savings and Trust Company, 5 percent of those deposits were held in reserve by the U.S. government and were limited to investments in U.S. government bonds. Most countries invested the deposits in public debt. But the public debt in the United States was small and most of it was already tied to bank note circulation. Treasury Notes were considered to be a safe investment. The requirements of the bill were that postal savings deposits could be invested in securities which were 1) safe, 2) payable on demand, and 3) paid sufficient interest to cover depositor interest plus administrative expense; in addition, 4) the funds had to be kept in communities where deposits were received. The creators of the postal savings system were adamant that they did not want funds to go to Wall Street. The idea of keeping deposits local was almost a "fetish" among both advocates and opponents. 5) The bill specified that the investments must be constitutional. This provision came out of an argument in Congress about whether it was constitutional for a post office to be a bank.

Most important to this study, the postal savings accounts were guaranteed by the federal government. The use of the word "faith" in the U.S. Postal Savings System statute is different from the use of the word "secured" in the National Banking Acts.

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[79] Kemmerer, *Postal Savings*, 38-39.

Section 16 stated, "That the faith of the United States is solemnly pledged to the payment of the deposits by any person in postal savings depository offices, with accrued interest thereon as herein provided."[80] This new language underscores a growing understanding of the role of faith in the banking system and by extension the economy, and the obligation of the federal government to secure that faith and the savings deposits of working people.

The U.S. Postal Savings System (USPSS) went into effect on March 25, 1911. The system realized slow but steady success. By June 1911, four hundred post offices offered postal savings accounts. The five largest offices in the first four months of operation were Chicago with $577,842 in deposits, New York with $411,769, Portland with $399,406, Boston with $164,464, and St. Louis with $119,606 in deposits. A year later, there were 10,170 offices around the country, 243,801 depositors, and $20,237,084 on deposit. The deposit limit was raised to $1,000 in 1916 and $2,500 in 1918. By 1929, $153 million were on deposit.[81]

By 1935, the USPSS represented only 6 percent of depositors and 5 percent of savings deposits in the country, but it had become the largest organization with centralized control for the collection of savings deposits. By 1935, there were 8,036 branches in 7,200 communities across every state. The postal savings system could reach more customers than any other financial institution in the United States. In 1934, the system had depositories in 12,250 communities that either had no bank at all or no bank

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[80] An Act to establish postal savings depositories for depositing savings at interest with the security of the Government for repayment thereof, and for other purposes, S. 5876, 61st Cong. (1910).
[81] Kemmerer, *Postal Savings,* 38-39; David Hu, "The Influence of the Postal Savings System on Bank Runs," *Yale Journal of Economics* 2 no. 1 (Fall 2013): 7-32.

whose deposits were insured by the FDIC, but it did not forestall the banking crisis of 1933.[82]

The USPSS reached its peak during World War II, when bank interest rates dropped to 1 percent. In 1947, the postal savings system held almost \$3.4 billion with four million depositors using 8,141 post offices. When the system closed in 1967, there was \$50 million dollars in unclaimed deposits of more than 600,000 depositors.[83]

Despite its aggregate success, recall that like the Freemen's Savings and Loan Company, the U.S. Postal Savings System was conceived of as a charity by many of its supporters. Reminiscent of the modest accounts of the Freedmen's bank, the average deposit in USPSS was \$1.50.[84]

There were many arguments given which garnered support for the passage of this legislation: to encourage people to put money held in cash into savings account, to attract the savings of immigrants accustomed to saving at post offices in their native countries, and to furnish more convenient depositories for working people and rural people. But the underlying condition that would enable all these proposed benefits was the need for safe depositories for people who had lost their savings and their confidence in banks as a result of bank panics.

The U.S. Postal Savings System was the first U.S. government institution to offer the "faith" of the federal government to individual depositors. This legislation was a landmark advance in the obligation of the federal government to mediate the negative

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[82] Kemmerer, *Postal Savings,* 38-39.
[83] Hu, "The Influence of the Postal Savings System on Bank Runs," 7-32.
[84] Louise Sissman, "Development of the Postal Savings System," *Journal of the American Statistical Association* 31, no. 196 (Dec. 1936): 708-18.

outcomes of capitalism and a two-tiered bank system that operated with both unregulated capital markets in the national bank system and minimal supervision in the state bank system. The federal guaranty of the USPSS was an acknowledgment that the confidence of the public was essential to the successful operation of the U.S. banking system. The U.S. Postal Savings System no longer exists, but in the history of federal bank deposit insurance, it represents the first compromise in banking by the financial interests in Congress to the financial welfare of the working poor. The Postal Savings System, with its guaranty of good "faith" from the federal government, would continue to hold the trust of the American people through two world wars and the Great Depression. In 1933, that faith was extended to federal deposit insurance after the Federal Reserve System failed to stem the banking crisis of 1933.

In sum, in the National Banking era from 1863 to 1913, during times of economic crisis, the federal government made a major commitment to guarantee the national currency—and, in two limited cases, savings deposits—in institutions the government considered charities. These precedents are important both because of the commitments made and because they were partial. Together, these decisions form a parallel narrative to the legislative history of deposit insurance, one that represents federal initiatives to stabilize the economy and offer economic security to American citizens that fell short of a federal guaranty of bank deposits. First, in the midst of the Civil War, the federal government created a national currency that was ultimately backed by the full faith and credit of the United States, but while this approach guaranteed the bank notes, it did not guaranty the majority of the circulating medium, bank deposits. Second, when the

Freedmen's Bank failed in 1873, the federal government guaranteed 62 percent of the savings deposits lost by managing the liquidation process, but it did not use taxpayer dollars to cover depositors' losses. And third, in 1910, the U.S. Postal Savings System created limited savings accounts through U.S. post offices that were guaranteed by the federal government. This guaranty did not extend to bank deposits, but it did offer the "faith" of the federal government to guaranty the savings deposits of its citizens throughout the continental United States for the first time.

The practical experience associated with setting up the first federal monetary system, liquidating the Freedmen's Bank, and creating the U.S. Postal Savings system informed the future development of federal deposit insurance. Through these experiences, the federal government gained institutional experience in currency management, bank regulation, liquidation, and, within a limited system, the guaranty of savings deposits. All three of these precedents represent experiments on the part of the federal government to execute national solutions for the security of currency and savings. The Banking Acts established a supervised system of national banks, the Freedmen's Bank established an interstate system of national savings bank branches, and the USPSS established a nationwide system of postal savings services. They represent the first efforts of the federal government to address its obligations to individual citizens in times of economic crisis. The government's handling of the liquidation of the Freedmen's Bank and the creation of the U.S. Postal Savings System represents a growing government obligation to protect citizens most vulnerable to bank panics: former slaves, immigrants, and the working poor. Common to all these federal guaranty initiatives is that they decidedly did not include the guaranty of commercial bank deposits. The federal government side-stepped deposit insurance during the National Banking era, but towards the end of this period, in the crucible of the next major panic, bank deposit insurance experienced a resurgence at the state level.

CHAPTER V

ROBERT L. OWEN, THE OKLAHOMA DEPOSIT INSURANCE LAW, AND THE SPREAD OF *STATE* DEPOSIT INSURANCE IN THE AMERICAN FRONTIER, 1907-1929

In 1909, Oklahoma's first U.S. Senator, Robert L. Owen, proposed an interstate highway that would run from Mexico to Canada, passing through the middle of Texas, Oklahoma, Kansas, Nebraska, South Dakota, and North Dakota. The bill never made it to the Senate floor. Seven years later, Owen proposed another bill; this one was a federal-state partnership to build roads from the rural corners of these six states to the biggest cities in those states. This bill passed and became an important piece of legislation for the economic development of the Middle West. It was Owen's 1909 bill, however, that offered the broader economic vision. Like the Erie Canal, his interstate proposal had the potential to commercially transform this corridor of inland agricultural states. Owen's larger idea to connect the region failed, but during the same time period, these six states followed each other to create similar bank regulatory systems that they hoped would protect their economies from exogenous economic shocks and local bank failures. The centerpiece of each of these state banking systems was government-managed deposit insurance. The chain reaction began in Oklahoma.[1]

In the fall of 1907, Oklahoma entered the Union in the middle of the worst bank panic in U.S. history. One of the first acts of the new state legislature was to set up a

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[1] Edward E. Keso, *The Senatorial Career of Robert Latham Owen* (Nashville, TN: George Peabody College for Teachers, 1937), 72.

banking system, which included the first state-managed bank insurance program since 1866. Whereas the pre-Civil War programs mostly insured bank notes, the second wave of bank insurance programs insured deposits. Over the next ten years, five other states on the Great Plains—Kansas, Nebraska, Texas, South Dakota, and North Dakota—all created state deposit insurance systems. Two more states, Mississippi in the South and Washington in the West, also enacted deposit insurance programs. In this second wave, state bank insurance programs were defined by the same criteria as the bank insurance programs before the Civil War: eligibility, liability, supervision, and the source of the guaranty.[2]

This chapter argues that the resurgence of state deposit insurance in the early twentieth century was a revival of a democratic impulse to use the power of the state to protect the state's economy, its banks, and its citizens against economic uncertainty. Once again, this impulse emerged from the periphery and represented a renegotiation of the balance of power between the state and its citizens, between the state and the private sector, and between state government and federal government. Where the Freedmen's Bank and the U.S. Postal Savings System (USPSS) were unique federal institutions that were conceived as charities for particular classes of disenfranchised people, the second wave of bank insurance programs in their broadest conception aimed to create a safety net to protect all depositors, across all commercial banks, in both the state banking system and the national banking system.

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[2] Arthur Alvin Smith, "The Guaranty of Bank Deposits," (PhD diss., Vanderbilt University, 1933); Clark Warburton, "Deposit Guaranty in Eight States, During the Period 1908-1930," (Washington, DC: Federal Deposit Insurance Corporation, 1959).

This chapter will examine 1) the resurgence of bank insurance through the career of Robert L. Owen, and 2) the creation and implementation of the Oklahoma system. It will then examine 3) the subsequent expansion of state-managed deposit insurance to seven other states and the key administrative, legal, and political issues that accompanied their implementation. The record of these eight programs is mixed. These programs all operated successfully up to the recession of 1920-1921, when one by one each state's insurance fund was overwhelmed by bank failures. All the programs closed by 1929. This chapter will conclude by evaluating how these programs succeeded and failed in the context of contemporary assessments that would come to frame the political debate leading to federal deposit insurance in 1933.

To fully understand the re-emergence of deposit insurance in the United States after a forty-year hiatus, it is necessary to place this argument in broader historical context. The states that adopted deposit insurance after 1907 were situated in the geographic, political, and economic peripheries of a rising national power. Geographically, all eight states lay west of the Appalachian Mountains. The seven states that lay west of the Mississippi River were all considered "Western" states or "Middle Western" states in the first decades of the twentieth century. Across this vast expanse, a total of eight deposit insurance programs were enacted in frontier states in three regions; six programs across the Great Plains, in a contiguous tract from Texas to Canada that was neither adjacent to the Mississippi River or the Rocky Mountains; one along the Gulf Coast in Mississippi; and one along the West Coast in Washington. Politically, these states were relative newcomers to the national project. All eight states were admitted to the Union after the Constitution was ratified. Most were admitted during and after the Civil War. The last state in this group to join the Union, Oklahoma, was the first to initiate deposit insurance. In economic terms, these states were primarily agricultural and prone to crop failure. The semi-arid region of the Middle West was subject to periodic drought, tornados, and blizzards, all of which amplified economic uncertainty.[3]

In his famous 1976 *New Yorker* cover, "View of the World From 9th Avenue," Saul Steinberg references this flat expanse with a brown-penciled rectangle. Looking west from 9th Avenue, from the Hudson River to the Pacific Ocean, Steinberg represents the entire continental United States as a near-empty lot. The land is barren; a couple of rocks stand in for the geographic contours of the entire country. No state boundaries are defined. The names of a few states and cities are coarsely plotted. Washington DC, Texas, and Los Angeles fall in a row along the border with Mexico. Chicago is the only city marked along the border with Canada. In the Midwest, the map is neither precise nor accurate; Las Vegas is east of Utah and Nebraska is west of Kansas City. Steinberg's mental map is poking fun at the provincialism of New Yorkers, but his drawing also suggests a geographic, political, and economic divide between the financial center of American capitalism and the rest of the country, two hundred years in the making.[4]

In the nineteenth century, the economic forces transforming the United States left many rural communities behind. Bands of transcontinental railroad tied the nation from

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[3] Thornton Cooke, "The Insurance of Bank Deposits in the West," *Quarterly Journal of Economics* 24, no. 1 (1909): 85-108; Thornton Cooke, "The Insurance of Bank Deposits in the West: II," *Quarterly Journal of Economics* 24, no. 2 (1910): 327-91; Thornton Cooke, "Four More Years of Deposit Guaranty," *Quarterly Journal of Economics*, 28, no. 1 (1913): 69-114; George H. Shibley, *Guaranty of Bank Deposits in the States of Oklahoma, Texas, Kansas, Nebraska, and South Dakota, 1908-1914* (Washington, DC: GPO, 1914), 1-62.

[4] Saul Steinberg, "View of the World From 9th Avenue," *New Yorker*, March 29, 1976, cover illustration.

east to west. North-south connectors were added piecemeal. The transportation revolution created a common market that galvanized the nation's economic expansion, but many independent farmers found it hard to compete; access to railroads was limited and railroad rates were prohibitive. The transcontinental railroads were built through a close partnership between the federal government, investment banks, and the railroad industry that directed national resources towards industrialization and not agriculture. In addition to generous land grants, the federal government pursued monetary policies after the Civil War to strengthen the dollar abroad. As the previous chapter discussed, these policies helped to facilitate the re-payment of Civil War debts and attracted foreign capital to the United States, but they also limited the supply of money and credit, particularly in the West. The transcontinental railroad was literally the engine that drove industrial development in the United States. In the nineteenth century, railroad stocks were the dominant American stocks that attracted capital from abroad, but as the previous chapter recounted, the Panic of 1873 demonstrated that American railroad stocks also faced financial risk in international markets. New York City became the epicenter of an economic transformation from industrial capitalism to finance capitalism. Many rural communities in the American West perceived that they were adversely impacted by a political and economic system that favored industrialization and the boom and bust cycles that attended the national economic expansion.[5]

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[5] George Rogers Taylor, *The Transportation Revolution, 1815-1860* (New York: Rinehart, 1951), 384-398; Robert H. Weibe, *The Search for Order, 1877-1920* (New York: Hill and Wang, 1967), 11-43, 94-96; Elmus R. Wicker, *Banking Panics of the Gilded Age* (Cambridge: Cambridge University Press, 2000), 16-33.

This economic uncertainty and political marginalization in the rural South and West led to political mobilization in the second half of the nineteenth century. Independent farmers in the Middle West, South, and West sought collective solutions to common problems. Farmers across the country founded organizations like the Farmer's Alliance, established in Texas in 1875. The Farmer's Alliance became a national organization that led an economic movement to change the economics of agriculture through a collective form of vertical integration and a public-private partnership. These farmers organized supplier co-ops, for example, and called for government-managed cooperative warehousing. Then farmers joined with labor organizations to organize politically. To improve their access to government and their representation, the People's Party was established in 1892. Populists, as they were known, advocated for expanded democratic processes such as the direct election of senators, referendums, and recalls to give every voter a more direct voice in government. Most radically, they called on government to nationalize the railroad, as well as telephone and telegraph companies, to ensure universal access to the national market by making railroads and communications government-managed non-profits.[6]

Many bankers who served these farmers also began to look to the state to implement collective solutions to their common problems. The political clout of the Populists was never sufficient to enact deposit insurance at the state or national level, but this chapter will show that the growing magnitude of bank panics in the United States led

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[6] Lawrence Goodwyn, *Democratic Promise: The Populist Moment in America* (New York: Oxford University Press, 1976), 270-72, 477-92; Robert C. McGrath, Jr., *American Populism: A Social History, 1877*-1898 (New York: Hill and Wang, 1993), 79, 83-207.

to a fusion of Populists and Democrats who supported deposit insurance at the national level, leading to a critical mass of bipartisan political and business leaders who enacted deposit insurance at the state level. The impact of the Panic of 1907 was so far-reaching that it crystalized political will at the national and state level to embrace the underlying principle of the Populist agenda that called for a renegotiation of power between the public sector, the private sector, and the American people.[7]

The fragile design of American banking was a significant factor in the cyclic impact of bank panic. In the second half of the nineteenth century, state banks became an important source of capital for the economic development of rural America. As previous chapters have discussed, before the Civil War, state banks built their business model around issuing currency. With the creation of the national banking system and the elimination of state bank notes, most state banks converted to national banks or went out of business. After the Civil War, the steady growth of bank deposits supported the revival of state banks. The accumulation of bank deposits gave state banks a source of capital that enabled them to operate as commercial banks, but their business model was not robust.[8]

The financial and regulatory structure of state banking, particularly in the Middle West, was precarious. The capital requirements for state banks were generally much smaller than for national banks, which made weathering loan defaults and bank panics

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[7] Elizabeth Sanders, *Roots of Reform: Farmers, Workers and the American State, 1877*-1917 (Chicago: The University of Chicago Press, 1999), 233, 240-41.

[8] Howard Bodenhorn, *A History of Banking in Antebellum America: Financial Markets and Economic Development in an Era of Nation Building* (Cambridge: Cambridge University Press, 2000); Howard Bodenhorn, *State Banking in Early America: A New Economic* History (New York: Oxford University Press, 2003); Charles W. Calomiris and Stephen H. Haber, *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit* (Princeton, NJ: Princeton University Press, 2014).

more challenging. The investment portfolios of rural state banks were more likely to be dominated by agricultural loans, which made these banks more prone to go under in times of crop failure. State regulations for state banks tended to be weak or non-existent. All banks were vulnerable to mismanagement and malfeasance, but corruption in state banks was more likely to go unnoticed.[9]

However, despite annual bank failures and cyclical bank panics, state banks and bank deposits continued to grow. By 1900, bank deposits were seven times larger than circulating notes. By 1913, there were about twice as many state banks as national banks, and bank deposits were evenly distributed across state banks and national banks. The federal government had secured U.S. bank notes since the National Banking Act of 1863, but commercial bank deposits, which now accounted for the vast majority of the money supply, were not secured. The cataclysmic impact of the bank panic of 1907 led governments of eight frontier states to create bank deposit insurance programs. [10]

The early twentieth century state programs were important antecedents to the creation of federal deposit insurance in 1933. These programs were imperfectly designed, but they were bold experiments that addressed administrative and legal challenges that would ultimately shape the federal legislation. They were also largely

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[9] Bodenhorn, *Banking in Antebellum America,* 2000; Bodenhorn, *State Banking in Early America*, 2003; Calomiris and Haber, *Fragile by Design,* 2014; Charles W. Calomiris and Stephen H. Haber, *Fragile by Design*, 2014.

[10] *Annual Report of the Federal Deposit Insurance Corporation for the Year Ended December 31, 1950* (Washington, DC, Federal Deposit Insurance Corporation, 1951), 63-101, hereafter *1950 FDIC Annual Report*; Federal Deposit Insurance Corporation, Federal Deposit Insurance Corporation, *Federal Deposit Insurance Corporation: The First Fifty Years : A History of the FDIC, 1933-1983* (Washington, DC, FDIC, 1984); *FDIC the First Fifty Years: A History of the FDIC 1933-1983* (Washington, DC, Federal Deposit Insurance Corporation, 1984); FDIC, *A Brief History of Deposit Insurance in the United States* (Washington, DC: Federal Deposit Insurance Corporation, 1998), 12, https://www.fdic.gov/bank/historical/brief/brhist.pdf.

successful until the early 1920s, when a sustained economic recession disproportionately impacted the agricultural sector. The large number of bank failures in these states during this time period led all the programs to be repealed or become insolvent by 1929. These state programs did not *lead to* the creation of federal deposit insurance in 1933 per se. Nevertheless, the history of these eight programs, their success and their failure, was an important part of the national debate leading up to the 1933 legislation. The individual depositors who participated in this state banking history were a critical part of the national groundswell that led to overwhelming public support for federal deposit insurance in 1933.

Robert L. Owen was a key leader in the creation and passage of deposit insurance in Oklahoma and a key leader in the elevation of deposit insurance at the federal level. In many respects, Robert Owen was the same kind of civic visionary as Joshua Forman of New York. Both men were well-educated lawyers, politicians, and businessmen, who dedicated their lives to the development of frontier territories. As Forman once worked to tie the eight million acres of western New York to the New York metropole, Owen worked to incorporate Indian Territory to the larger national project. Both men fervently believed in the principles of democracy as government by the people and for the people. Both men leaned into the democratic process for decades to leverage the power of the state to renegotiate the political and economic balance of power between the weak and the strong for the common good.

Robert L. Owen, Jr.

When deposit insurance was created in Oklahoma in 1907, state lawmakers were following a plan laid out by U.S. Senator-elect Robert L. Owen, Jr. His biography makes clear how his life led to this pivotal point in the history of deposit insurance. Robert L. Owen, Jr. was born in 1856. His father, Robert L. Owen, Sr. was of Scots-Irish descent from Lynchburg, Virginia. His mother, Narcissa Chisholm Owen, was Cherokee, raised in the Western Cherokee Nation in Indian Territory. Her father, Thomas Chisholm, was one of the last hereditary chiefs. Her family originally lived near what became Huntsville, Alabama, until her father was forced off his land by white settlers in 1819 when Alabama entered the Union. Although reduced homelands for the Cherokee, Creek, Choctaw, and Chickasaw continued to exist in the east in the early 1820s, Thomas Chisholm chose to move his family west, first to Arkansas Territory.[11] Later he led a group of Cherokee to land delineated by the federal government as Indian Territory west of Arkansas, sometime before the forced removal of the Cherokee in 1838, perhaps around the time Arkansas became a state in 1836.

The Chisholm family was prosperous; before the Civil War, they were slaveowners. Narcissa was a spirited musician, artist, and writer who became famous in her own right. According to her autobiography, she once rode a thousand miles on horseback to attend the College of Evansville in Indiana, where she majored in music. After graduation, she worked in East Tennessee as a teacher. There she met her future

[11] *Alabama Congressional and Legislative Representation, 1819-1960*, Historical and Patriotic Series, Alabama State Department of Archives and History, no. 17 (Montgomery, AL: Walker Printing Company, n.d.).

husband, Robert L. Owen, who was working there as an engineer and surveyor. For years, she followed her husband's fortunes surveying and supervising the construction of railroad routes. When Owen became president of the Virginia and Tennessee Railroad in 1860, the family moved back to Lynchburg to raise their two sons, William and Robert, Jr. The family lived in "Point of Honor," the most renowned estate in Lynchburg. Before the Civil War, Robert Owen, Sr. owned slaves.[12]

Robert Owen, Jr. attributed his interest in money and banking to his family's experience in the Panic of 1873.[13] This panic led to more than one hundred bank failures and, for the first time in the National Banking era, the suspension of payments by reserve banks. It hit railroads, which were heavily leveraged, particularly hard.[14] The same year as the panic, Owen's father died suddenly, a financially ruined man. The circumstances of his death were never publicly disclosed, but the ambiguity suggests he may have committed suicide. Robert, Jr. was sixteen. Years later, the younger Owen recalled, "The value of my father's property was completely destroyed, and my mother, from a life of abundance, was suddenly compelled to earn her living by teaching music." Understanding and addressing the causes and cures of bank panics would become the most important driver of his career.[15]

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[12] Narcissa Owen and Karen L. Kilcup, *A Cherokee Woman's America: Memoirs of Narcissa Owen, 1831-1907* (Gainesville: University Press of Florida, 2005), 43, 265; Kenny L. Brown, "Robert Latham Owen, Jr.: His Careers as Indian Attorney and Progressive Senator" (PhD diss., Oklahoma State University, 1985), 3-6.
[13] Brown, *Robert Latham Owen, Jr.*, 11; Kenny L. Brown, "A Progressive from Oklahoma: Senator Robert Latham Owen, Jr." *The Chronicles of Oklahoma*, 62, no. 3 (Fall 1984): 232-65.
[14] Wicker, *Banking Panics of the Gilded Age*, 143.
[15] Robert L. Owen, October 29, 1934, forward to *Money Creators* by Gertrude M. Coogan (Chicago: Sound Money Press, 1935), v-xii.

After the death of his father, Owen finished his secondary schooling and then attended Washington and Lee University where he earned the President's scholarship in 1876. His intellect was formidable. In 1877, he graduated in three years in with a Master of Arts, proficient in six languages. He was valedictorian, elected to Phi Beta Kappa, and received one of the school's highest honors, the debater's medal. In 1879, Owen made the momentous decision to move to Indian Territory, where he lived and worked until he was elected the first U.S. Senator of Oklahoma in 1907.[16]

Owen's decision to make his life in Indian Territory recalls Joshua Forman's decision to reject a potentially lucrative law practice in New York City to become a pioneer settler in western New York. Although born into privilege and educated among elites, Owen opted to follow his native heritage and actually left the United States to live in Indian Territory. His first year there, he worked as the principal teacher at the Cherokee Orphan Asylum and read the law. A year later, he was given Cherokee citizenship and admitted to the bar. Similar to Forman's involvement in every aspect of the founding of Syracuse, the sheer volume of Owen's public sector posts and private sector engagements over the next thirty years are the mark of an ambitious, entrepreneurial spirit moved to build a frontier region from the ground up, and then tie it to the larger national project.[17]

Owen held a series of successively more important posts that were crucial to the development of the Indian Territory. From 1881 to 1884, he served on the Cherokee

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[16] Robert L. Owen, October 29, 1934, forward to *Money Creators* by Gertrude M. Coogan (Chicago: Sound Money Press, 1935), v-xii; Keso, *Robert Latham Owen,* 13.
[17] Keso, *Robert Latham Owen*, 13; Brown, *Robert Latham Owen, Jr.*, 23.

Nation Board of Education and contributed to developing the Cherokee school system. At the same time, he served as president of the International Fair in Muskogee, the only fair held in Indian Territory at the time. In 1883, he was owner and editor of the *Indian Chieftain*, a newspaper based in Vinita, Indian Territory, an eight-column broadsheet "Devoted to the Interests of the Cherokees, Choctaws, Chickasaws, Seminoles, Creeks and all other Indians of the Indian Territory," which covered local, national, and international news and made him better known in the territory.[18] In 1885, with a Democrat in the White House, Owen successfully petitioned to become the federal Indian Agent for the Five Civilized Tribes. The Cherokee, Chickasaw, Choctaw, Creek (Muskogee), and Seminole were considered "civilized" because they had adopted aspects of the dominant white culture. He held that post for four years. When he resigned that position with the change in administration, he became a successful entrepreneur and lawyer-lobbyist for Indian affairs. In 1889, he helped organize the first Bar Association of Indian Territory and became its first secretary. In 1890, he drafted the Indian Territory Naturalization Act, which offered Indians living in Indian Territory the right to apply for American citizenship. As an attorney for the Five Civilized Tribes, Owen won a series of landmark cases that recovered millions of dollars for the tribes from the federal government, $2,991,440 for the Choctaw and Chickasaw in 1891, $824,000 for the Western Cherokee in 1894, and $5,000,000 for the Eastern Cherokee in 1906. Owen gained important political experience and connections through these positions and cases. He consistently upheld the rights and sovereignty of Indians as he tried to facilitate the

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[18] *Indian Chieftain* (Vinta, Indian Territory) Vol. 1, No. 44, Ed. 1, July 20, 1883, http://gateway.okhistory.org/ark:/67531/metadc775040/m1/1/zoom/?q=%22Robert%20L.%20Owen%22.

most favorable outcomes for them in the process of bringing Indian Territory as a body politic and expanse of land into the nation. When Indian Territory began to petition for statehood, Owen was an important leader in the process. Although he lobbied to admit Indian Territory as a separate state, he was a key leader in the inexorable political process that melded Indian Territory and Oklahoma Territory into the state of Oklahoma, which resulted in the dissolution of the Cherokee (and other Indian) nation(s).[19]

One area in which Robert Owen and Joshua Forman diverged was their personal financial success. Both men were big thinkers, risk-takers, and entrepreneurs, but it was Owen who became a wealthy man. Where Forman was often overextended by his real estate deals and his failed financial investments ultimately forced him to leave Syracuse and start over, Owen was a highly successful lawyer, landowner, businessman, and politician. Owen directed large-scale agricultural operations and owned thousands of cattle on his ranch north of Bartlesville near the Oklahoma-Kansas border in Cherokee Territory. In 1899, Owen established a successful general store, the Indian Trading Company in McAlester in the Creek Nation Territory, and sold it a year later. Also in contrast to Forman, who drafted bank legislation but had no experience in banking, Owen became a very successful banker. After petitioning Congress for more than a year to extend the National Banking Act to Indian Territory, in August 1890, Owen received the first federal charter to establish a national bank in Indian Territory, the First National Bank of Muskcogee, and was its president for the next ten years. Significantly, his bank survived the Panic of 1893 and the years of economic depression that followed. Owen

[19] Keso, *Robert Latham Owen*, 14-16; Brown, *Robert Latham Owen, Jr.*, 31, 125.

also worked in the capacity of a venture capitalist, developing and promoting joint ventures. He speculated on oil, gas, and mining throughout the region. At the end of 1899, Owen was financially established and married. His wife, Daisy Hester, was well-educated and the daughter of a prominent family, who came to Indian Territory from Georgia as pioneers and missionaries. By the time Owen ran for the U.S. Senate in 1907, he was purported to be a millionaire.[20]

Owen began to build his national credentials in 1892, when Democrats and Republicans held their first conventions in Oklahoma and Indian Territory. From 1892 to 1896, he was a member of the Democratic National Committee. In 1892, he was national committee chairman of the delegation from Indian Territory to the Democratic convention in Chicago. In 1893, he attended the inaugural ball in Washington, DC and met with President Cleveland to discuss government policy in Indian Territory.[21] In 1896, Owen was again a delegate to the Democratic National Convention that nominated William Jennings Bryan.

Owen's ideas on banking and monetary policy began to take shape in 1896, but they were somewhat sidelined when the Populist Party joined forces with the Democratic Party. Bryan, a former Populist, brought the spirit of the Populist movement and many of its party planks to the mainstream of the Democratic Party. Populists wanted to alter the power structure of the country to improve their economic position. Challenged by low

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[20] Chad R. Wilkerson, "Senator Robert Owen of Oklahoma and the Federal Reserve's Formative Years," *Economic Review* 6 (Third Quarter, 2013): 95-117; Keso, *Robert Latham Owen*, 69; Brown, *Robert Latham Owen, Jr.*, iii, 88-90; "Robert L. Owen is the man to remove the restrictions," *Watonga Herald* (Watonga, Oklahoma Territory), Vol. 6, No. 1, Ed. 1, Thursday, May 30, 1907, http://gateway.okhistory.org/ark:/67531/metadc497087/m1/1/zoom/?q=%22Robert%20L.%20Owen%22.

[21] Brown, *Robert Latham Owen, Jr.*, 95-96.

commodity prices, high transportation costs, and the deflationary effects of a currency tied to the gold standard, Populists wanted limits on the power of industrialists and railroads. They called for a graduated national income tax, the nationalization of railroads, and a variety of electoral reforms to increase their access and influence in government.[22]

Populist legislators had proposed deposit insurance legislation at the state and federal level since the 1890s, but the monetary policy Populists were most concerned with was a return to bimetallism. Since 1792, gold and silver bullion could be sold to the U.S. Mint in exchange for gold and silver coins that were legal tender. After the Civil War, as Congress worked to stabilize U.S. currency, some worried that the substantial silver deposits being mined in the West would dilute the value of the dollar. In 1873, the Coinage Act ended bimetallism and pegged the value of the dollar to gold alone. In addition, Congress eliminated some issues of greenbacks, the fiat money printed at the beginning of the Civil War. These changes in monetary policy had a disproportionately negative impact in rural areas. These new policies decreased the money supply and lowered prices, hurting rural areas where the money supply was already the lowest, credit was least available, and deflation made the repayment of loans more expensive.[23]

Populists wanted to return to bimetallism, the unlimited coinage of silver, and to set the value of silver to gold at a ratio of 16:1. Populists hoped this expansion of the money supply would be inflationary and raise commodity prices to relieve indebted

[22] Lawrence Goodwyn, *Democratic Promise,* 270-72, 477-92; Weibe, *Search for Order*, 84-90, 98; McGrath, *American Populism*, 108-42.
[23] Gretchen Ritter, "The Money Debate and American Political Development," in *Goldbugs and Greenbacks: The Antimonopoly Tradition and the Politics of Finance in America* (Cambridge: Cambridge University Press, 1997), 1-27.

farmers, who would thereby earn more cash from their crops to pay off their loans. Populists at the state and federal level had supported bank deposit insurance, but they put bimetallism at the top of their policy agenda. In 1896, the Populists and Democrats merged. Democrats, led by former Populist leader William Jennings Bryan, invested all their political capital in bimetallism. Bryan accepted the Democratic nomination with his famous "Cross of Gold" speech, which used the image of Christ carrying the cross as a metaphor for the burden farmers bore under the gold standard. But in the general election, Bryan lost badly to Republican William McKinley, who represented business interests and supported the gold standard.[24]

Owen had opposed the ending of bimetallism and what became known as "The Crime of 1873." In 1892, he cautiously supported "free silver," but he also was developing his own ideas. During the bank panic of 1893, Owen was president of The First National Bank of Muskcogee. More than five hundred banks failed during that panic. For the second time in the National Banking era, a panic led to a suspension of payments by reserve banks. Owen successfully steered his bank through that crisis, but his urgency to reform monetary policy accelerated.[25]

In 1896, he was a member of the subcommittee that wrote the Democratic Party platform. In the Committee on Resolutions, Owen presented a plan that, in his words, "made a resolute fight to commit the Democratic Party in its platform to a pledge to protect the people of the United States against panics and depressions." Owen proposed

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[24] Keso, *Robert Latham Owen*, 116; Brown, *Robert Latham Owen, Jr.*, 106-7; Goodwyn, *Democratic Promise*, 270-72, 477-92.
[25] Wicker, *Panics of the Gilded Age*, 143.

that in times of crisis, the treasury could issue treasury notes backed by bonds like national bank notes. Owen received Bryan's support for the idea, but the plank was rejected on the grounds that it was too novel. Owen had his doubts about bimetallism and tried to introduce a proposal that would limit the circulation of silver. He was also beginning to have doubts about a currency pegged to the value of any metal, but that idea was ahead of its time. He supported Bryan and worked hard for his election.[26]

When the Democrats lost in 1896, Owen retreated from national politics, but he continued to think seriously about monetary policy. In 1899, he took his family on a four-month tour of Europe and used the trip as an opportunity to meet with central bankers in England, France, and Germany. The question he investigated was how their banking systems provided for elastic currency during a liquidity shortage.[27] Using this information, he drew up a more sophisticated proposal than the one he made at the 1896 convention. Owen continued to advocate for a mechanism through which government could lend banks money during a bank panic, an idea that would eventually be embodied in the Federal Reserve's Discount Window. Over the next several years he promoted these ideas in speeches, articles, and by lobbying members of Congress. Owen was not alone; the demand for monetary reform was gaining national traction.

The Oklahoma Program

Achieving statehood in the midst of the largest bank panic in U.S. history was a kind of baptism by fire for Oklahoma that led to the resurgence of state-managed bank insurance. The political momentum of statehood and the national crisis triggered by the

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[26] Robert L. Owen, forward to *Money Creators*, v-xii; Brown, *Robert Latham Owen, Jr.*, 110.
[27] Brown, *Robert Latham Owen, Jr.*, 116.

bank panic created a political opening in which progressives joined forces with conservatives to create the first state bank insurance program in forty years.

The resurgence of state deposit insurance began with the political process of Oklahoma's statehood. When Oklahoma began its application for statehood, the process was used by its leaders to advance popular democracy. Deposit insurance was viewed as a means to increase the power of the populace by using government to protect the interests of individual depositors across all banks from powerful political and economic forces beyond their control. When the state constitutional convention first convened in November 1906, Republican J. T. Dickerson and Democrat Charles Haskell, who was elected governor a year later, strongly advocated for the inclusion of bank deposit insurance into the state constitution. The measure failed in committee by one vote.[28] Although deposit insurance was not incorporated in the state constitution, many progressive political reforms were adopted, including the initiative, the referendum, and mandatory primaries.

The emergence of deposit insurance was also intertwined with Robert L. Owen's career trajectory from Indian Territory banker to Oklahoma's first U.S. Senator. In February 1907, Robert L. Owen announced his candidacy for the senate.[29] He was officially nominated through a primary in June. Those nominations were then ratified by the state constitutional convention in July. Newspapers in both Oklahoma Territory and Indian Territory supported him. Although apparently quiet on the issue of deposit

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[28] Thomas Bruce Robb, *The Guaranty of Bank Deposits* (New York: Houghton Mifflin Company, 1921), 21.

[29] Brown, *Robert Latham Owen, Jr.*, 158-62.

insurance during the campaign, Owen ran on a platform of mostly progressive positions. Broadly speaking, he ran on the democratic principle of "equal rights for all, special privileges for none." In keeping with that idea, he supported the expansion of democratic processes, including the initiative, referendum, recall, and mandatory primaries.[30] In contrast to some progressives who favored protectionism, Owen opposed high tariffs for cotton because, in his view, tariffs reduced competition from Europe and created monopolies in the United States. In line with most progressives, he opposed monopolies, like railroads, that fixed prices and he advocated for uniform freight rates. He also continued to advocate for the rights and interests of Indians and supported women's suffrage and prohibition.[31]

The process of statehood was irrevocably marked in mid-October by the largest bank panic in U.S. history. The people of Oklahoma voted for statehood on September 17, 1907; the Oklahoma constitution was adopted, the state legislature was elected, and prohibition became law. As the final paperwork for statehood was being filed in Washington a bank panic originated in New York. For the third time since the Civil War, a bank panic resulted in the suspension of payments at reserve banks. Seventy-three banks failed. The number of bank failures, however, was not indicative of the total impact of the crisis. In 1893, there had been more than five times as many bank failures. The difference in 1907 was the size of the banks that experienced bank runs and the

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[30] An initiative, or citizen's initiative, was a process for registered voters to petition the government to force a public vote. A referendum was a process for citizen to approve or reject a law passed by the legislature.
[31] Keso, *Robert Latham Owen*, 19; Brown, *Robert Latham Owen, Jr.*, 94-95.

magnitude of emergency measures that were undertaken to forestall the panic. The New York Stock Exchange plummeted 44 percent from its previous year high.[32]

Many observers viewed the impact of the panic as primarily "confined" to Wall Street. West of the Hudson, many perceived that the Middle West had been impacted the hardest.[33] Midwest observers felt that too high a portion of their bank reserves had been held in eastern banks where they could not be recalled when the panic hit. Smaller banks found their usual reserves only partially available or cut off entirely. Although banks collected payment in specie from every possible source, many individual depositors were unable to access their accounts. Furthermore, the evaporation of liquidity stalled business operations around the country. A U.S. Senate hearing on the panic conducted two years later reported,

> Farmers would not sell hogs and grain and cotton because the buyers could not pay in actual money. The movement of commodities stopped; long trains of idle freight cars filled the city yards and cumbered the country sidings. The railroads brought little coal and the output of the mines fell off. Many railroad men, miners, mechanics, and laborers were idle and money to pay others could be scraped together only by the severest expedients and at great expense. Value melted away and business was dead.[34]

An article by W. F. McCabe published in *Forum* in 1912 concluded that

> people suffered most of all; not only were their collaterals and securities discredited and their funds tied up, but they were positively refused assistance by

[32] Smith, "Guaranty of Bank Deposits," 54-120.
[33] A. D. Noyes, "The Panic at New York," *The North American Review* 186, no. 625 (Dec. 1907): 546-553; A. Piatt Andrews, "Substitute for Cash in the Panic of 1907," Senate Document No. 538, 61st Congress 2nd Session (1910), 435, 448-55; A. Piatt Andrew, "Crux of the Currency Question," *Yale Review* 2, no. 4 (July 1913): 599-600; Wicker, *Panics of the Gilded Age*, 143; Smith, "Guaranty of Bank Deposits," 17.
[34] Senate Document No. 659, 61st Congress, 3rd Session (1911), 263, appendix in Smith, "Guaranty of Bank Deposits," 22.

> the banks at a time when help was most needed; and further, some of them were subject to the torment of witnessing the failure of institutions which carried the earnings of a lifetime. And the people were not much to blame for the scrambling to withdraw their deposits, when around them houses of international repute were crashing; safety was nowhere.[35]

Part of Oklahoma's vulnerability to the panic was related to the process of statehood. Oklahoma and Indian Territory had grown exponentially in recent years. As territory previously held in common by the tribes was opened for sale between 1900 and 1910, the population of the state more than doubled. The territories' banks, particularly the banks in Indian Territory, had a history of instability and corruption.[36] The 1907 panic wreaked havoc on the new state's economy. The reverberations of the panic were still being felt in Oklahoma when President Roosevelt declared Oklahoma to be a state on November 16, 1907. Ten days later, on November 26, *The Guthrie Daily Leader* reported that "currency was still at a premium and clearinghouse certificates were still outstanding throughout the country."[37]

Like Martin Van Buren, Robert L. Owen laid a legislative path for deposit insurance at both the state and federal level, working as he anticipated leaving Oklahoma to take a position in Washington. Like Martin Van Buren, Owen moved to protect the state no matter what the federal response to the panic would be. Like Joshua Forman, Owen directly lobbied influential local bankers with his plan. In late November, Owen presented his plan for deposit insurance to the executive committee of the Oklahoma and

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[35] W. F. McCabe, "Guaranty of Insurance of Bank Deposits," *Forum* 47 (June 1912): 654 in Smith, "Guaranty of Bank Deposits," 16-17.
[36] A. Piatt Andrew. "Crux of the Currency Question," *Yale Review* 2, no. 4 (July 1913): 599-600.
[37] "Bankers Favor Owen's Plan," *Guthrie Daily Leader* (Guthrie, Oklahoma), November 26, 1907, Vol. 30, no. XIX, 1, http://gateway.okhistory.org/ark:/67531/metadc76910/m1/1/?q=The%20Guthrie%20Daily%20Leader,%20November%2026,%201907.

Indian Territory Banker's Association. The executive committee voted to recommend the plan to the soon-to-be-seated state legislature and to the U.S. Congress. Like Van Buren before him, Owen was interested in passing deposit insurance legislation to protect his state's financial interests and his own before taking a federal position. Unlike Van Buren, Owen would take the idea of deposit insurance with him to Washington.[38]

In another parallel to Martin Van Buren's role in the New York Safety Fund, when Governor Charles Haskell gave his inaugural address on December 2, he strongly endorsed deposit insurance and outlined the plan he intended the legislature to pass. When the state legislature convened for the first time days later, deposit insurance was the second order of business after the passing of Jim Crow laws. The Williams-Roddie Bill provided for the creation of a state banking department in the new state of Oklahoma and a Depositor's Guaranty Fund. The bill passed quickly with minimal debate. It was introduced into the Oklahoma House on December 5, 1907, and passed December 13. Four days later, on December 17, it passed in the Senate. The only record of any debate was disagreement between the House and Senate about the wording of one clause. Haskell signed the bill into law the same day, creating the first state deposit insurance program since 1866.[39] In the midst of enacting this historic legislation, the legislature voted to elect Robert L. Owen as one of Oklahoma's first two U.S. Senators in December 11, 1907.

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[38] "Bankers Favor Owen's Plan," *Guthrie Daily Leader*.

[39] *The Daily Oklahoman*, December 17, 1907, 1 in Thomas Bruce Robb, *The Guaranty of Bank Deposits* (New York: Houghton Mifflin Company, 1921), 23.

In 1907, the resurgence of state bank insurance was forged from historical circumstances particular to the United States and to Oklahoma. Oklahoma became a state in a time of extreme economic uncertainty. The momentum of seeking statehood strengthened the position of progressives. It is also important to understand that the creation of bank deposit insurance in Oklahoma was bipartisan. The Democratic Party happened to be in control as the state was admitted to the union and elected its first legislature. The Democratic Party assumed leadership and responsibility for the new law, but the measure was supported by conservatives as well.[40] On December 18, 1907, *The Oklahoma State Capital*, a staunch Republican paper, reported that a depositors' guaranty fund was "taken up as an emergency bill" that "will doubtless do much to allay the financial embarrassment in Oklahoma."[41] Three days later the same paper reported, "The law throughout is a very satisfactory one to both depositors and bankers and will help very materially in bringing about perfect confidence."[42] Bankers from both ends of the political spectrum recognized that public confidence was the key to the ongoing stability of American banking and the American economy.

The next three sections examine the expansion of state deposit insurance programs to seven other states and the implementation of those programs.

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[40] *The Daily Oklahoman*, December 17, 1907, 1 in Thomas Bruce Robb, *The Guaranty of Bank Deposits* (New York: Houghton Mifflin Company, 1921), 23.
[41] *The Oklahoma State Capital*, December 18, 1907, 1 in Thomas Bruce Robb, *The Guaranty of Bank Deposits* (New York: Houghton Mifflin Company, 1921), 23.
[42] *The Oklahoma State Capital*, December 21, 1907, 1 in Thomas Bruce Robb, *The Guaranty of Bank Deposits* (New York: Houghton Mifflin Company, 1921), 23.

The Spread of State Deposit Insurance Programs

The bank panic of 1907 and the creation of the Oklahoma system were major catalysts that influenced the spread of deposit insurance programs to seven other states, but in a complex political process that took place in several stages. This process was supported at the national level, because the Panic of 1907 lifted the policy idea of a state-managed deposit guaranty to national prominence. At the state level, the panic and the Oklahoma program crystalized the political will to pass legislation; progressive leaders joined with conservative leaders to create deposit insurance programs in Kansas, Nebraska, South Dakota, and Texas in 1909, and then in North Dakota in 1917. The eventual spread of deposit insurance among eight states was vitally important to the rise of deposit insurance at the federal level, but the failure of deposit insurance to spread to more than eight states also demonstrated the political limits of this legislation at the state level.

In the midst of economic crisis, the newly-admitted state of Oklahoma enacted deposit insurance essentially without debate, but many state legislatures had a long history with deposit insurance proposals. In recent decades, there had been strong interest in deposit insurance, particularly in the Middle West, but not the political will to pass this highly controversial legislation. The fundamental issue came down to a policy debate and ultimately a constitutional question about what was “fair” and what was “free.” Did the state have the right to mandate a mutual insurance program to share the risk of bank default fairly in a free banking system? Many bankers in larger banks believed that deposit insurance would unfairly obligate them to make the largest contributions to a fund that would ultimately bail out smaller, poorly managed, and corrupt banks.[43] Bankers in smaller banks that served rural communities viewed deposit insurance as a fair measure that would protect all banks in a liquidity crisis, especially one triggered by speculation and corruption in the financial markets in New York. The appeal of deposit insurance was strongest in western, rural states on the political and economic periphery of a rapidly industrializing nation.[44]

Another obstacle to enacting state deposit insurance was the two-tiered banking system in the United States, in which national banks were subject to the authority of the federal government and state banks were subject to the authority of state governments. At the federal level, deposit insurance proposals that were submitted to Congress after 1886 generally specified programs that would only cover national banks. At the state level, deposit insurance proposals generally advocated for the protection of state banks. For the insurance principle to have the best chance of success, all banks, national and state alike, would need to participate to spread the risk of failure most broadly. There were significant political and legal hurdles around any proposal that tried to have one level of political authority exert control over another.[45]

Deposit insurance was also difficult to enact because, after a crisis, the political will to create it soon dissipated. In Kansas, for example, politicians associated with the Farmers Alliance and the Populists had been promoting the idea of bank deposit

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[43] Cooke, "Four More Years," 103.
[44] George H. Shibley, *History of the Guaranty of Bank Deposits in the State of Oklahoma, Texas, Kansas, Nebraska, and South Dakota, 1908-1914* (Washington, DC, GPO, 1914): 1-62; Thornton Cooke, "The Insurance of Bank Deposits in the West: II," *Quarterly Journal of Economics* Vol. 24. No. 2 (1910): 327-91.
[45] *FDIC 1950 Annual Report*, 80.

insurance at the state and federal level since the 1890s, but because there had only been six minor bank failures in Kansas between 1900 and 1906, the political will was insufficient to pass the legislation prior to 1907.[46] The Nebraska legislature had also introduced deposit insurance bills multiple times in the 1890s, and then again in 1905 and early 1907, without success.[47] Before 1907, periodic bank panics and the support from organizations like the Farmers Alliance and the People's Party were important, but not sufficient to pass deposit insurance legislation.

Before the Panic of 1907, bankers also expressed legitimate concern about implementing deposit insurance in the relatively undeveloped economies in the Middle West. While some bankers advocated for deposit insurance because state bank systems were vulnerable, many bankers opposed the legislation for the same reason. In August 1906, at a meeting of the Nebraska Bankers Association, the president of the Nebraska National Bank of Omaha asserted,

> The difficulty of providing or enforcing any system which will prevent bank failures has led to the advancement of schemes for guaranteeing bank deposits . . . In the banking of the future, when our widely extended system of independent banks shall assume greater coherency and stability, something of this nature may be welcomed and adopted, but we are far from that suitable condition at present, and to my mind the objections to the scheme are now insurmountable.[48]

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[46] *FDIC 1950 Annual Report*, 80; John Blocker, "The Guaranty of Bank Deposits," *Kansas Studies in Business* (University of Kansas) No. 11 (July 1929), 1-57.
[47] Smith, "Guaranty of Bank Deposits," 28.
[48] *Nebraska Banker's Association, Proceedings*, Nov. 22, 1906, 101 in Smith, "Guaranty of Bank Deposits," 28-29.

This argument may have been used as a softer counter against deposit insurance rather than the flat rejection of the free-market argument against a state-managed mutual fund, but the critique was also a fair one in the relatively less developed Middle West.

The following year the scales began to tip even before the panic hit. An alternative deposit guaranty proposal was gaining political support. Calls for a national, federally-guaranteed postal savings system were increasing at the national level. This proposal concerned bankers in rural areas who feared that this federal system would draw deposits away from their banks and their communities. In June 1907, a subcommittee of the Nebraska Bankers Association introduced a resolution endorsing deposit insurance:

> Whereas, A general movement is being made to secure the passage of a law establishing a system of postal savings banks, be it Resolved, that it would be better for the banks of Nebraska to provide a guaranty fund to protect depositors than to concede the establishment of government postal banks.[49]

But the political will to pass a deposit insurance bill through the Nebraska legislature was still not sufficient.

The Panic of 1907 and Oklahoma's program changed the political landscape for deposit insurance, beginning in the Middle West. While partisan politics around deposit insurance began to harden at the national level, candidates in local elections in the Middle West from both parties pledged themselves to deposit insurance. As one candidate observed in 1908, "You can go on the stump and talk tariff, currency or railroads and the

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[49] *Nebraska State Journal* (Lincoln, NE), June 21, 1907, 6.

audience goes to sleep, but you begin on bank guaranty and the people come to you like flies."[50]

The Oklahoma system generated both hope and fear among political and business leaders in the region. The enactment of the Oklahoma program broke a political vacuum of nearly forty years in which no state had a deposit insurance system. Created in the chaos of the panic, the law mandated the program be implemented in sixty days. This dramatic resurgence created a political opening for long-time proponents of the idea. It also generated fear among bankers in neighboring states, who worried that the guaranty of deposits in Oklahoma would siphon deposits from their states. Oklahoma's northern neighbor acted first.

In January 1908, a month after the Oklahoma legislation passed, Republican Kansas Governor Edward Hoch called a special session of the legislature for the express purpose of enacting a deposit insurance law. In his call to action, he referenced the source of the panic in New York and emphasized both the need for the legislation to protect depositors from bank panics and to protect Kansas deposits from insured Oklahoma banks.

> The events of the last few months throughout the entire country have emphasized the need of some banking legislation that in times like these shall inspire increased confidence in depositors and prevent the unnecessary hoarding of money by bankers and people alike. A so-called panic, which has disturbed business conditions in every State in the Union has been a banker's panic more than a people's panic.
>
> A depositors' guaranty law, it is believed by many of the ablest financiers, will give depositors perfect confidence in banks and permit the bankers to liberate

[50] *Independent*, LXVI, June 10, 1908, 1268 in Smith, "Guaranty of Bank Deposits," 24.

> these hoarded millions into the channels of commerce, where they are greatly needed.
>
> The necessity for immediate action in this matter, creating an emergency alone justifying this extra session, is found in the fact that our sister state of Oklahoma has enacted a depositors' guaranty law, to take effect in a few weeks jeopardizing the deposits of many of our border banks and indeed many of our interior banks, as these bankers themselves write me. Prompt action on your part for their sakes seems imperative.[51]

In spite of the emergency session, deposit insurance failed to pass in Kansas that year. A key reason was that state and national bankers were sharply divided over how the program would be set up. Governor Hoch addressed the issue in his speech,

> The chief opposition among the bankers of this State, as the correspondence of this office will show, has come from national bankers, largely growing out the impression that the Comptroller of the Currency would not permit them to participate in the benefits of a state depositors' guaranty law, thus giving the state banks, as they are frank to say, an advantage over them.[52]

The issue of jurisdiction would continue to persist.

The final push that broke the deadlock came from the shift in politics at the national level. The political reverberations of the Panic of 1907 directly played out in the presidential election of 1908. The Democrats nominated William Jennings Bryan for the third time. For the first time, federal deposit insurance that would cover national banks and state banks appeared in the party platform. The Republicans, who nominated William Howard Taft, proposed an alternative plan to deposit insurance in its party platform, a federally-managed and federally-guaranteed postal savings system. Both

[51] Message of Governor E. W. Hoch to the Kansas Legislature, January 16, 1908 (Topeka, KS: State Print Office, 1908).
[52] Message of Governor E. W. Hoch to the Kansas Legislature, January 16, 1908 (Topeka, KS: State Print Office, 1908).

proposals impacted state-level discussions. The endorsement of deposit insurance by the national Democratic Party helped those at the state level who supported deposit insurance. For Democrats who opposed deposit insurance at the state level, the party platform set a national mandate. At the same time, the proposed Republican postal savings system motivated bankers who worried a postal savings system would draw away their deposits to support deposit insurance.

These cumulative economic and political pressures ultimately led Kansas, Nebraska, Texas, and South Dakota to pass deposit insurance legislation in 1909. The effort was bipartisan. In Kansas and South Dakota, Republicans were in power. In Nebraska and Texas, Democrats were in power. Kansas, which was the first state to press for deposit insurance after Oklahoma in January, passed its deposit insurance law in March 1909. The Kansas program changed the politics of this legislation from a novel program in a newly admitted state to two programs in neighboring states. In April, Nebraska Democrats followed their state's native son, William Jennings Bryan, along with the national Democratic Party platform and adopted deposit insurance as part of its state convention platform in the fall of 1908. Ashton C. Shallenberger, a Bryan-supporter, cattle rancher, and founder of the Bank of Alma, who ran for governor under a Fusion label of the state Democratic and Populist parties and won, viewed deposit insurance as a "fair and equitable system. Then, with the strong support of its newly elected governor," the Nebraska legislature passed deposit insurance legislation in April

1909.[53] In Texas, the legislature wrangled with deposit insurance legislation in its first legislative session in 1909. Even after the introduction of four deposit insurance bills and a speech to the legislature by William Jennings Bryan, a bill was not passed. In the second session, newly elected governor, T. C. Campbell, a Democrat, continued to press for the bill to fulfill a campaign pledge that was adopted from the national platform. In April 1909, the legislation was passed. South Dakota also passed deposit insurance legislation the same year. In South Dakota, there had been only a handful of state bank failures since 1900, so deposit insurance was not a pressing political issue. However, in 1908, the state Democratic Party endorsed deposit insurance following the national party platform, and the state Republicans opted to follow suit. The exiting governor, Coe I. Crawford, favored deposit insurance, citing concern over a postal savings system that might draw deposits out of state reserve banks. The incoming governor, R. S. Vessey, was interested in the measure only insofar as he needed to fulfill the political obligations of the national and state party platforms. All the states that passed deposit insurance in 1909 were contiguous with Oklahoma.[54]

In the next few years, after a significant period of trial and error among the first five programs, two more deposit insurance laws were passed by legislatures in the Great Plains. South Dakota repealed and replaced its law in 1915. The legislature passed a deposit insurance law in 1909, but the conditions for implementation were onerous. For

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[53] Smith, "Guaranty of Bank Deposits," 30; "New Officials In," *Omaha Daily Bee* (Omaha, NE), January 8, 1909, 1, https://www.newspapers.com/image/146566522/;Biographical Note on Nebraska Governor Ashton Shallenberger, Nebraska State Historical Society, RG 1, SG 23. http://nebraskahistory.org/lib-arch/research/public/state_governors/shallenberger.pdf.

[54] Biographical Note on Nebraska Governor Ashton Shallenberger, Nebraska State Historical Society, RG 1, SG 23. http://nebraskahistory.org/lib-arch/research/public/state_governors/shallenberger.pdf.

example, a hundred or more banks with capital of more than a million dollars had to voluntarily enter the system before it could be implemented. This condition may have been fiscally conservative, but it was not politically feasible. The 1909 legislation was never implemented. Five years and seventeen bank failures later, South Dakota passed effective deposit insurance legislation in 1915.[55]

North Dakota followed suit two years later. Deposit insurance legislation passed in North Dakota in conjunction with the rise to power of the Farmer's Non-Partisan League. Second only to Kansas in wheat production, the league was formed in 1915 because North Dakota did not have the capacity to mill its own wheat. To North Dakota farmers, the prices set by mills in Minnesota appeared to be both arbitrary and fixed. The League advocated for state-owned grain elevators, flour mills, packing houses, and cold storage plants. After this political movement successfully gained seats in the state legislature, it passed deposit insurance in 1917. The measure was broadly supported by bankers across the state who feared the exit of bank deposits to insured banks in South Dakota.[56]

State deposit insurance bills were also passed in two other regions of the country during this period, in Mississippi and Washington. The combination of factors that drew deposit insurance programs across the Great Plains did not operate in the South and the West. The political process in these regions was less affected by the politics of the Middle West. Economic pressures drove the political process to pass isolated deposit

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[55] Address of Governor Shallenberger to Nebraska Legislature, Senate Journal (1909) in Smith, "Guaranty of Bank Deposits," 36-41.
[56] Smith, "Guaranty of Bank Deposits," 45-48.

insurance programs in Mississippi and Washington. Mississippi had joined the union in 1817, but there was no state regulation of banks prior to 1914. Banking interests in Mississippi had blocked the passage of any state regulations, such as bank examinations. Similar to the Great Plains states, there had been deposit insurance agitation in 1909, but powerful opponents blocked its passage. Then, in 1912-1913, a boll-weevil epidemic decimated cotton crops in Mississippi. Twenty-seven banks failed between 1912 and 1914, exacting heavy losses from depositors. Although Mississippi had been a state for nearly one hundred years, the state legislature authorized bank regulation for the first time in 1914. The legislation created a panel of bank commissioners, a board of examiners, and a deposit guaranty system.[57]

In the state of Washington, the Panic of 1907 elicited calls for deposit insurance, but initially, insufficient political will existed to pass a bill. Admitted to the Union in 1889, Washington was the last state on the West Coast to gain statehood and was slow to enact bank regulation. Deposit insurance bills were proposed and rejected in 1909, 1911, and 1915. However, in 1917, four banks failed in Seattle, creating sufficient political will to pass the measure. The Mississippi and Washington programs are important in that they show that deposit insurance was more than a regional phenomenon. [58]

State-managed deposit insurance was proposed in many more states than passed legislation. In addition to the six programs created in the Middle West, there were deposit guaranty bills introduced in Iowa, Wisconsin, and Missouri. Some of Mississippi's neighbors considered deposit insurance programs, including Arkansas,

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[57] Smith, "Guaranty of Bank Deposits," 41-45; Cooke, "Four More Years," 72.
[58] Smith, "Guaranty of Bank Deposits," 48-49.

Louisiana, Georgia, Florida, North Carolina, Tennessee, and West Virginia. In the West, in addition to the program enacted in Washington, legislators in Arizona, Colorado, Idaho, Montana, and Nevada introduced deposit insurance bills.[59] Proposing deposit insurance was one thing, but accumulating the political will to pass the measure through a usually bicameral legislature and the executive was a much higher hurdle. The fact that these programs did not spread further in their respective regions demonstrates the political limits of the measure at the state level. That half of the forty-eight states tried to pass deposit insurance, however, shows the broad support for a federal program prior to 1933.[60]

Deposit insurance was difficult to enact because it was radical. It raised fundamental questions about the role of the state in securing the economic welfare of individuals, managing the economy, and regulating the private sector. The idea of using mutual insurance programs to spread default risk across all banks challenged notions of what was “fair” public policy in a “free” market economy. The issues did not abate as the programs were implemented.

The deposit insurance programs established between 1907 and 1917 were boldly experimental in nature. The eight state programs were effectively beta test sites to implement the idea of bank deposit insurance, and the administrative and legal challenges associated with implementing these programs made them important precedents of the Banking Act of 1933.

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[59] Blocker, “State Bank Deposits,” 11.
[60] Smith, “Guaranty of Bank Deposits,” 50n112.

The second wave of state bank insurance programs were defined by the same criteria as the bank insurance programs before the Civil War: eligibility, liability, supervision, and the source of the guaranty. The original source of the guaranty in all eight programs was a state-managed insurance fund created through assessments paid by member banks that would be used to reimburse depositors' losses in case any member bank failed. In addition, each state law spelled out the operational parameters: how assessments were calculated, collected, and held, and how payouts were made.

Supervision specified the authority that administered the insurance system and managed the collection of funds and the supervision of member banks. In the state programs, the first issue regarding supervision was whether public officials or private bankers would run the deposit insurance systems. Supervision also specified how the state regulatory apparatus was empowered and structured to regulate safe banking practices. Supervision included the fundamental issue of state authority over private banks to compel participation, require bank examinations, and define bank operations. The decisions regarding supervision were part of the political process and evolved over time. The concept of a deposit insurance fund was a financial and psychological safety net that would stop the failure of one bank from snowballing into widespread panic. In practice, it became understood over time that supervision was critical to the success of any program. The experience of the state programs with regard to supervision would directly inform the debates about supervision leading to federal deposit insurance in 1933.

Unlike the pre-Civil War programs, in which the state had the authority to compel the banks to participate under both the charter system and the branch banking system, most of the programs established after 1907 made compliance mandatory with no pre-existing authority. The Oklahoma program was the first to make each of these features operational and ultimately economically viable.

The Oklahoma program, in particular, was remarkable for being passed with so few restrictions. Confidently, or perhaps naively, the newly elected legislators trusted that the program would be developed as it was implemented. The implementation of Oklahoma's program highlights the administrative and legal challenges common to all deposit insurance programs. The seven programs that followed benefited directly from Oklahoma's experience.

The Oklahoma law set capital requirements for membership in the deposit insurance system from $10,000 to $25,000, depending on the size of the town the bank served. All banks in the state banking system and the national banking system that met these requirements were eligible and membership was compulsory. The law created a State Banking Board that supervised and administered the system. Initially, the board of bank commissioners was made up of the state's top politicians: the governor, lieutenant governor, president of the Board of Agriculture, state treasurer, and state auditor. The source of the guaranty was an insurance fund. The State Banking Board charged each member bank an assessment of 1 percent of the bank's capital stock based on the daily average of daily deposits for the preceding year. Each year, member banks were required to recalculate this average and maintain their contribution to the fund at 1 percent. Banks paid their assessment with a cashier's check held by the banking board. There were no liability limits on the deposit accounts that were insured. In the event of liquidation, all depositors were to be paid immediately and in full.[61]

In the chaos of the panic, Oklahoma lawmakers mandated that the system was to be operational in sixty days. As the Oklahoma law went into effect, implementation issues abounded. Of all the states that adopted deposit insurance, Oklahoma was perhaps the least prepared to initiate experimental deposit guaranty legislation, but once created, the state legislature continued to amend the original law until the system was financially stable. Unlike other types of insurance that priced risk based on an actuarial analysis of past payouts, determining the optimal price of the premiums and the size of the fund was an evolving question.[62] The same year the law was passed, the assessment changed from 1 percent to 5 percent of average daily deposits, to be accumulated over a number of years. Subsequent amendments set limits on the type of deposits that could be insured. State and federal deposits, such as school funds that were otherwise secured, or trust companies, were excluded. The interest rate that banks could offer on deposit accounts was limited. Additional amendments defined where the insurance funds were held and how they could be invested. The laws regarding the disbursement of funds in case of default also evolved over time.

When the fund was overdrawn early in its tenure, the legislature empowered the Banking Board to issue warrants to depositors for their losses by issuing certificates of indebtedness that earned 6 percent interest. The legislature also added emergency

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[61] Smith, "Guaranty of Bank Deposits," 75-85.
[62] Blocker, *"State Bank Deposits,"* 16; Cooke, "Four More Years," 110.

assessments until the debt was paid off. Later amendments to the Oklahoma law limited the amount of additional assessments that could be levied to 2 percent. Bank assessments, originally a cashier's check held by the Banking Board until needed, soon had to be secured with a deposit of bonds or warrants with the Banking Board equal to 1 percent of the bank's deposits. Not surprisingly, after this rocky start, the state banking board was replaced by professional bankers, nominated by the member banks and appointed by the governor. The most important change was that the state authorized the bank insurance program to fund the debt when the fund became overdrawn, which made the state the ultimate guarantor of the Oklahoma insurance fund.[63]

The question of jurisdiction was also challenged immediately. A year after the fund went into effect, the state attorney general ruled that national banks, as agents of the national government, could not be subject to state jurisdiction, and therefore could not participate in the fund. Only 57 of 309 national banks had opted to participate in the Oklahoma system. After the attorney general's determination, 10 of the 57 national banks converted to state banks, and the rest opted out. Setting an important precedent, the Oklahoma legislature had tried to make the system inclusive of banks in both the state and federal banking systems. A series of court cases clarified a range of operational questions, but the question of state versus federal jurisdiction was not pursued in the courts in Oklahoma or in the other seven state deposit insurance systems. That issue would wait until 1933 to resurface.[64]

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[63] Blocker, "State Bank Deposits," 14; Cooke, "Four More Years," 72, 77; Smith, "Guaranty of Bank Deposits," 58-61.
[64] Smith, "Guaranty of Bank Deposits," 69; *Nobel State Bank v. Haskell*, 219 U.S. 104, 113 (1911); *22 Oklahoma*, 88. With regard to the liability of banks that withdrew from the fund: if they became a state

The most important legal question that all the programs faced was the legitimacy of the law itself. Did the state have the right to exact payments from private banks for the purpose of creating a mutual insurance fund to benefit all banks? Did the state have the right to compel participation? State banks initiated lawsuits against the state in Oklahoma, Nebraska, and Kansas, which eventually rose to the Supreme Court.[65]

Oklahoma collected its first assessment in February 1908. All the state banks complied except one, the Nobel State Bank of Nobel, Oklahoma. Encouraged by other banks who also opposed the law, Nobel State Bank refused to pay and initiated a case against the state to test the constitutionality of the law. The bank's attorneys argued that mandatory contributions deprived the bank of its property without due process of law. Furthermore, they contended that banks could not be taxed to pay the debts of other banks. The plaintiff raised the question of whether a man could be taxed to pay losses of an institution where he was never a stockholder or director and where he had nothing to say about the class of loans that the institution made. Another argument against the law was that a bank's charter rights were not subject to change by the state legislature.[66]

Arguments defending the law centered on banking as a public good and the right of the state to regulate private industry to protect the public. The case was first tried in district court, which upheld the guaranty law. Justice A. H. Houston held that the state had the right under its police power to take a percentage of a bank's deposits to create a

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bank they were liable, if they failed they were not. With regard to cases about the priority of claims the court ruled that the fund was set up for depositors and not creditors.

[65] Ibid.

[66] Smith, "Guaranty of Bank Deposits," 69; *Nobel State Bank v. Haskell*, 219 U.S. 104, 113 (1911); *22 Oklahoma*, 88.

guaranty fund. The case was immediately appealed to the State Supreme Court, where the lower court's decision was upheld. There, Judge C. J. Williams held:

> Banks are constrained by the state, not with the paramount view of enabling the stockholders to make investments and derive profits therefrom but to meet a public necessity. The stockholders, having made investments therein, should be protected, but private interest must always be subordinated by the state in the reasonable exercise of its police power, to the public welfare or good.[67]

The state courts were in agreement that it was an appropriate use of state police power to mandate participation through a deposit insurance fund. The public's need for protection superseded the bank's right to operate without state interference.

Again the case was appealed. On January 3, 1911, the U.S. Supreme Court ruled on cases from Oklahoma and Nebraska, and in 1913 in Kansas: 1) *Nobel State Bank v. Haskell* (1911) and 2) *Shallenberger, Governor of Nebraska v. First State Bank of Holstein* (1911); and 3) *Abilene National Bank v. Dolley, Bank Commissioner of the State of Kansas* (1913). In the Oklahoma and Nebraska cases, the Supreme Court affirmed the judgments of the lower courts, upheld the state deposit insurance law. In the case of Kansas, the Supreme Court overturned state law, which struck down the deposit insurance law. Writing for the majority, Justice Oliver Wendell Holmes held that the only valid question in the case was whether or not the Oklahoma law deprived the plaintiff of liberty of property without due process of law. In his majority opinion, Holmes concluded:

[67] Smith, "Guaranty of Bank Deposits," 69; *Nobel State Bank v. Haskell*, 219 U.S. 104, 113 (1911); *22 Oklahoma*, 88.

> It may be said in a general way that the police power extends to all great public needs. In short, when the Oklahoma legislature declares that free banking is a public danger, and that incorporation, inspection and the above cited co-operation [the provision of a guaranty fund by taxation] are necessary safe-guards, this court certainly cannot say it is wrong.[68]

The deposit insurance laws were upheld on the principle that the assessments of member banks were not the taking of private property for a public purpose, but the taking of private property for a private purpose and a valid exercise of the police power of the states.[69] The 1911 Supreme Court ruling solidified the legal standing of the four programs in existence at that time and paved the way for the four additional state programs that followed. More broadly, by calling free banking a "public danger," Holmes called into question the entire efficacy of "free" banking.

A month after the Supreme Court ruling, *Banker's Magazine*, a long-standing opponent of state deposit insurance, sounded the alarm: "Mr. Justice Holmes, in giving the court's opinion, says in the Oklahoma case that the State may not only regulate the business of banking, but that it may prohibit it except on conditions prescribed from the state." The article did, however, grudgingly acknowledge that "the Government guaranty of deposits seems to be taking hold of the public mind." That publication concluded that as a result of the ruling, national banks would have three choices: "to devise some means of overcoming this disadvantage, either by agitating for a Federal Guaranty, by cooperation, or by resort to insurance through a corporation." The American Bankers Association devoted its 1908 meeting to articulating its opposition to deposit insurance

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[68] *Nobel State Bank v. Haskell*, 219 U.S. 104, 113 (1911); *Shallenberger, Governor of Nebraska v. First State Bank of Holstein*, 219 U.S. 114 (1911); reversing 172; *Abilene National Bank v. Dolley, Bank Commissioner of the State of Kansas*, 228 U.S., 1 (1913), affirming 179.
[69] Cooke, "Four More Years," 70-71.

and the ruling. Although *Banker's Magazine* and the American Bankers Association would continue to oppose federal deposit insurance, state and national bankers in the rural South and West would continue to agitate for deposit insurance. [70]

Through a period of trial and error, all eight state deposit insurance programs operated successfully up to 1920, when a sustained economic recession led each program to be rescinded. Postwar deflation affected all industries, but agriculture most severely. Wheat fell from $2.18 a bushel in 1919 to $0.92 in 1923, corn from $1.51 in 1919 to $0.54 in 1921, and cotton from $0.35 per pound in 1919 to $0.17 in 1921.[71] Land values declined in relation to agricultural prices. All eight programs collapsed and were repealed by 1929.

Early evaluations of the first twentieth century state programs laid the groundwork for later analysis and debate. Deposit insurance had been a recurring public policy discussion for twenty years, but after 1909 there were four operational programs to evaluate. From the private sector, Missouri banker Thornton Cooke published assessments in the *Quarterly Journal of Economics* in 1909, 1910, and 1913. All three of these articles were introduced into the *Congressional Record*. From the public sector, George H. Shibley, the Director of the American Bureau of Political Research, was commissioned to do a study by the U.S. Senate Committee on Banking and Currency. This Congressional committee was organized as a result of the Banking Panic of 1907 and the Economic Monetary Commission that followed. The first Senate Chair of that

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[70] "Deposit-Guaranty Upheld by the U.S. Supreme Court," *Banker's Magazine*, Feb. 11, 1911, Vol. 82, No. 2 from *American Periodicals*, 161; "Bryan's Absurdity," *Banker's Magazine* Nov. 1908, Vol. 77, No. 5 from *American Periodicals*, 760.

[71] *Statistical Abstract of the United States, 1931*, U.S. Department of Commerce, No. 53 (Washington, DC: GPO, 1931), 743, https://www2.census.gov/library/publications/1931/compendia/statab/53ed/1931-01.pdf.

committee was Robert L. Owen. Owen was unsuccessful in his bid to make deposit insurance part of the Banking Act of 1913, but he was still in a position to direct the resources of his committee to support the state deposit insurance programs. Shibley submitted his final report to the Subcommittee on Deposit Insurance on May 12, 1914.[72] Whereas Cooke's evaluation focused on bank operations under the insurance system by analyzing specific bank failures, Shibley's report focused on the operations of the insurance systems and drew its analysis from the annual reports submitted by each program's bank commissioners and their responses to a specific questionnaire issued by this Congressional study.[73]

In their assessments, both Cooke and Shibley addressed the issue of supervision. Although broadly in agreement that any program could be overwhelmed by an exogenous economic shock, their conclusions reflected the sharp difference in their political perspectives. Cooke emphasized the paramount importance of supervision; which authority would have control over the deposit insurance systems, the banking industry or the state? As a commercial banker, Cooke strongly recommended the control of deposit insurance systems by bankers. Shibley emphasized the importance of state supervision over banking on behalf of the public through effective state supervision and mitigating the risk of exogenous economic shock. As a public policy investigator, his strongest recommendation was to expand deposit insurance to a regional or national system.[74]

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[72] Cooke, "Bank Deposits in the West," 85-108; Cooke, "Bank Deposits in the West: II," 327-91; Cooke, "Four More Years," 69-114; George H. Shibley, *Guaranty of Bank Deposits*, 1-62.
[73] Cooke, "Bank Deposits in the West," 85-108; Cooke, "Bank Deposits in the West II," 327-91; Cooke, "Four More Years," 69-114; Shibley, *Guaranty of Bank Deposits*, 1-62.
[74] Shibley, *Guaranty of Bank Deposits*, 9, 14.

With regard to supervision, Cooke was opposed to having a bank board made up of politicians. He saw the Oklahoma deposit guaranty law as a "political measure" that was popular with voters. In Cooke's view, politicians had their own agendas that could conflict with sound financial decision-making. In the case of Oklahoma, the first politicians on the Banking Board were, in fact, invested in the public's perception of the program to the detriment of its management. As a result, these elected officials were reluctant to close failing banks in the first years of the program. When the board did close a bank, the timing appeared to be political. One bank in Oklahoma was closed just before the Democratic National Convention, ostensibly to draw public attention to the fact that all depositors were paid in full. Cooke wanted banking boards to be run by bankers.[75]

For Shibley, the state was the creator and administrator of state deposit insurance. Effective supervision was a question of implementation. He was focused on pragmatic adaptation through the legislative process. As the previous section discussed, in Oklahoma the issue of supervision arose as soon as the system was in operation. The original Board of Commissioners was initially made up of a set list of government officials. These politicians theoretically offered a public check on the private interests of the banking industry, but because Oklahoma faced so many bank failures, the Oklahoma legislature changed the composition of the board after its second year of operation to bankers nominated by the state bankers association and then appointed by the governor. Cooke noted with approval that this process was "the first instance in America of

[75] Cooke, "Four More Years," 73-75.

conferring on a Banker's Association the power of making nominations for public offices."[76]

Both Cooke and Shibley agreed that the effective supervision of member banks—the regulatory structure of the insurance system—was also key to making a deposit insurance system financially viable. Cooke highlighted four problems with supervision that were poor practice for any insurance system: the admission of unsound banks, the granting of bank charters to poorly vetted applicants, delays in closing insolvent banks, and the reluctance to write down bank losses.[77] Cooke argued that the Banking Board needed both the authority and the resolve to reject charter applications and to close insolvent banks. In Oklahoma, Kansas, and Texas, the Banking Board did not get that authority until 1913.[78] This specific change marked a fundamental shift away from free banking, where the requirements for incorporation were uniform and impersonal, to a banking system that once again gave a government body the authority to grant or refuse a bank charter. Cooke understood that this authority was necessary for the success of a bank insurance system, but he questioned the state's right to deny a private enterprise the right to incorporate.[79] Cooke worried that the accumulation of insurance funds "granted" the state "despotic power."[80] In Shibley's view, it was the proper role of government to ensure the stable operation of banking on behalf of the public.[81]

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[76] Cooke, "Four More Years," 73-75; Shibley, *Guaranty of Bank Deposits*, 83-84, 93.
[77] Cooke, "Four More Years," 93.
[78] Ibid., 113.
[79] Ibid., 89, 93.
[80] Ibid., 71, 75-76, 83-84, 110-111.
[81] Shibley, *Guaranty of Bank Deposits*, 12.

The establishment of deposit insurance in Oklahoma was an object lesson in what not to do. Prior to deposit insurance, there were 294 state banks in Oklahoma Territory and 174 state banks in Indian Territory. Banks in Oklahoma Territory had been subject to examination by the Territorial Bank Commissioner for a decade. The state banks in Indian Territory had never been subject to examination or supervision. Because of the provision to enact the legislation within sixty days, banks were admitted to the deposit insurance system with a limited examination or none at all.[82] The admission of unstable banks led to many of the early bank failures, which drew down the insurance fund. Within two years of its creation, the fund was overdrawn. Between 1909 and 1921, Oklahoma had sixty-two more state bank failures, which cost its guaranty fund three million dollars.[83]

Cooke was concerned with the powers the Oklahoma Banking Board assumed in times of economic stress. He believed the board illegally acted as a de facto bank, borrowing money against the fund to issue warrants, buying securities in failing banks, making deposits in troubled banks, and inducing one bank to take over another bank. He was not wrong. As state deposit insurance programs became overdrawn, the supervisory authorities did have to step in and act in the capacity of a central bank if the program was going to continue to meet its insurance obligations. The direct engagement of the deposit insurance boards with the management of failing banks would become standard practice at the FDIC, but in the early years of the Oklahoma system, direct state involvement in

[82] Cooke, “Four More Years,” viii, ix.
[83] Ibid., 73-74.

the management of a failing bank was highly controversial.[84] Like the Freedmen's Bank, this interference was beyond the scope of the original legislation, but faced with bank failures in states where the funds were overdrawn, like Oklahoma and Kansas, the state became the ultimate guarantor of the insurance program.[85]

With regard to supervision, Shibley was pragmatically focused on continuous improvement of the deposit insurance systems over time. The issues with the Oklahoma system were systematically addressed. Subsequent amendments to the original law effectively strengthened the authority of the Banking Board and the system the board administered. The three other states greatly benefited from Oklahoma's trial by fire. The number of bank failures in Oklahoma was greater than the failures of the seven other states combined from the enactment of their systems to 1921. With the benefit of Oklahoma's mistakes, none of the other guaranty funds encountered serious difficulties until the deflationary period of 1920-1921.[86]

Both Cooke and Shibley were well aware that the ultimate test of a state bank insurance program was an overwhelming economic shock.[87] In Oklahoma, volatile economic conditions had strained the early years of the system. In the first years of statehood, land speculation was rampant. Newly available plots of land rapidly exchanged hands until all available parcels were sold, prices peaked, and the real estate market collapsed. The new state welcomed oil and gas investment, but investment led to speculation, which added volatility to the economy and to the vulnerability of the banks

[84] Cooke, "Four More Years," 78.
[85] Ibid., 95.
[86] Smith, "Guaranty of Bank Deposits," 74, 111.
[87] Cooke, "Four More Years," 83, 93, 109.

that underwrote that speculation. In addition, poor crop yields in 1910 and 1911 led to a sharp economic downturn between 1911 and 1913. None of these conditions forced the Oklahoma program to be rescinded, but Cooke wondered if any deposit insurance system could survive a sustained, economic downturn, writing, "Can any guaranty plan . . . withstand seasons of bad crops?"[88]

Shibley was more optimistic. According to his investigation, the Oklahoma program had experienced twenty-seven bank failures in its first five years of operation, but by 1914, the law had been amended sufficiently to make the system stable and the fund sustainable.[89] Oklahoma Commissioner R. C. Stewart wrote to Shibley,

> This was a new country and property fluctuated considerably and we almost had a crop failure in this State for three successive years. On account of adverse conditions, the first few years of the operation of our depositors' guaranty law proved very expensive for our banks.[90]

However, by 1913 the Commissioner concluded that "at this time we feel that our guaranty fund is now established on a solid and substantial basis, and we feel the future success of our guaranty law is assured."[91] Whereas a private insurance company might have gone out of business, the Oklahoma system could operate at a deficit because the state structured the debt of failed banks with future payments to the fund. Behind this debt structure was the state mandate to fulfill the bank law's promise to pay. In some cases, this arrangement compromised the principle of refunding depositors' losses immediately, but it kept the deposit insurance system a going concern. Shibley also

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[88] Cooke, "Four More Years," 93-94.
[89] Ibid., 72.
[90] Shibley, *Guaranty of Bank Deposits,* 10.
[91] Ibid.

argued that the law may well have been repealed when the fund fell into such deep debt, but the state legislature did not dare to take such action because the insurance system was popular with the public and the state constitutions gave the public the power of the referendum, which inhibited lawmakers from repealing the law.[92] In 1920, the Oklahoma fund was debt free.[93]

Both Cooke and Shibley agreed that macroeconomic risk was a potentially existential threat that could not be eliminated. Cooke believed that no state system could limit the risk of a large exogenous shock.[94] In Shibley's view, macroeconomic risk could be managed better by spreading the risk of default over a larger geographic area. In Nebraska in 1913, there had not been a failure of a national bank in fifteen years. The Secretary of the Nebraska Banking Board, Edward Royse, was well aware that success in good economic times was not a true test of the viability of the program. In his 1913 annual report, Royse wrote,

> No failures have occurred since the passage of the act, and the guaranty fund has now reached a sum of $774,414.58. . . . The guaranty feature of the law has without question, increased the confidence of people in the banks. So far none of the bad effects anticipated by those opposed to its enactment occurred. Of course the crucial test of the law has not yet been made, and will not be until a period of depression, panic of general mistrust appears, which we sincerely hope may never occur.[95]

Shibley understood that the weakest link in the system, particularly in the Middle West, was its underlying dependence on agriculture. His strongest recommendation was to

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[92] Shibley, *Guaranty of Bank Deposits*, 13.
[93] Cooke, "Bank Deposits in the West," 327-391; Cooke, "Four More Years," 72-73.
[94] Cooke, "Bank Deposits in the West," 341.
[95] *Nebraska Department of Banking Annual Report, 1913*, p. 3 in Shibley, *Guaranty of Bank Deposits*, 12, 7.

enact deposit insurance operations over a larger geographic area, either regionally or nationally. He argued that a system covering a wider geographic area would better eliminate default risk, since at no time has "a quarter or one-half of the area of the U.S. been affected by bad crops."[96]

Shibley and Cooke both acknowledged that the programs marked a fundamental change in the management of banking. One of the main points that Shibley wanted to make was that state deposit insurance programs represented a fundamental re-negotiation of the political and economic balance of power. In his view:

> the four state programs in operation in 1914 were the direct result of the people's increase in the power of the government. In each of the four States the banking department has secured from the State an increase in power . . . whereas under the old order of things the people suffered . . . The difference is caused by the transfer of the seat of legislative power from the few to the people, this change being a result of the reform of machine-rule party government.[97]

Cooke was more skeptical about the political will of American society to share default risk. He viewed the prospects for the further spread of deposit insurance programs in terms of political will:

> The vital question is whether the public needs greater assurance of the safety of its deposits than can be afforded by the resources of a single bank in a single town . . . Whether the plan will be adopted in other states depends on the present social tendency to distribute more widely legislation to spread the good and evil of civic life.

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[96] Shibley, *Guaranty of Bank Deposits*, 13.
[97] Ibid.

Cooke believed that if the Oklahoma legislature tried to collect assessments up to the 2 percent limit in a given year, the banks would rebel. If all the banks refused to pay, Cooke warned, there was not much even the Supreme Court could do to enforce the law. The political careers of the bill's proponents would be ruined.[98]

Cautiously optimistic, Shibley's report to the Senate Banking and Currency Committee concluded that the four state deposit insurance programs in operation were successful. The halting of depositors' losses was historic. He wrote, "This record shows that . . . the people of these States are greatly pleased with the new departure—a total absence of personal loss from closed banks."[99] Shibley and Cooke were taking the pulse of different stakeholders in this experiment.

In addition to the paramount importance of depositor security and the improved financial stability of all the programs, the early state deposit insurance systems had led to a significant growth in capital to state banks. In Shibley's assessment:

> The banks themselves that have been guaranteeing depositors have profited from the system owing to advantages secured from the increase in the volume of their deposits and other benefits. This is of vast importance demonstrating that the system as a whole is a complete success.[100]

The key conclusion Shibley highlighted from his investigation was that "the increased business of State banks . . . compensated them for the losses they have sustained under

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98 Cooke, "Four More Years," 74.
99 Shibley, *Guaranty of Bank Deposits*, 5, 15.
100 Ibid., 10.

the guaranty system."[101] Shibley believed that this influx of capital in states with deposit insurance systems helped to make state banks competitive with national banks.[102]

Cooke was less sanguine. He reminded his readers that as many banks failed at the beginning of the Oklahoma program as had failed in some states in bank panics. Where national banks were converting to state banks when the law was passed, the trend was reversed as the fund went into debt and state banks started to convert to national banks. His evaluation looked at specific failures to show how corruption, in Oklahoma in particular, had circumvented state regulators and bankrupted the insurance fund. He acknowledged that constructive amendments had been made to the original law, but he was doubtful that the Oklahoma fund would ever become solvent. Cooke personally favored federal bank reforms that addressed the mobilization of bank reserves in times of bank panic and the seasonal expansion and contraction of credit for rural areas, but he thought the Kansas, Texas, and Nebraska programs had potential for long-term success. Presciently, he argued that the assessments and fund caps in those states were insufficient. The funds were calculated on a small percentage of total capital. Cooke argued that the fund had to be big enough to withstand the failure of the largest bank.[103] As four more states did adopt deposit insurance, the divided opinion represented in these evaluations continued and would continue to feed the ongoing political debates around this radical, experimental, controversial legislation. A few other states did effectively implement deposit insurance during this period, but Cooke was not wrong when he

[101] Shibley, *Guaranty of Bank Deposits*, 5.
[102] Ibid., 8.
[103] Cooke, "Four More Years," 71, 75-76, 83-84, 110-111, 113.

predicted that "it would take many failures close together, or a pretty general suspension of payments, to bring about the adoption of the plan now where it is not already in force."[104]

The first four state programs and the four state programs that followed all operated successfully until 1920. Their success was supported by the boon to agricultural prices and demand during World War I. After the war, the contraction of the U.S. economy led to the strongest deflationary pressures on wholesale prices since 1873 and a sustained economic recession in 1920-21. This recession hit agricultural states and their bank systems the most severely. The drop in wholesale prices led to a collapse of the real estate market, on whose values small rural banks in particular depended. In an attempt to preserve the value of the dollar abroad in a period of worldwide recession, the deflationary policies of the Federal Reserve further exacerbated the economic crisis in rural areas in the United States. Between 1920 and 1922, fifty-nine banks in Oklahoma failed.[105] In 1923, the projected deficit of the state's insurance fund grew to $2.5 million dollars. This time, the deposit insurance system and the state banking system were compromised. Instead of funding the debt over time, the Oklahoma deposit insurance law was repealed. The repeal of the law was followed by litigation to determine the distribution of the remaining assets. In 1934 the State Supreme Court ordered depositors to be paid in full in the order of their warrant number. Kansas, Texas, North Dakota, South Dakota, Mississippi, and Washington followed suit.[106]

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[104] Cooke, "Four More Years," 112.
[105] Smith, "Guaranty of Bank Deposits," 114.
[106] Ibid., 63-64, 120.

In addition to the challenges deposit insurance programs faced in their structure and administration, the programs themselves had significant effects on the capital structure of the state and federal banking systems, public opinion, and the marketplace, specifically the economic behavior of bank customers and bank managers. These effects may not have led to the demise of the state programs, but they contributed to their vulnerability in times of economic crisis and would be used as arguments against the federal expansion of deposit insurance.[107]

State deposit insurance systems attracted a great deal of new capital, which propelled the growth of state banks in their first five years of operation; indeed, the attraction of increased capital to state banks was one of the key selling points of the system, as the costs of the system would be offset by increased bank deposits. As Table 1 shows, in Oklahoma, the number of state banks grew a total of 27 percent from 1908 to 1913; the amount of deposits in those banks more than doubled.

In Kansas, the number of state banks grew 13 percent from 1909-1913; the amount of deposits increased 22 percent. In Texas, the total number of state banks grew by 55 percent; the amount of deposits in those banks more than doubled.[108] In Nebraska, the growth in state banks was negligible, but the amount of deposits in those banks doubled. Across all four states, the number of state banks increased 21 percent and the amount of deposits in those banks increased 46 percent.

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[107] Cooke, "Four More Years," 93, 109; Bodenhorn, *Banking in Antebellum America,* 2000; Bodenhorn, *Banking in Early America,* 2003.
[108] Cooke, "Four More Years," 107.

Table 1

The Growth of State and National Banks and Bank Deposits in Oklahoma, Kansas, Texas, and Nebraska, 1908-1913

State	**State Banks, 1908**	**State Banks, 1913**	**% chg**	**National Banks, 1908**	**National Banks, 1913**	**% chg**
Oklahoma Number of Banks	470	596	26.8%	312	326	4.5%
Bank Deposits	18,032,000	40,191,000	122.9%	38,298,000	67,753,000	76.9%
	State Banks, 1909	**State Banks, 1913**		**National Banks, 1909**	**National Banks, 1913**	
Kansas Number of Banks	819	928	13.3%	206	213	3.4%
Bank Deposits	97,217,000	118,170,000	21.6%	83,795,000	88,255,000	5.3%
	State Banks, 1909	**State Banks, 1913**		**National Banks, 1909**	**National Banks, 1913**	
Texas Number of Banks	502	776	54.6%	519	514	-1.0%
Bank Deposits	43,328,000	86,485,000	99.6%	164,618,000	209,411,000	27.2%
	State Banks, 1911	**State Banks, 1913**		**National Banks, 1911**	**National Banks, 1913**	
Nebraska Number of Banks	664	668	0.6%	237	241	1.7%
Bank Deposits	74,105,000	94,194,000	27.1%	119,087,000	128,663,000	8.0%
Total Banks	2,455	2,968	20.9%	1,274	1,294	1.6%
Total Deposits	232,682,000	339,040,000	45.7%	405,798,000	494,082,000	21.8%

Note. Source: Thornton Cooke, “Four More Years of Deposit Guaranty,” *Quarterly Journal of Economics*, 28, No. 1 (1913): 90, 97, 101, 107.

In comparison, the total number of national banks in those states increased 1.6 percent and the deposit in those banks increased 22 percent. In total, however, national banks still held more deposits than state banks. In 1913, national banks in these states held nearly $500 million in deposits; the state banks held $339 million, but there were twice as many state banks as national banks. The relative capital structure of the state and national banking systems was changing.

A significant impact of these deposit insurance programs was the growth of the public's perception that bank deposits were actually guaranteed by the state. Because the insurance funds were state-managed, many people came to believe that the deposits in member banks of insurance funds were guaranteed by the state. In anticipation of this problem in Oklahoma, a provision of a 1909 amendment pertained to advertising. When a bank completed its requirements for membership, it received a certificate that stated: "All Deposits Guaranteed by the Depositor's Guaranty Fund of the State of Oklahoma."[109]

This certificate could then be conspicuously displayed by the member bank. The bank was also permitted to use this phrase on its stationery and in its advertising. The provision was intended to forbid banks to advertise that deposits were guaranteed by the state, but the words "depositors' guaranty fund of the State of Oklahoma" led many depositors to believe that the state was the actual guarantor.[110] The state of Oklahoma no doubt fed public sentiment to have bank deposits secured by the state when the state

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[109] *Gotebo Gazette* (Gotebo, OK), July 17, 1908, 8, https://gateway.okhistory.org/ark:/67531/metapth350300/m1/8/.
[110] Smith, "Guaranty of Bank Deposits," 57; Oklahoma Session Law of 1907-1908, section 10, 148; Cooke, "Four More Years," 69-70.

asserted the authority to fund the debt of the insurance fund for twelve years by issuing debt certificates to depositors that were redeemable as the fund was replenished. The fact that Oklahoma could successfully amortize the insurance fund's debt and become debt-free in 1920 was evidence to many that the state made good on the debt, although this debt was funded solely by future bank assessments. In this sense, the state guaranteed that the fund would work, and from 1907 to 1920, it did.[111]

Evaluations of deposit insurance programs were also concerned with the impact of deposit insurance on economic behavior as well as perception, specifically the economic behavior of bank customers and bank managers. Some observers, like banker Thornton Cooke, were concerned that deposit insurance created a particular disincentive for consumers, a problem economists call adverse selection. Like many other points of analysis, the interpretation of this effect was filtered through the politics around the legislation. From a free market perspective, state-managed deposit insurance reduced the individual's motivation to discern between a well-run bank and a poorly-run bank. Cooke wondered, "Can any plan, otherwise adequate, maintain the interest of the depositor in the soundness of the bank?[112] The burden of assessing risk, in his view, had shifted from the market to the state. Proponents of deposit insurance had long argued that individual consumers were never able to effectively evaluate the financial viability of one bank versus another. In remote rural areas, which were often served by only one bank, there was no selection. Shibley acknowledged the problem of adverse selection, but his remedy was effective state supervision: "It is the function of the people's representatives

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[111] Smith, "Guaranty of Bank Deposits," 60.
[112] Cooke, "Four More Years," 94.

in the banking department of the Government to look after the bank's soundness."[113] In Cooke's opinion, depositors might be motivated to take more interest in the soundness of a bank if, in the case of a bank failure, they were not paid until after all the bank's assets were liquidated, as they were in Kansas.[114] In the rest of the deposit insurance programs, if there were funds available, the principle of immediate payment persisted.

Evaluations of deposit insurance programs were also concerned that deposit insurance created disincentives for bank managers of state banks, first with regard to risk management. Banks with deposit insurance tended to keep lower surpluses (profits held in reserve) than banks without deposit insurance. In contrast, national banks, which did not have deposit insurance, started carrying higher surpluses. While state banks in Oklahoma had a disastrous record between 1905 and 1921, only two national banks failed in Oklahoma during the same period.[115]

Evaluations of deposit insurance programs also addressed the impact of deposit insurance on the ethical behavior of bankers, a disincentive economists call moral hazard. Observers, including Thornton Cooke, argued that the presence of deposit insurance could lead bankers to take more financial risks and created the opportunity for corrupt action. Since deposit insurance attracted a flush of new capital to state banks, a benefit many promoters of deposit insurance hoped for, these banks were presented with the opportunity to make loans that were potentially riskier. These disincentives did not lead to the failure of the second wave deposit insurance programs before 1920, but they

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[113] Shibley, *Guaranty of Bank Deposits*, 12.
[114] Cooke, "Four More Years," 92, 99.
[115] Shibley, *Guaranty of Bank Deposits*, 12.

presented challenges that every program faced and that had the potential to weaken a bank's ability to respond in times of economic crisis.[116] A bank panic could trigger insolvency for a bank with lowered reserves. Undetected corruption could lead to abrupt failure and the depletion of an insurance fund. Cooke reported that in Oklahoma, Bank Commissioner Lankford removed twenty banks officers and prosecuted sixteen of them during his term. Cooke believed that good men predominated, but in Oklahoma, corruption was not unexpected in a state that "was first settled by horsemen who lined up at the Kansas and Texas border and at a signal rode for the choice claims." Neither was it surprising to Cooke to find corruption in Indian Territory. For most of its settlement period, there was no territorial government; justice was administered by the Indian Tribes.[117] Shibley's report painted the problem of moral hazard in the best possible light. He argued that deposit insurance may have attracted corrupt bankers, but it did not turn good bankers into corrupt ones. Kansas, Nebraska, and Texas only had a handful of corruption cases each.[118]

Cooke's focus on the role of corruption underscores the historical significance of the resurgence of bank deposit insurance. In the Oklahoma frontier of the early twentieth century, political radicalism and financial corruption coexisted and intermixed. In the firestorm that accompanied Oklahoma's inauguration into statehood, radicalism and corruption on the Oklahoma frontier forged a long-dormant public policy from the ashes.

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[116] Cooke, "Four More Years," 109-10; Smith, "Guaranty of Bank Deposits," 101, 107; Michael Bordo, "The Lessons from the Banking Panics in the United States in the 1930s for the Financial Crisis of 2007," National Bureau of Economic Research (NBER) Working Paper, No. w16365, 2010, 7, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1678908##.
[117] Cooke, "Four More Years," 74-75, 109-10.
[118] Cooke, "Four More Years,"110; Shibley, *Guaranty of Bank Deposits*, 7.

The issues of supervision and exogenous economic shock were common to all the state programs. These issues and the broader economic impact of deposit insurance on the government management of banks and the marketplace would all factor into the 1933 legislation.

In sum, the resurgence of state deposit insurance programs at the state level was not inevitable, but it was a policy idea that had been steadily percolating in the post-Civil War era as bank deposits became the dominant form of the money supply and cyclic bank panics caused waves of bank failures. The Panic of 1873 put the family of a key leader of this resurgence, Robert L. Owen, into financial ruin. Then, starting with the Panic of 1886, legislation for bank deposit insurance began to be introduced at the state and federal levels. The bank deposit insurance systems marked the resurgence of a democratic impulse to use the power of the state to mitigate the vicissitudes of capitalism. State deposit insurance was a radical departure in public policy in that it represented a renegotiation in the balance of power 1) between a state and its citizens, 2) between a state and the private sector, and 3) between the state government and the federal government. First, the resurgence of deposit insurance demonstrated that the public good of protecting bank depositors could supersede the rights of private banks. Second, these systems demonstrated the state could compel banks to participate in an insurance system for the economic benefit of spreading default risk across all banks in that state. Third, in the second wave of bank insurance programs, the Oklahoma program attempted to reconcile two sources of authority, the state banking system and the national banking system, to protect the entire body politic from bank default and bank panic.[119]

This bold experiment originated from the geographic, economic, and political periphery of the United States. Farmers from the rural South and West, where financial security was inexorably tied to the unpredictability of the natural world, had been pressing for radical economic change for decades. Starting in the Great Plains, these farmers worked collectively to improve the economics of family farming, and they pressed government to level the playing field to tie the rural periphery of the United States to the economic engine of industrialization. A majority of their bankers would come to support efforts to level the playing field as well.

The frontier radicalism of the Plains States was a critical factor in the resurgence of deposit insurance, but the political clout of the late nineteenth century Populists and the early twentieth century progressives was an insufficient political force to pass deposit insurance legislation prior to 1907. It took a record-setting bank panic with national ramifications to create the first deposit insurance program in Oklahoma. The passage of that program was advanced by a private-public partnership of progressive leaders in Oklahoma, not the outcome of sustained agitation by a political movement. Robert L. Owen played a key role in developing a deposit insurance plan and lobbying state bankers to support it. Charles Haskell played a key role in promoting the idea during Oklahoma's application for statehood, and then, when he was elected governor, he used the power of that position to set the agenda of the first state legislature as they convened

[119] Warburton, "Guaranty in Eight States," 1959.

in the midst of the bank panic. The legislation was enacted only with the unanimous cooperation of progressive and conservative legislators.

The spread of deposit insurance programs to other states was achieved through the alchemy of private and public pressures. At the national level, the nomination of William Jennings Bryan in 1908 and the endorsement of deposit insurance by the Democratic Party platform added significant political pressure. At the state level, public interest in the Oklahoma program led politicians across the political spectrum to endorse deposit insurance. For bankers, the Oklahoma program gave the state a competitive advantage that motivated bankers in neighboring states to enact deposit insurance legislation. Dozens of states proposed insurance systems; a total of eight states enacted them—six programs in the Great Plains, one in the South, and one in the Far West. Both the concentration of programs in the Middle West and the distribution of programs across the western continental United States demonstrated the wide-spread appeal of a state deposit guaranty program. That these programs were not enacted in more states, however, demonstrates the political limits of this program at the state level.

These programs were bold experiments that served as an important testing ground, administratively and legally. Oklahoma was the all-important beta test site. The conditions in Oklahoma could not have been worse for enacting deposit insurance, but the history of the program in this state was a powerful example of how the democratic process can work to perfect public policy over time. The implementation of state-managed deposit insurance constitutionally tested the question: did government have the right to force the compliance of private banks into an insurance system to protect the deposits of all deposit holders? In 1911, the U.S. Supreme Court upheld the constitutionality of state deposit insurance, further paving the way for deposit insurance at the federal level.

The eight state programs operated successfully in relatively strong economic times. Of all the issues deposit insurance programs faced, in times of sustained economic stress, the spread of default risk across one state, even across an entire geographic region with a homogenous agricultural economic base, proved insufficient to support state deposit insurance programs. The ultimate failure of the state programs would make the fight to create deposit insurance at the federal level in 1933 fierce. All the issues the state programs faced would have to be addressed. Many politicians and bankers in the national bank system looked to get rid of the state banking system once and for all. Thousands of people who had lost their deposits now looked to the federal government to protect them.

CHAPTER VI

WILLIAM JENNINGS BRYAN, ROBERT L. OWEN, AND THE RISE OF *FEDERAL* ADVOCACY FOR DEPOSIT INSURANCE FROM THE MIDDLE WEST, 1886-1919

Beginning in 1886, Congressional leaders introduced 150 federal deposit insurance bills before one was enacted in 1933. Typically, a "legislative history" refers to the drafts and debates related to one specific bill, but by drawing a line of continuity from 1886 to 1933, this long legislative history shows how political support for this policy idea of government-managed bank deposit insurance grew in the rural frontier of the Middle West, South, and West. Federal deposit insurance became law during the banking crisis of 1933, but it was not part of the legislative agenda of Roosevelt's New Deal.[1]

Chapter VI and VII examine this long legislative history in three phases. Each phase is defined by a specific economic and political context. For each phase, the deposit insurance bills introduced in Congress are first examined by political party and region. Next, they are analyzed by the key features of these bills to show both the scope of ideas that were proposed and how these ideas evolved over time. This long legislative history also follows three generations of leaders in Congress and the business world who advocated for this legislation at the federal level. The key leaders in Congress were U.S. Representative and three-time presidential candidate William Jennings Bryan of

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[1] *Annual Report of the Federal Deposit Insurance Corporation for the Year Ended December 31, 1950* (Washington, DC, Federal Deposit Insurance Corporation, 1951), 63-101, hereafter *1950 FDIC Annual Report* in http://fraser.stlouusfed.org.

Nebraska, U.S. Senator Robert Latham Owen of Oklahoma, and U.S. Representative Henry Bascom Steagall of Alabama. Although initially and ultimately support for this policy proposal came from across the political spectrum and the continental United States, the core leaders were progressive Democrats from the Middle West and South who worked to leverage the power of the federal government to serve the economic interests of the rural states and districts they represented.[2]

This history of federal deposit insurance connects the recurring efforts of individual U.S. lawmakers from across the country over a period of five decades. Chapter VI will analyze the period between 1886 and 1919. Because this history also covers a lot of ground, it is useful to first briefly summarize these legislative phases. In the first legislative phase from 1886 to 1906, the calls for federal deposit insurance were sporadic, but they came from across the political spectrum and from every region of the country. The majority of bills followed the panics of 1884 and 1893, but in the decades after the Civil War, a Republican-dominated, pro-business Congress and private banking interests limited the political will to enact deposit insurance or bank reform of any kind. All the deposit insurance bills introduced between 1886 and 1906 sought to strengthen the national banking system. However, there were key differences among the proposals from the Middle West, South, and West that reflected alternative visions of how federal deposit insurance, and by extension banking and currency, could be structured as a public-private partnership. These first bills were introduced by individual legislators, many with a background in business and banking, from a range of party affiliations and

[2] *1950 FDIC Annual Report*, 63-101.

geographical areas, when no state bank insurance programs had been in operation for twenty years.[3]

The most important advocacy for federal deposit insurance during this phase came from William Jennings Bryan. As a U.S. Representative from Nebraska, Bryan introduced a deposit insurance bill immediately after the 1893 panic. Neither Bryan's nor any other bill from this period got out of committee, but as his career rose to the national stage, he led a transformation of the Democratic Party that embraced Populist and progressive ideas. Bryan became the national spokesman for a Democratic Party representing "the common people" who pressed for the federal government to check the powerful financial and industrial interests and protect the economic interests of the majority of American people who still lived and worked in rural areas. Progressive Democrats (and Republicans) who embraced greater government regulation of the economy in this period paved the way for federal deposit insurance.[4]

By the second legislative phase from 1907 to 1919, American capitalism, which had developed along major transportation arteries, solidified a divide between an industrial and financial core concentrated in the northeast and a rural periphery that stretched the breadth of a continent. Partisan support for federal deposit insurance concentrated among progressive Democrats from the Middle West, South, and West,

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[3] *1950 FDIC Annual Report*, 63-101; Frederick S. Weaver, *An Economic History of the Unites States: Conquest, Conflict and Struggles for Equality* (New York: Roman & Littlefield Publishers, 2015), 67-88; Peter Temin, *Causal Factors in American Economic Growth in the Nineteenth Century* (Atlantic Highlands, NJ: Humanities Press, 1975); Elmus R. Wicker, *Banking Panics of the Gilded Age* (Cambridge: Cambridge University Press, 2000), 52-82; Robert Remini, *The House: The History of the House of Representatives* (New York: Harper Collins Publishers, 2006), 218-44; Robert C. McGrath, Jr., *American Populism: A Social History, 1877-1898* (New York: Hill and Wang, 1993), 167.

[4] *The Commoner* (Lincoln, Nebraska), January 23, 1901, Vol. 1, No. 1, 1-16.

many of whom were invested in the eight state deposit insurance programs that were in operation. This phase began with a flood of calls for federal deposit insurance following the Panic of 1907. In the years Congress debated fundamental federal bank reform, from 1908-1916, legislators endeavored to make deposit insurance a part of that reform. When Congress passed the Banking Act of 1913, it did not include a provision for federal deposit insurance, but the calls for federal deposit insurance persisted.[5]

In this second legislative phase, the mantle of congressional leadership for federal deposit insurance passed from William Jennings Bryan to Robert L. Owen. It was Bryan who first brought federal deposit insurance to a national debate during the 1907 panic. As the Democratic nominee for president in 1908, he made federal deposit insurance a central issue in the campaign and, for the first and only time, a plank of the Democratic Party. Republicans won majority control of both houses of Congress and the White House that year, but long-time Bryan supporter Robert L. Owen continued the fight in the Senate.[6]

Owen led the legislative battle for federal deposit insurance from 1907 to 1919. In the aftermath of the panic, he immediately and repeatedly introduced deposit insurance legislation. Like Bryan before him, as Owen's career rose in Congress, he brought the idea of deposit insurance along with him. When Democrats regained the majority in the

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[5] Elizabeth Sanders, *Roots of Reform: Farmers, Workers, and the American State, 1877-1917* (Chicago: University of Chicago Press, 1999), 1-29; *1950 FDIC Annual Report*, 63-101; Wicker, *Banking Panics of the Gilded Age*, 83-113; Clark Warburton, "Deposit Guaranty in Eight States, During the Period 1908-1930," (Washington, DC: Federal Deposit Insurance Corporation, 1959).
[6] *1950 FDIC Annual Report*, 63-101; *The Commoner* (Lincoln, Nebraska), Nov.-Dec., 1908; Edward E. Keso, *The Senatorial Career of Robert Latham Owen* (Nashville, TN: George Peabody College for Teachers, 1937); Kenney Lee Brown, "Robert Latham Owen, Jr.: His Careers as Indian Attorney and Progressive Senator" (PhD diss., Oklahoma State University, 1985).

Senate in 1912, Owen became the chairman of the Senate Committee on Banking and Currency. At the same time, U.S. Representative Carter Glass (D-VA) became the chairman of the House Committee on Banking and Currency. He led the Congressional opposition to this measure for the next twenty years.[7]

The year 1913 was a pivotal juncture in the history of federal deposit insurance. Deposit insurance legislation reached a floor debate, reached a floor vote and passed in a chamber of Congress for the first time in 1913. Owen and others strove to make deposit insurance a part of the Banking Act of 1913. Glass led the opposition against the measure. Although Owen was unsuccessful, the political battle to create the Federal Reserve System was a tipping point in the long legislative history of federal deposit insurance. The political will to create the first central bank in seventy years emerged from the Panic of 1907, but the structure of the Federal Reserve System would prove insufficient to prevent future bank panics. Notwithstanding, the creation of a central bank with its unique public-private institutional structure created a new precedent. After 1913, the majority advocates of federal deposit insurance began to shift their support for the source of the guaranty to come from the public sector in addition the private sector. Up to 1913, the majority of federal deposit insurance bills were focused on establishing a private-sector insurance fund. With the creation of the Federal Reserve System, the proposals for federal deposit insurance, ostensibly a state-managed program of a private sector insurance fund, increasingly called on the federal government to wholly or

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[7] *1950 FDIC Annual Report*, 63-101; Keso, *Robert Latham Owen*, 1937; Brown, *Robert Latham Owen, Jr.*, 1985.

partially fund the security measure. Senator Owen continued to press for federal deposit insurance in the Democratic-controlled Congress until 1919.[8]

Chapter VII will examine the third legislative phase from 1920 to 1933, when calls for deposit insurance came in two waves. The first wave of bills followed a return to a Republican majority Congress elected in November 1920 and postwar deflationary recession from 1920-1921, exacerbated by Federal Reserve policies that contracted the money supply. From 1920 to 1929, agricultural regions also experienced a sustained economic recession in which bank failures were endemic and each of the eight state deposit insurance programs was repealed. The federal deposit insurance bills introduced in the 1920s came from Democrats and a few Republicans from predominantly rural states and districts in the Middle West, South, and West.[9]

One exception to this trend was a bill introduced in 1924 by Chicago U.S. Representative Thomas A. Doyle (D-IL) that was written by Chicago banker P. W. Chavers. Chavers was the founder and president of the first national bank chartered to an African American. This was the first a federal deposit insurance bill was introduced from a major urban center, which signaled that the political base for federal deposit insurance was beginning to expand. From 1920 to 1929, the deposit insurance bills introduced in a Republican-controlled Congress never got out of committee, but after the crash of the

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[8] *1950 FDIC Annual Report*, 63-101; 63 Cong. Rec. S1110-85 (Dec. 18, 1913); 63 Cong. Rec. S1185-263 (Dec. 19, 1913).

[9] *1950 FDIC Annual Report*, 63-101; Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton, NJ: Princeton University Press, 1963), 409-10n165; Ben S. Bernanke, "A Century of U.S. Central Banking," 2013; Elmus R. Wicker, *Federal Reserve Monetary Policy, 1917-1933*, 1996; Wicker, *Panics of the Great Depression*, 1996, 1-23.

New York Stock Exchange in 1929, the calls for federal deposit insurance accelerated nationwide and across party lines.[10]

In the third legislative phase from 1913 to 1933, the mantle of Owen's leadership passed to Henry B. Steagall, the U.S. representative from the rural southeast corner of Alabama. Steagall was a lawyer, career politician, and cautious but committed progressive who entered Congress in 1915. When Owen stepped down from office in 1925, Steagall stepped up to take his place as the lead advocate of federal deposit insurance, introducing his first bill for federal deposit insurance that same year. As Steagall's political career rose, like Owen and Bryan before him, he brought his advocacy of federal deposit insurance with him. In 1930, Democrats won back the House, and in 1931, Henry Steagall became the Chair of the House Committee of Banking and Currency. Subsequently, in the spring of 1932, Steagall brought a federal deposit insurance bill to a floor vote for the second time since 1886. His bill passed in the House but not in the Republican-controlled Senate or over the opposition of Carter Glass, a U.S. Senator from Virginia and ranking member of the Senate Committee on Banking and Currency.[11]

When Franklin Roosevelt took office in March 1933, with a Democratic majority in both houses of Congress, the American banking system was in free fall. Roosevelt and Congress quickly passed stop-gap legislation to halt the national run on banks, but the

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[10] *1950 FDIC Annual Report*, 63-101; Chavers-Wright, Madrue, *The Guarantee* (New York: The Wright-Armstead Associates, 1985).

[11] *1950 FDIC Annual Report*, 63-101; Charles W. Eagles, *Democracy Delayed: Congressional Reapportionment and Urban-Rural Conflict in the 1920s* (Athens: University of Georgia Press, 1990); Lewis L. Gold, *The Most Exclusive Club: A History of the Modern United States Senate* (Cambridge, MA: Perseus Book Group, 2005), 93-112.

legislative battle for fundamental bank reform raged for ninety-nine of Franklin Roosevelt's first one hundred days in office. The core of that political fight was over federal bank deposit insurance. Through Steagall's leadership and leverage, bipartisan support, and public acclamation, the Glass-Steagall Act was passed on June 16, 1933. Section 12B of that act established the Federal Deposit Insurance Corporation (FDIC), which ended the banking crisis of 1933 and effectively halted bank panics in the United States for the first time since 1787. The scope and structure of this bill reflected the ideological evolution of the 150 bills that came before it.[12]

The primary sources for these two chapters draw on a combination of financial data, Congressional records, and the personal papers of the principals. The backbone of the chapters is an analysis of the key features of the 150 deposit insurance bills introduced in Congress between 1886 and 1933. This analysis is based on a tabular summary published by the FDIC in their 1950 Annual Report. For each legislative phase, this chapter puts these data into historical context and analyzes it by party and region. It then examines the key provisions of the legislation: the source of the guaranty, eligibility, supervision, liability, and funding. This chapter then examines the key leaders who proved decisive in advocating for this legislation. The main sources used to present their history with this legislation are personal papers, the *Congressional Record*, individual biographies, state histories, and press accounts. This structure allows the reader to understand the legislative history of federal deposit insurance on two political levels. At

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[12] Susan Estabrook Kennedy, *The Banking Crisis of 1933* (Lexington: University of Kentucky Press, 1973); Helen M. Burns, *The American Banking Community and New Deal Banking Reforms*, 1933-1935 (Westport, CT: Greenwood Press, 1974); Banking Act of 1933, H.R. 5661, 73rd Cong. (1933), Sec. 12B, 7, https://fraser.stlouisfed.org/scribd/?title_id=991https://fraser.stlouisfed.org/scribd/?title_id=991&filepath=/files/docs/historical/congressional/1933_bankingact_publiclaw66.pdf; *1950 FDIC Annual Report*, 63-101.

one level, the analysis of the individual bills as a complete dataset, while detailed, provides insight into the evolution of this legislation as a product of the democratic process. The analysis of the role of key leaders provides insight into how an ideological battle over the role of government in money, banking, and the economy was fought by power brokers in Congress.[13]

Legislative Phase I, 1886-1906

From 1886 to 1906, the calls for federal deposit insurance were sporadic and limited, but support for this public policy cut across party lines and across every geographic region. Nineteen legislators from thirteen states introduced twenty-five deposit insurance bills during this period when no state deposit insurance programs were in operation. The majority of bills introduced in this period followed major bank panics. This section looks at the introduction of federal deposit insurance bills following the Panic of 1884, the Panic of 1893, and in the early twentieth century when there were no major panics through 1906. In this legislative period, the Panic of 1893 was pivotal. Although the representatives of big business and banks in Congress blocked this legislation even from a floor debate, the 1893 panic was so severe it reshaped the political philosophy of the Democratic Party under the leadership of William Jennings Bryan in ways that paved the way for federal deposit insurance.[14]

The first calls for federal deposit insurance came from across the political spectrum. The majority of the bills were introduced by Republicans. As Table 2 shows, of the twenty-five bills introduced between 1886 and 1906, fifteen were introduced by

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[13] *1950 FDIC Annual Report*, 63-101.
[14] Ibid.; Wicker, *Panics of the Gilded Age*, 52-82.

Republicans, eight by Democrats, and two by Populists. Each bill was the individual initiative of a legislator. No political parties, including the Populists, included deposit insurance in their party platforms during this period. [15]

Table 2

Legislative Phase 1: Federal Deposit Insurance Bills by Decade & Political Party, 1886-1906

Year	Republican	Democrat	Populist/ Farmers Alliance	Total by Decade
1880s	(1) WI, (2) NY, (4) PA, (5) PA	(3) MO		5
1890s	(9) WI, (11) NE, (14) NJ, (16) WI, (17) WI, (18) NJ	(6) NY, (8) VA, (10) NE, **Bryan, W.J.**, (12) MS, (15) WA	(7) KS, (13) KS	13
1900s	(19) OH, (20) PA, (21) PA, (22) PA, (25) PA	(23) ND, (24) AL		7
Total by Party	15	8	2	25

Note. Source: *1950 FDIC Annual Report*, 63-101. The number preceding each state references the order that the bills were introduced from 1-150.

Similarly, the first calls for federal deposit insurance proposals came from all regions of the country. Table 3 roughly divides the country into four regions, the Northeast, the Middle West, the South, and the West, to show the geographic distribution of legislative support for federal deposit insurance over time. In this first legislative phase, the majority of the bills came from the Northeast and the Middle West. Across

[15] *1950 FDIC Annual Report,* 63-101; The American Presidency Project, Political Party Platforms, University of California Santa Barbara, http://www.presidency.ucsb.edu/ws/index.php?pid=29589.

this broad geographic distribution, the majority of the bills came from predominantly agricultural states or districts. Even the majority of the bills from the Northeast were introduced by legislators from the periphery of major commercial centers.

Table 3

Legislative Phase 1: Federal Deposit Insurance Bills by Decade & Region, 1886-1906

Year	Northeast	Middle West	South	West	Total by Decade
1880s	(2) NY, (4) PA, (5) PA	(3) MO, (1) WI			5
1890s	(6) NY, (14) NJ, (18) NJ	(7) KS, (9) WI, (10) NE, **Bryan, W.J.**, (11) NE, (13) KS, (16) WI, (17) WI	(8) VA, (12) MS	(15) WA	13
1900s	(20) PA, (21) PA, (22) PA, (25) PA	(19) OH, (23) ND	(24) AL		7
Total by Region	10	11	3	1	25

Note. Source: *1950 FDIC Annual Report*, 63-101. For the purposes of this analysis, the Northeast includes the Mid-Atlantic States, NY, NJ, PA, MD, and DE, and the New England states, MA, CT, RI, VT, NH, and ME; the Middle West includes states west of the Mississippi and east of the Rocky Mountains, TX, OK, KS, NE, SD, and ND plus OH, IN, IW, MN, IL, MI, WI, and MO; the South include the states along the southern the Atlantic coast to the Gulf Coast, VA, NC, SC, GA, AL, MS, LA, plus WV, KY and TN; and the West includes the states along the Rocky Mountains, NM, CO, WY, and MT, to the Pacific Coast. The number preceding each state references the order that the bills were introduced from 1-150.

For example, the six Pennsylvania proposals came from representatives from the farthest western counties of that state. The two New York bills came from the Upper Hudson Valley and western New York. The two New Jersey bills were something of an exception to this general trend. They came from a U.S. congressional district directly across from lower Manhattan, literally Steinberg's view of "Jersey" from 9th Avenue.[16] The early federal deposit insurance bills did not come from relatively wealthy states like California or regions like New England, which historically had relatively more diverse economies and stronger banking systems with far fewer bank failures than the rest of the country. The early federal deposit insurance bills came from the periphery of a vast and largely rural continent outside of the major commercial and financial centers.[17]

Throughout its long legislative history, deposit insurance was championed by particular legislators who introduced bills multiple times. In this first legislative phase, the most ardent supporters of federal deposit insurance came from the Northeast. Charles N. Fowler, a Republican representative from New Jersey from 1895-1911, lived in and represented the district directly across from lower Manhattan. He was educated at Yale and the University of Chicago Law School and was the president of a state-chartered mortgage company when the 1893 panic hit. Fowler twice introduced one of the most broadly conceived deposit insurance bills. The most sustained congressional advocacy for federal deposit insurance came from Arthur L. Bates, an Oxford-educated Republican from Pennsylvania who represented the two most western counties of the state from 1903-1913. He introduced four bills in the House of Representatives between 1900 and 1906, a time when no bank panics systemically threatened the country. His urgent advocacy, even in the absence of a panic, was not decisive in the history of this

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[16] Saul Steinberg, "A View of the World from 9th Avenue," *New Yorker*, March 29, 1976, cover illustration.

[17] *1950 FDIC Annual Report*, 63-101; Wicker, *Panics of the Gilded Age*, 57, 61, 66-67, 79, 86; Kenneth C. Martis, *The Historical Atlas of United States Congressional Districts, 1789-1983* (New York: Free Press, 1982); Bodenhorn, *Banking in Antebellum America,* 165-212; Bodenhorn, *State Banking in Early America*, 95-122.

legislation, but it is evidence of a prescient understanding among highly educated Congressional leaders, who were thinking about the local effects of the development of American capitalism, currency and banking, that it would take the federal government to stop the panics they knew would inevitably come.[18]

A majority of bills from Republicans came from Northeast Republicans, like Charles Fowler and Arthur Bates. A detailed political history of each legislator who proposed federal deposit insurance has not been prepared for this study, but these legislators' support for federal deposit insurance was clearly at odds with the Republican Party platforms of 1896, 1900, and 1904, which never mentioned bank insurance or bank reform of any kind. Northeast Republican supporters of federal deposits would eventually be voted out of office and effectively purged from the Republican Party.[19]

Four key features defined in every bill were 1) the source of the guaranty, 2) eligibility, 3) supervision, and 4) liability coverage. The dominant purpose of these early proposals was to expand protection for banks in the national banking system. The majority of bills, including the one introduced by Bryan, called for bank "insurance" that would be publicly managed and privately funded through "assessments" from member banks.[20] This insurance program would only be open to banks in the national banking system and supervised by the Comptroller of the Currency, the administrative authority

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[18] *1950 FDIC Annual Report*, 63-101; *Biographical Directory of the United States Congress, 1774-2005* (Washington, DC: GPO, 2005), https://www.senate.gov/pagelayout/history/h_multi_sections_and_teasers/Biographical_Directory.htm.

[19] *1950 FDIC Annual Report*, 63-101; *Biographical Directory of the United States Congress, 1774-2005* (Washington, DC: GPO, 2005), https://www.senate.gov/pagelayout/history/h_multi_sections_and_teasers/Biographical_Directory.htm; The American Presidency Project, Political Party Platforms, University of California Santa Barbara http://www.presidency.ucsb.edu/ws/index.php?pid=29589.

[20] Assessments were the annual contributions of individual banks to the insurance fund based on a formula such as a percent of average capital held by the bank the previous year.

of the national banking system within the Department of the Treasury. This insurance would cover bank deposits and other specified liabilities in the case of failure of a member bank.[21]

Some bills offered alternative visions of what a federal deposit insurance program might look like. With regard to eligibility, all twenty-five proposals called for the inclusion of national banks, but three bills also proposed including qualified state banks. Two of these bills were from the New Jersey Republican and former state banker Charles N. Fowler. The third bill was from a Republican Senator from North Dakota, Asle J. Gronna, a farmer and businessman. In the spirit of Joshua Forman, Gronna moved to North Dakota Territory in 1879 as a young man and served in the Territorial House of Representatives in 1889, the U.S. House of Representatives from 1905 to 1911, and the U.S. Senate from 1911 to 1920. In the first legislative phase of deposit insurance proposals, those calling for the most far-reaching bank reform came from both the immediate periphery of Manhattan and the Middle Western frontier.[22]

The first deposit insurance proposals also offered a range of proposals with respect to supervision. While sixteen bills named the Comptroller of the Currency as the administrative authority, seven bills proposed the Secretary of the Treasury, a broader authority above the Office of the Comptroller of the Currency. Two bills proposed both authorities. The most creative proposals were two bills from Charles Fowler that called for the creation of a new, independent authority led by three finance ministers. The

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[21] *1950 FDIC Annual Report*, 63-101.
[22] Ibid.; *Biographical Directory of the United States Congress, 1774-2005* (Washington, DC: GPO, 2005), https://www.senate.gov/pagelayout/history/h_multi-sections_and_teasers/Biographical_Directory.htm.

implication of these alternative proposals was that federal deposit insurance should not be purely an extension of the national banking system but should potentially require a new authority that would protect all banks and communities in the event of a panic.[23]

With respect to liability, the proposals represented a continuum of thinking about how a government bank deposit insurance program might be structured. All the proposals covered bank deposits. In some cases, that insurance coverage was further restricted, reflecting the concerns of those legislators who wanted to strengthen the program's protection by limiting its liability. In some cases, the proposals included additional liabilities. Twelve bills limited liability coverage to bank deposits only. A few of these bills included additional restrictions, like payment to depositors only after the liquidation of a failed bank's assets. This last provision structured the insurance fund as a resource of last resort, but, as the case of the Freedman's Bank showed, liquidation could take decades.

Some bills offered broader liability protection. The other thirteen bills introduced in this period, including the one introduced by William Jennings Bryan, covered all liabilities, included claims from other creditors, and, in two cases, currency. These more liberal liability policies acknowledged the impact of a bank failure on every creditor to that bank and every holder of that bank's currency, but they also increased the liability that the proposed insurance fund would have to cover. The fact that no state deposit insurance programs were in operation during this period may have contributed to the generous liability coverage of some of these early proposals. Those who proposed the

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[23] *1950 FDIC Annual Report*, 63-101.

most restrictive liability policies were focused on making the prospects of this radical federal banking and currency policy as financially and politically viable as possible.[24]

The most striking distinction among these first twenty-five proposals was the source of the guaranty. The most radical proposals were seven bills that called for a "guaranty" of deposits to come from the federal government. In a legislative phase when nearly half of the deposit insurance bills came from Northeast Republicans, it was remarkable that these bills all came from legislators in the Middle West, South, and West from the across the political spectrum. Three of them were from Democrats from Virginia, Mississippi, and Washington; two from Republicans from Wisconsin and Ohio; and two from Populists from Kansas. These seven proposals called for the most far-reaching reform in the role of government in banking and currency and represented more than 25 percent of the deposit insurance bills introduced in this period.[25]

The key to understanding how federal deposit insurance proposals changed over time is funding. While "insurance" indicated a private-sector financial product that had been used for centuries to protect assets, and a "U.S. government guaranty" indicated the federal government would reimburse depositors in case of bank failure, the financial structure of each proposal demonstrated a wide variety of public-private partnerships. Although eighteen of the first twenty-five proposals called for the source of the guaranty to be "insurance," only thirteen of these bills specified that the funding should come entirely through the private sector. From the beginning, some bills that called for

[24] *1950 FDIC Annual Report*, 63-101.

[25] *1950 FDIC Annual Report*, 63-101; *Biographical Directory of the United States Congress, 1774-2005* (Washington, DC: GPO, 2005), https://www.senate.gov/pagelayout/history/h_multi_sections_and_teasers/Biographical_Directory.htm.

"insurance" also called for funding through existing taxes, reserve funds, or directly from the treasury. For example, the very first federal deposit insurance bill, introduced by William T. Price of Wisconsin in 1886, called for an "insurance" fund to be entirely financed through an existing 1 percent tax paid by national banks on both their circulating notes and the reserve funds they were required to maintain to redeem their bank notes. The seventeen other proposals calling for "insurance" required the program to be funded through "assessments" from private member banks. Significantly, four of these "insurance" proposals also called for additional funds from the same taxes and reserves that Price proposed, and one of these bills, from former Free-Soiler Frank Hiscock (D-NY), called for federal government to provide $20 million in initial capitalization.

Conversely, among the seven proposals that called for a U.S. government guaranty and not "insurance," three bills called for "assessments." In two cases, the government guaranty would come into play if the insurance fund was depleted, and in one case the insurance fund would reimburse the government. The variety of public-private financial structures proposed in these bills illuminates an ideological debate over evolving ideas about the role and obligations of the federal government in banking and currency, paving the way for the federal deposit insurance bill that passed in 1933.

The bank panics of the nineteenth century generated insufficient political will to enact federal deposit insurance, but they shaped the Congressional leadership that would raise the profile of this legislation at the federal level. The life experience of many leaders who pressed for federal deposit insurance over forty years resembled Joshua Forman's, the New York lawyer who brought his family to the newly settled lands of

Western New York in the early nineteenth century, first as a state representative from Onondaga County and then as a founding father of the city of Syracuse. Forman twice proposed visionary legislation that would securely tie the developing economy of western New York to the emergent financial center of the state and the nation. The legislators who introduced federal deposit legislation from 1886 to 1906 did not represent a political coalition; they were nineteen individuals who came to believe that the government needed to intervene in the development and security of the economy. Many of them, like Joshua Forman, had started businesses and experienced financial ruin through circumstances beyond their control.

William T. Price, who introduced the first federal deposit insurance bill in 1886, was a case in point. Price moved to Wisconsin from Iowa in 1845 with "an ax and twenty-five cents." At the time he lived in Iowa, researchers have noted, the Iowa state deposit insurance system was still in operation.[26] When he moved to Wisconsin, it was still a territory. Price first worked as a logger, but by 1848 he was working in the business office of a logging operation. By 1853, he owned his own logging company. Price also read the law, became an attorney and was elected the first judge of Jackson County. He was a representative in the state legislative assembly in 1851-1852, Treasurer of Jackson County from 1856 to 1857, and a state senator in 1857, 1870-71, and 1878-81. In 1854, Price founded a stage-coach business in Black River Falls that failed in the Panic of 1857. After the business failed, Price went back to work as a logger to pay off more than $10,000 of dollars of business debt. Price became the first president

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[26] Warburton and Golembe, *Six States*, 1958, VIII-1.

of the Tomah & Lake St. Croix Railway Company and was the founder and the president of the Jackson County Bank before entering Congress as a "reformer" in 1882.[27]

In 1886, Price made the first proposal that the federal government play a mitigating role in managing the collateral damage of industrial expansion and a fragile banking system. Like Forman before him, Price was a founding father of his frontier community whose years of hard work across a wide range of civic and business endeavors were violently disrupted by bank panics.

Price's bill never got out of committee, but the legislative idea for federal deposit insurance persisted. Like Forman's Safety Fund idea, the idea of deposit insurance at the federal level slowly gained traction independent of the bill's first sponsor. Price, in fact, left Congress later in 1886 and died in December of that year at the age of sixty-four. A state biography made no mention of his having introduced this legislation. Neither did the memorial that Wisconsin Senator John Spooner read into the *Congressional Record* in February 1887. His memorial did, however, mention the failure of his business that "went down" during the Panic of 1857 and the years Price worked to repay the debt.[28] American capitalism may have been a rising tide in the nineteenth century, but, periodically and indifferently, it swamped thousands of boats, which may have been small, but were built by giants.[29]

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[27] *Biographical History of Clark and Jackson Counties, Wisconsin: Containing Portraits of all the Presidents of the United States, with Accompanying Biographies of Each, and Engravings of Prominent Citizens of the Counties, with Personal Histories of Many of the Early Settlers and Leading Families* (Chicago: The Lewis Publishing Co., 1891), 127, 383-7, https://catalog.hathitrust.org/Record/100541666; 49 Cong. Rec. (February 9, 1887).
[28] *Clark and Jackson Counties, Wisconsin*, 127, 383-387; 49 Cong. Rec. (Feb. 9, 1887).
[29] *1950 FDIC Annual Report*, 63-101.

The bills that followed the panics of 1884 and 1893 never got out of committee. As Bryan's newspaper and political mouthpiece, *The Commoner*, would later comment, his 1893 bill was "defeated by the larger banks on the ground that the big banks would have no advantage over the little ones if all depositors were secured." The pervasive pro-big business climate of the late nineteenth century was powerful enough to block federal deposit legislation in both a Republican- and a Democratic-majority Congress.[30]

Corporate interests may have stalled the early federal deposit insurance bills in Congress, but 1893 was a turning point in American politics. The panic that year was the largest panic since the Civil War, national in scope, and devastating in its impact. Five hundred and three banks failed with liabilities equal to $150 million. The bank failures in this panic were spread evenly across bank types: national, state, savings, private, home loan, and trust. The majority of bank failures were in the Middle West.[31] In addition to hundreds of bank failures, thousands of businesses failed. The economic depression that ensued for five years was so destructive that unemployed men from Ohio, known as Coxey's Army, came to Washington to protest. In the midst of the Gilded Age, from 1893 to 1898, unemployment was more than 10 percent. That first "March on Washington" signaled that people financially ruined by the panic and the depression that followed were looking to the federal government for relief from catastrophic circumstances beyond their control. The politics of grassroots protest were in their

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[30] *The Commoner* (Lincoln, Nebraska), Nov. 29, 1907, Vol. 7, No. 46, 2; Temin, *American Economic Growth*, 1975; Weaver, *An Economic History*, 67-88.
[31] Wicker, *Panics of the Gilded Age*, 56-57.

infancy, but the 1893 economic crisis did galvanize a national debate about currency reform and trigger an ideological shift within each of the two major political parties.[32]

William Jennings Bryan was at the center of both this policy debate and the political transformation of the Democratic Party. Born and raised in Illinois, Bryan moved to the still-young state of Nebraska after he finished law school in 1887. A gifted orator, at the age of thirty he was elected to the U.S. House of Representatives in 1890 as a Democratic candidate from a staunchly Republican district. Unlike the first federal deposit insurance bills that followed eighteen months after the 1884 panic, Bryan introduced his legislation immediately following the 1893 panic. His bill stalled in the Democratic-controlled Congress, and he redirected his urgency at the party level. In 1894, he initiated a political coalition between Democrats and Populists. In 1896, Bryan became the presidential nominee of both parties and made bimetallism the central issue in the election. Bryan represented the majority of people in the United States who still lived in rural areas and worked in agriculture. Bryan and his supporters wanted to use silver in addition to gold to back American currency to increase the money supply, specifically in the rural heartland. Advocates of bimetallism wanted to increase the money supply to inflate agricultural prices and therefore help independent farmers to pay off their loans. Family farming was often a subsistence business. Many farmers took out loans each year to buy the inputs for agricultural production. If agricultural prices fell, deflation made it more difficult to repay a loan from the previous year. Bank panics wreaked even more severe havoc, as any savings a farmer may have had to pay repay their farm loans or their

[32] Wicker, *Panics of the Gilded Age*, 110; Mark Wyman, *Coxey's Army: An American Odyssey* (Lincoln: University of Nebraska Press, 1985), 17-21.

mortgages were lost. The late nineteenth century was a painful period of transition for family farming. Bank panics effectively became a mechanism through which bankrupt family farms were bought up and merged into larger corporate entities. The supporters of bimetallism desperately wanted to reverse this inexorable trend.[33]

Bryan's thunderous "Cross of Gold" speech at the 1896 Democratic National Convention was, however, ultimately not embraced by a majority of the electorate. As the Democratic Party candidate again in 1900, still advocating for bimetallism, Bryan lost a second time. The Gold Standard Act of 1901 put that particular currency question to rest, but Bryan remained the leader of the Democratic Party and helped to evolve its identity as a party of the common man. Bryan's newspaper, *The Commoner*, published in Lincoln, Nebraska from 1901 to 1923, became Bryan's enduring moniker and a chronicle of this political transformation. At its height, the paper had 270,000 subscribers. In Table 4, the geographic distribution of Bryan's five-year subscribers as of 1907 shows *The Commoner* spoke to people in small towns across the United States, predominantly in the Middle West.[34]

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[33] Lewis W. Konig, *Bryan: A Political Biography of William Jennings Bryan* (New York: G. P. Putnam and Sons, 1971), 10-12; David D. Anderson, Bryan, *William Jennings Bryan* (Boston: Twayne Publishers, 1981); Leroy Ashby, *William Jennings Bryan, Champion of Democracy* (Boston: Twayne Publishers, 1987); Milton Cooper, "Wilsonian Democracy" in *Democrats and the American Idea: A Bicentennial Appraisal*, Peter B. Kovler, ed. (Washington, DC: Center for National Policy Press, 1992), 213-14; Goodwyn, *Democratic Promise*, 520.

[34] *The Commoner* (Lincoln, Nebraska), Dec. 20, 1907, Vol. 7, No. 1, p. 1; About *The Commoner* http://nebnewspapers.unl.edu/lccn/46032385/; *The Commoner* (Lincoln, Nebraska), Dec. 20, 1907, Vol. 7, No. 49, 4.

Table 4

Five-Year Subscribers to William Jennings Bryan's *The Commoner*, as of Dec. 1907

Region	Five-Year Subscribers	Total
Northeast	S. Otaelie Center, NY; Ischua, NY; Newport, NH; Pine Grove, PA, Caraopolis, PA; Cochranton, PA; Campello, MA; Lebanon, NJ; Allentown, PA; Smithsburg, MD	10
Middle West	Weatherford, TX; Riverside OK; Sheller, IL, Ava, MO; Marshall, TX; Foley, MO; Leasburg, IL; Seneca, MO; Pearl City, IL; Martinsville, IN; Stronghurst, IL; Swayzee, IN; LaFarge, WI; Chicksha, OK, Hiawatha, KS; Henry, IL; Fremont, OH; Spencerville, OH; Spencerville, OH; Princeton IL; Dallas, WI, Utica, MN; Sandusky Falls, NE; Toronto, KS; Sulphur, OK; Markleville, IN; Virmillion, KS, Menstone, IN; Marceline, MO; Warren, IN; Vermillion, KS; ND; Mentone, IN; Plainfield, WI; Austin, MN; Montgomery City, MO; Rogersville, TN; Fulton, KY; Minneota, MN; Alvin, IL; Evansville, IN, Atchison, KS; Staunton, IN; Eagleville, TN; Campbell, MO; Escanaba, MI; Brownstown, IN; Atlanta, MO; Stella, NE; Harrison, MO (5); Galatia, IL; Cory, IN; Pond Creek, OK; Kingston, MO; Tyler, TX; Stonington, IN; Peterson, IW; Pinson Fork, KY, Shiloh, OH; Braddick, ND	63
South	Fairmount, WV; Church Road, VA; Prairie Grove, AK (2); Eldorado, AK (3); Plumbers Landing, KY; Boonville, AK; Roanoke, VA; Bridgeport, AL	11
West	Lake View, OR, Salem, OR, Hunters, WA; Roseburg, OR; Sacramento, CA; Piedmont, CA; Corvallis, OR; Stockton, CA; Portland, OR	9
Total		93

Note. Source: *The Commoner*, Lincoln, Nebraska, December 20, 1907, Vol. 7, No. 49, p. 4. For the purposes of this analysis, the Northeast includes the Mid-Atlantic States, NY, NJ, PA, MD, and DE, and the New England states, MA, CT, RI, VT, NH, and ME; the Middle West includes states west of the Mississippi and east of the Rocky Mountains, TX, OK, KS, NE, SD, and ND plus OH, IN, IW, MN, IL, MI, WI and MO; the South include the states along the southern the Atlantic coast to the Gulf Coast, VA, NC, SC, GA, AL, MS, LA plus WV, KY and TN; and the West includes the states along the Rocky Mountains, NM, CO, WY, and MT, to the Pacific Coast.

While Bryan was engaged in a very public political battle on currency reform, Robert L. Owen was quietly working on his ideas about federal bank reform. As Chapter V related, the Panic of 1873 left his family in financial ruin and possibly led to the suicide of his father. Twenty years later, Owen experienced the Panic of 1893 as the president of the First National Bank of Muskcogee. As Owen was building his credentials in the national Democratic Party in the 1890s, he was developing his ideas about the role of government in banking, particularly during a liquidity crisis. Nine years before the formation of the National Monetary Commission, Owen visited the capitals of Europe to investigate their central banking systems. He was primarily interested in the idea of facilitating massive government lending in the event of a bank panic. Ultimately, this idea necessitated the creation of a central federal bank, a concept that had been contested in the United States since 1787 and shunned since 1836. Owen's policy idea was ultimately the one that came to fruition twenty years later, but Bryan's passionate advocacy of bimetallism on behalf of the rural Middle West, West, and South propelled him to the top of the Democratic Party, where he was a key leader in reshaping the party around the question of the role of government in the economy. In this respect, Bryan's leadership in this legislative phase of federal deposit insurance was decisive.

Legislative Phase II, 1907-1919

From 1907 to 1919, the calls for federal deposit insurance more than doubled from the first legislative phase. Thirty legislators from sixteen states introduced sixty federal deposit insurance bills at a time when eight state deposit insurance programs were in operation. Federal deposit insurance rose to the level of a national debate during this period under the leadership of William Jennings Bryan, and the advocacy for this legislation shifted decisively to the Democrats in the Middle West, South, and West under the leadership of Robert L. Owen. Although deposit insurance was not enacted, this legislative phase was pivotal with respect to ideas about the role of government in federal deposit insurance. The tipping point came in 1913. The Panic of 1907 generated enough political capital to establish the first national bank in seventy years, and yet the structure and the mission of that institution was ultimately insufficient to prevent future panics. This dichotomy tipped the relative weight of the public-private structure employed by the majority of deposit insurance bills towards the public sector. After 1913, most deposit insurance bills were purely “insurance” in the private-sector sense in name only. This section examines the deposit insurance introduced immediately after the 1907 panic, during the debates leading up to the Banking Act of 1913, and after the creation of the Federal Reserve System up to 1919.[35]

Support for deposit insurance was initially bipartisan and then shifted decisively to the Democratic Party by 1919. In the four months immediately following the Panic of 1907, there were more calls for deposit insurance than in the previous twenty years. As Table 5 shows, between December 1907 and March 1908, thirty-three bills were introduced by roughly equal numbers of Republicans and Democrats. During the years when Congress debated federal bank reform, from the creation of the National Monetary Commission in April 1908 to the passage of the Banking Act in December 1913, support for federal deposit legislation became more sharply partisan. All but one of the fourteen bills introduced during this period were introduced by Democrats. Despite the passage of the Banking Act in 1913, the calls for federal deposit insurance persisted because many legislators and public officials believed the Federal Reserve System did not address the

[35] *1950 FDIC Annual Report*, 63-101.

fundamental cause of bank panics, the impact of a collective drop in public confidence on a fragile, interdependent banking system built on a business model of fractional reserves and divided between larger, more diversified, more regulated national banks and smaller, less diversified and less regulated state banks. From 1913-1919, Democrats continued to introduce the legislation more often than Republicans by a margin of more than two to one.[36]

The key legislative leader from 1907-1919 was Democratic Senator Robert L. Owen. As Table 5 shows, Owen introduced eleven bills, more than any other member of Congress in this period or any other period. Remarkably, Owen's leadership persisted through the 1907 panic, through the five years bank reform was debated and, perhaps most notably, even after the Congress passed the landmark legislation that created the Federal Reserve System that he co-authored.[37]

From 1907 to 1919, the political support for federal deposit insurance exited the Northeast and coalesced in the Middle West and South. As Table 5 shows, immediately after the panic, the five bills from the Northeast were all introduced by familiar faces. Charles N. Fowler, now Chairman of the House committee on Banking and Currency, introduced the bill from New Jersey. Arthur L. Bates introduced all four bills from Pennsylvania. No other proposals came from the Northeast after 1908. In the years Congress debated bank reform from 1909 to 1913, and in the years after the Federal

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[36] *1950 FDIC Annual Report*, 63-101.
[37] Ibid.

Reserve was created from 1913 to 1919, all the bills came from the Middle West, South, and West. The strongest political support came from the Middle West in this period.[38]

Table 5

Legislative Phase II: Federal Deposit Insurance Bills by Historical Context and Party, 1907-1919

Historical Context	Republican	Democrat	Total by Context
Panic of 1907 Dec. 1907 - Mar. 1908	(32) PA, (43) NJ, (49) PA, (57) PA, (30) ND, (33) KS, (34) KS, (35) IN, (38) NE, (41) NE, (44) WI, (46) MN, (54) NE, (55) ND, (56) MN	(25) PA, (26) MS, (27) NE, (28) TX, (29) TX, (31) AL, (36) AL, (37) OK, Raynor, I. for **Owen, R. L.**, (39) MO, (40) TX, (42) OK, (47) IN, (48) OK, **Owen, R. L.**, (50) OK, (51) NC, (52) MS, (53) OK, **Owen, R.L.**, (58) OK, **Owen, R.L.**	33
Subtotal by party	15	18	33
Banking Act of 1913 Dec. 1909 - Dec. 1913	(65) WA	(59) TX, (60), MO, (61) AL, (62) MS, (63) TX, (64) CO, (66) MS, (67) TX, (68) MS, (69) NE, (70) OK, **Owen, R., L.**, (71) OK, **Owen, R.L.,** (HR 7837 passed in Senate Dec. 19, 1913), (72) MS	
Subtotal by party	1	13	14
After the creation of the Federal Reserve System Jan. 1914 - Dec. 1919	(73) NE, (75) NE, (76) NE, (83) CO	(74) OK, **Owen R. L.**, (77) MS, (78) OK, **Owen, R. L.**, (79) OK, **Owen, R. L.**, (80) MS, (81) KS, (82) OK, **Owen, R. L.**, (84) MS, (85) OK, **Owen, R.L.**	
Subtotal by party	4	9	13
Total by party	**20**	**40**	**60**

Note. Source: *1950 FDIC Annual Report*, 63-101. The number preceding each state references the order that the bills were introduced from 1-150.

[38] *1950 FDIC Annual Report*, 63-101.

A majority of the bills introduced between 1907 and 1919 continued to focus on strengthening the national banking system. They still called for an "insurance" program for bank deposits that would include national banks only and named the Comptroller of the Currency to be the administrative authority. The insurance program would be publicly managed and privately funded through member assessments, and cover bank deposits and other specified liabilities. However, the creation of the Federal Reserve System in 1913 marked a tipping point with regard to the scope and structure of the proposals.

Between 1907 and 1919, more proposals called for broader bank reform than in the previous period. With regard to eligibility, twelve bills out of sixty offered a path to reconcile the national and state banking systems. Five of these bills called for the inclusion of both national banks and "qualified" state banks. After the Banking Act of 1913, seven bills defined eligibility by Federal Reserve membership. This definition included all national banks, which were required to become Federal Reserve members, and those state banks that opted to apply for membership. While this definition opened the door to state banks, it also effectively excluded the majority of state banks, which were not large enough to afford admission to the Federal Reserve System. The institutional inclusion of state banks was a major policy shift, but the failure of the Federal Reserve to fully incorporate all state banks decisively shaped the economic depression of agricultural areas in the 1920s and the politics of federal deposit insurance in the 1930s.[39]

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[39] *1950 FDIC Annual Report*, 63-101; Goodwyn, 520.

Table 6

Legislative Phase II: Federal Deposit Insurance Bills by Historical Context & Region, 1907-1919

Historical Context	**Northeast**	**Middle West**	**South**	**West**	**Total by Context**
After the Panic of 1907, Dec. 1907 - Mar. 1908	(25) PA, (32) PA, (43) NJ, (49) PA, (57) PA	(27) NE, (28) TX, (29) TX, (30) ND, (33) KS, (34) KS, (35) IN, (37) OK, Raynor, I. for **Owen, R. L.**, (38), (39) MO, (40) TX, NE, (41) NE, (42) OK, (44) WI, (46) MN, (47) IN, (48) OK, **Owen, R. L.**, (50) OK, (53) OK, **Owen, R.L.**, (54) NE, (55) ND, (56) MN, (58) OK, **Owen, R.L.**	(26) MS, (31) AL, (36) AL, (51) NC, (52) MS		
Subtotal by Region	5	23	5	0	33
Creating the Banking Act of 1913, Dec. 1909 - Dec. 1912		(59) TX, (60), MO, (63) TX, (67) TX, (69) NE, (70) OK, **Owen, R., L.**, (71) OK, **Owen, R.L.** (HR 7837 passed in Senate Dec. 19, 1913)	(61) AL, (62) MS, (66) MS, (68) MS, (72) MS	(65) WA, (64) CO	
Subtotal by Region	0	7	5	2	14
After the Creation of the Fed, Jan. 1914 - Dec. 1919		(73) NE, (74) OK, **Owen, R. L.**, (75) NE, (76) NE, (78) OK, **Owen, R. L.**, (79) OK, **Owen, R. L.**, (81) KS (82) OK, **Owen R.L.**, (85) OK, **Owen, R.L.**	(77) MS, (80) MS, (84) MS	(83) CO	
Subtotal by Region	0	9	3	1	13
Total by Region	**5**	**39**	**13**	**3**	**60**

Note. Source: *1950 FDIC Annual Report*, 63-101. The number preceding each state references the order that the bills were introduced from 1-150. For the purposes of this analysis, the Northeast includes the Mid-Atlantic States, NY, NJ, PA, MD, and DE, and the New England states, MA, CT, RI, VT, NH, and ME; the Middle West includes states west of the Mississippi and east of the Rocky Mountains, TX, OK, KS, NE, SD, and ND plus OH, IN, IW, MN, IL, MI, WI and MO; the South include the states along the southern the Atlantic coast to the Gulf Coast, VA, NC, SC, GA, AL, MS, LA plus WV, KY and TN; and the West includes the states along the Rocky Mountains, NM, CO, WY, and MT, to the Pacific Coast.

With regard to supervisory authority, there was, again, a range of proposals in this legislative period. While the majority of bills still called for the Comptroller of the Currency to supervise, a growing number of bills designated the Department of Treasury as supervisor, a broader authority than the Office of the Comptroller of the Currency. Starting in 1913, the bills began to propose the Federal Reserve Board, the newest federal bank regulatory authority, which for the first time included qualified state banks. No other supervising authorities were proposed in this period. These major federal institutions were all natural choices to supervise a federal deposit insurance program, and all of them favored the existing structure of the national banking system, but the variance of the proposals is indicative of a general uncertainty over what authority should govern a program that was increasingly likely to include some state banks.[40]

With regard to the source of the guaranty, a handful of bills continued to propose an alternative to publicly-managed privately-funded "insurance." In this legislative phase, seven out of sixty bills called for a guaranty of commercial bank deposits by the "U.S. government." These bills came from across the political spectrum and from around the country. The bills calling for a U.S. government guaranty were introduced by P. P. Campbell (R-KS) in 1907, J. G. McHenry (D-PA) and W. T. Crawford (D-NC) in 1908, W. L. Jones (R-WA) in 1910, and J. Shouse (D-KS), R.L. Owen (D-OK), and J. F. Shalforth (D-CO) in 1918. These seven bills represented a smaller percentage of the total number of bills than the first legislative phase, when the call for a government guaranty

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[40] *1950 FDIC Annual Report*, 63-101.

represented more than twenty-five percent of all the bills, but this legislative idea persisted.[41]

The pivotal change in the bills proposed in this period can be seen in their funding before and after 1913. Of the forty-three "insurance" bills proposed between 1907 and 1912, nearly eighty percent called for the insurance fund to be financed entirely with assessments from member banks. From 1913 to 1919, of the fourteen federal deposit insurance proposals calling for "insurance," only one bill called for funding entirely from the private sector. The other thirteen "insurance" bills called for funding from the federal government, either partially or, most often, entirely. Three bills called for "assessments" supplemented by either an appropriation from the Treasury, the Federal Reserve earnings or the existing 1 percent tax banks paid on national bank circulation. Ten bills called for the federal government to pay for federal deposit insurance entirely through those sources or through the interest paid by banks to the federal government on government deposits in their banks. Although the majority of federal deposit insurance bills continued to be called "insurance," the financial structure of the public-private partnership tipped decisively towards the public sector.

Conversely, and notably, all seven proposals calling for a U.S. government guaranty called for an insurance funded with "assessments." Only one of these proposals added an additional source of government funding, the existing 1% banks paid for currency. In these proposals, a U.S. government guaranty was intended as a back-up to a private insurance fund. Essentially, both types of proposals—those that declared the

[41] *1950 FDIC Annual Report*, 63-101.

source of the guaranty as "insurance" and those that declared the source of the guaranty as "the U.S. government"—were moving towards each other to become a more hybrid public-private partnership.[42] After the establishment of a central bank, for that was itself a unique, public-private institution, the perspective of legislators from the heartland of the country changed about the source of the insurance protection for bank deposits.

Robert L. Owen was the dominant legislative leader of federal deposit insurance throughout this period, introducing eleven bills in Congress from 1907 to 1919. Each of Owen's eleven bills is a little different; each tinkers with the breadth of the reform or the nature of the public-private partnership in a slightly different way. Owen's initial bills were largely typical of the majority, but with respect to funding, he was ahead of the curve. His first four bills, introduced before 1913, called for an insurance program for bank deposits only for national banks that would be supervised by the Comptroller of the Currency.

What distinguished these bills from the other bills introduced before 1913 was the financing. In addition to "assessments," Owen's first two bills called for an additional source of funding from a "Special Circulation Fund" the federal government would create to stop future panics. His second two bills reversed the hierarchy of the public-private obligation and called for the federal deposit insurance to be financed primarily with interest and taxes banks already paid to the federal government, only using "assessments" if necessary.

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[42] *1950 FDIC Annual Report*, 63-101.

With respect to eligibility, Owen did not want the federal government to administer an insurance program for any bank the government did not have the right to inspect. During the creation of the Banking Act of 1913, Owen was one of the strongest advocates for the inclusion of qualified state banks in the Federal Reserve System. He recognized this was an imperfect compromise that excluded most state banks, but he believed it was best that could be achieved at the time. Starting in 1913, all of his federal deposit bills define eligibility as Federal Reserve membership.[43]

Starting in 1913, Owen also tinkered with dispensing with "assessments" entirely. His fifth and sixth bills, the latter of which passed in the Senate, called for federal deposit insurance to be entirely paid with net earnings from the Federal Reserve. His seventh, eighth, and ninth bills called for the "insurance" program to be entirely funded with the existing 1 percent tax on bank circulation.

Owen's tenth bill was the nominal exception among the eleven bills Owen introduced. In the midst of World War I, as the federal government had taken on increasing control of the economy, there was a political opportunity to extend that control to the protection of bank deposits. For the first time, Owen called for a U.S. government guaranty of national bank deposits. U.S. Representative Jouett Shouse (D-KS) introduced a federal bank deposit bill in the House with a U.S. government guaranty on February 18, 1918. Shouse called for a U.S. government guaranty funded by assessments, supervised by the Comptroller of the Currency, and covering deposits up to $5,000. Owen introduced a very similar bill in the Senate the same day, with an

[43] 63 Cong. Rec. S1152 (Dec. 18, 1913).

amendment to add funding from the U.S. Treasury. Despite sponsorship in both houses, both with Democratic majorities, by respected leaders who were both experienced bankers and from states with deposit insurance programs that were running well in 1918, neither deposit insurance bill got to a floor debate. A month later, Colorado Senator J. F. Shalforth introduced Senate Bill 4426, a nearly identical bill to Owen's. As if to strengthen its chances by having it introduced by a new face to federal deposit insurance proposals, this bill was the only one introduced from 1913 to 1920 from a legislator whose state did not have a deposit insurance program. More importantly, this bill was formally endorsed in the legislative package by the Comptroller of the Currency, John S. Williams, a former financier from Virginia who worked closely with the War Finance Board. The deposit insurance legislation was amended with a copy of Williams' report, containing his endorsement.[44] Williams also endorsed the bill in his *Annual Report of the Comptroller of the Currency* in 1917 and 1918 and took an additional step in 1918 to write a letter to all national banks endorsing the bill and arguing its merits.[45] The *Wall Street Journal* hated it, commenting, "Senate Bill 4426 now pending in the United States Senate puts a premium on incompetence."[46] But this bill, thrice introduced in 1918 and

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[44] *Senate Calendar*, No. 368, Report No. 407 to accompany Senate Bill 4426.

[45] Exhibit A, Federal Guaranty of Deposits in National Banks, in *Annual Report of the Comptroller of the Currency to the Third Session of the Sixty-Fifth Congress of the United States, December 2, 1918, Vol.* 1 (Washington, DC: GPO, 1919), 156-161, https://fraser.stlouisfed.org/files/docs/publications/comp/1910s/1918/compcurr_1918_Vol1.pdf. Exhibit A includes a copy of a circular letter under date of June 5, 1918, to all banks in connection with the recommendation made by the Comptroller of the Currency in his report to Congress for the year 1917 in regard to the insurance or guaranty of bank deposits; Exhibit B includes a summary of deposits >$5,000 and <$5000 for national banks as of March 4, 1918 by region, New England, Eastern, Southern, Middle Western, Western, Pacific, https://fraser.stlouisfed.org/files/docs/publications/comp/1910s/1918/compcurr_1918_Vol1.pdf.

[46] *Wall Street Journal* (New York, NY), May 14, 1918, 10.

endorsed by the supervisor of the national banking system, did not get out of committee either.

A year later, Owen had second thoughts. His last federal deposit insurance bill introduced in 1919 once again called for a government-managed, private-sector insurance program. This time, however, he called for funding through a combination of assessments and net earnings from the Federal Reserve. Clearly, the legislative process and the policy was experimental, even for Owen, but with the creation of a Federal Reserve System, Owen and others increasingly viewed deposit insurance as an obligation of the federal government.[47]

As Owen's eleven bills were introduced in Congress, the Oklahoma deposit insurance program he advocated for slowly became financially stable. As Table 7 shows, forty-two out of the sixty bills introduced in this period came from states with deposit insurance programs: Twelve bills came from Oklahoma (eleven of these from Owen), nine from Nebraska, nine from Mississippi, six from Texas, three from Kansas, two from North Dakota, and one from Washington. As Chapter V demonstrated, although these programs all operated successfully up to 1920, their government administrators were well aware the programs were vulnerable to an overwhelming economic shock. Clearly, Owen and the other legislators from states with deposit insurance programs became the most vested in a federal policy.[48]

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[47] *1950 FDIC Annual Report*, 63-101.
[48] Ibid.

Table 7

Legislative Phase II: Federal Deposit Insurance Bills by Historical Context and by States with Deposit Insurance Programs, 1907-1919

Historical Context	**Northeast**	**Middle West**	**South**	**West**	**Total by Context**
Panic of 1907 1907-1908		(27) NE, (28) TX, (29) TX, (30) ND, (33) KS, (34) KS, (37) OK, Raynor, I. for **Owen, R. L.** (38) NE, (40) TX, NE, (41) NE, (42) OK, (48) OK, **Owen, R. L.**, (50) OK, (53) OK, **Owen, R.L.**, (54) NE, (55) ND, (58) OK, **Owen, R.L.**	(26) MS, (52) MS		
Subtotal by Region	0	17	2	0	19
Banking Act of 1913 1909-1913		(59) TX, (63) TX, (67) TX, (69) NE, (70) OK, **Owen, R., L.**, (71) OK, **Owen, R.L.,** (HR 7837 passed in Senate Dec. 19, 1913),	(62) MS, (66) MS, (68) MS, (72) MS	(65) WA	
Subtotal by Region	0	6	4	1	11
After the Creation of the Federal Reserve System 1914-1919		(73) NE, (74) OK, **Owen, R. L.,** (75) NE, (76) NE, (78) OK, **Owen, R.L.**, (79) OK **Owen, R.L.**, (81) KS (82) OK, **Owen, R. L.**, (85) OK, **Owen, R.L.**	(77) MS, (80) MS, (84) MS,		
Subtotal by Region	0	9	3		12
Total by Region	**0**	**32**	**9**	**1**	**42**

Note. Source: *1950 FDIC Annual Report,* 63-101. The number preceding each state references the order that the bills were introduced from 1-150. For the purposes of this analysis, the Northeast includes the Mid-Atlantic States, NY, NJ, PA, MD, and DE, and the New England states, MA, CT, RI, VT, NH, and ME; the Middle West includes states west of the Mississippi and east of the Rocky Mountains, TX, OK, KS, NE, SD, and ND plus OH, IN, IW, MN, IL, MI, WI, and MO; the South include the states along the southern the Atlantic coast to the Gulf Coast, VA, NC, SC, GA, AL, MS, LA plus WV, KY, and TN; and the West includes the states along the Rocky Mountains, NM, CO, WY, and MT, to the Pacific Coast.

Where the previous two sections examine the political and geographic character of the deposit insurance proposals between 1907 and 1919, this section focuses on the leadership behind these bills. The mantle of political leadership for federal deposit insurance during this legislative phase passed from William Jennings Bryan to Robert L. Owen. In 1907, Bryan raised federal deposit insurance to the level of a national debate for the first time since 1886. In the midst of the panic with the largest national shockwaves of any panic since the Civil War, Bryan made immediate and repeated calls for federal deposit insurance. On November 29, 1907, the lead article in *The Commoner* called for "Guaranteed Banks." The page-one editorial argued,

> It is possible for the government to give IMMEDIATE relief by an act of congress providing for a guaranty by the government of all deposits in national banks, the banks thus guaranteed to agree to reimburse the government for any losses incurred, and to make this reimbursement in proportion to their deposits.

The editorial called for the creation of a privately-funded insurance program but argued it would take time to build such a system, so the federal government should be the initial and ultimate guarantor. The same editorial argued against the Republican proposal for a postal savings system because of the deposit limits and lack of a checking feature. On December 13, 1907, the paper restated its support for federal deposit insurance over the federal postal savings system favored by President Theodore Roosevelt.

A few weeks later, *The Commoner* praised Oklahoma for its landmark deposit insurance bill, passed ten days earlier: "Good for Oklahoma! The guarantee fund is good; an absolute guarantee would be better and involve no real risk to the government, for the state would have all the assets of all the banks to secure it." Bryan still wanted the insurance fund to be reimbursed with assessments from private banks, but he advocated that the government be the initial and ultimate backer of the system. He believed that federal deposit insurance was necessary so "that every depositor in such guaranteed banks feels secure." In addition, he underscored the importance of putting the measure "into effect immediately and thus restore confidence, and enable business to be resumed."[49] Like his earlier currency position, Bryan's arguments for government deposit insurance were perceived by his opponents as poorly reasoned and politically expedient, but *The Commoner* articles clearly demonstrate that Bryan had changed his position since 1893 about the source of the guaranty.[50]

Behind this public call for a policy debate, Bryan was laying the groundwork for a third campaign for president. Bryan started building his national field organization by issuing membership certificates at sixty cents each for a million man "Commoner Army" and by recruiting his *Commoner* subscribers to sell them.[51] In a similar vein to his righteous crusade for bimetallism in 1896 and 1900, Bryan made federal deposit insurance the political and moral center of his run for president in 1908. Using the bully pulpit of his newspaper, Bryan continued to argue for federal deposit insurance and urged readers to write their senators and congressmen, arguing that "we believe it is the duty of every citizen to propose what he thinks is best and give his reasons and then leave the people and their representatives to sit in judgment of the plan."[52] On December 20, his paper published a letter from a reader that referenced this call to action. D. Guthrie from

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[49] *The Commoner*, Lincoln, Nebraska, Nov. 29, 1907, Vol. 7, No. 46, 1.
[50] "Deposit Guaranty Texas Style," *Banker's Magazine*, 79, no. 1, 27 (July 1909) from *American Periodicals*.
[51] *The Commoner*, Lincoln, Nebraska, Dec. 20, 1907, Vol. 7, No. 49, 1.
[52] *The Commoner*, Lincoln, Nebraska, Dec. 13, 1907, Vol. 7, No. 48, 2-3.

Superior, Nebraska, pressed Bryan to take the grassroots politics further. He asked Bryan to "urge through the next *Commoner* to get a petition [in support of federal deposit insurance] in every town in our state and in every other state," which Bryan did by publishing his letter on the first page.[53]

Bryan succeeded in making federal deposit insurance a central issue in the 1908 presidential election. In the summer of 1908, Bryan succeeded in putting deposit insurance on the Democratic Party platform for the first and only time:

> We pledge ourselves to legislation under which the national banks shall be required to establish a guarantee fund for the prompt payment of the depositors of any insolvent national bank, under an equitable system which shall be available to all State banking institutions wishing to use it.[54]

The words "guaranty fund" rather than "insurance fund" reflected Bryan's policy shift on this legislative proposal, and the inclusion of state banks signaled a call for bank reform legislation that overhauled the entire banking system structure.

The 1908 election can be viewed as a national referendum on federal deposit insurance. Although the November election was an electoral landslide for Taft, 321-162, and the Republicans retained control of both houses of Congress and the White House, Bryan did win 46 percent of the popular vote. When Robert L. Owen continued the fight for federal deposit insurance in Congress in December, he knew that aside from any political battles about the structure of the banking system, close to a half of the people who voted supported federal deposit insurance legislation. The 1908 election was

[53] *The Commoner*, Lincoln, Nebraska, Dec. 20, 1907, Vol. 7, No. 49, 1.
[54] The American Presidency Project, Political Party Platforms, University of California Santa Barbara, http://www.presidency.ucsb.edu/ws/index.php?pid=29589.

Bryan's last run for an elected office, but Robert L. Owen had picked up the baton for federal deposit insurance in the Senate.[55]

Senator Owen came to Washington ready to fight for federal deposit insurance. He was sworn in as a member of Congress on December 16, 1907. On December 17, the Oklahoma state legislature passed the state deposit insurance Owen had endorsed before leaving Oklahoma. Four days later, Senator Owen introduced his first federal deposit insurance bill in Congress.[56] Robert L. Owen introduced three of the thirty-two bills introduced in Congress between December 1907 and March 1908. None of these bills got out of committee. After March, Congress reached an agreement to investigate fundamental bank reform, and there was a pause in the introduction of deposit insurance bills in the Republican-controlled Congress for more than a year. Owen did not introduce another bill until the Democrats regained majority control in March 1913.[57]

The majority of the political will for federal deposit insurance generated by the Panic of 1907 was funneled into the larger battle over federal bank reform. From the Aldrich-Vreeland Act of 1908, which created the National Monetary Commission, to the passage of the Banking Act in December 1913, a legislative battle over the fundamental relationship of the federal government to banking and currency raged for more than five years. At the center of this debate were constitutional questions about currency and banking that dated back to the beginning of the Republic. The first question concerned the right of the federal government to print and issue paper money. The second question

[55] The American Presidency Project, Political Party Platforms, University of California Santa Barbara, http://www.presidency.ucsb.edu/ws/index.php?pid=29589; Paul F. Boller, *Presidential Campaigns* (Cambridge: Oxford University Press, 1996).
[56] *1950 FDIC Annual Report*, 88.
[57] *1950 FDIC Annual Report*, 63-101.

concerned the right of the federal government to operate a central bank. Behind these constitutional issues, members of both parties and advocates of both banking systems feared that a central bank operated by the federal government would compete with private banks, control private banks, or replace private banks. However, between the 1907 panic and the election in 1908, the politics of bank reform changed.[58]

In April 1908, the final word on any bank legislation that came out of Congress belonged to Senator Nelson W. Aldrich (R-RI), one of the most powerful leaders of the Republican Party, the Chairman of the Senate Finance Committee, and the Chairman of the National Monetary Commission. Aldrich had served corporate interests in the Senate since 1881. A proxy of that relationship was his daughter's marriage to John D. Rockefeller, Jr. Two years after the National Monetary Commission formed, it was still deliberating bank reform. The Aldrich-Vreeland Act, passed in 1908, facilitated the ability of the federal government to extend credit during a liquidity crisis. For the first time, the act allowed national banks to accept commercial paper, short-term loans for contracted business transactions, as collateral to issue currency. Since the Banking Act of 1863, banks could only issue currency against eligible government bonds. The creation of a central bank was not necessarily needed to forestall future panics and in fact the powers conferred by the Aldrich-Vreeland Act enabled the federal government to forestall a panic in 1914. In November 1910, though, Aldrich secretly invited prominent

[58] Elmus Wicker, *The Great Debate on Banking Reform: Nelson Aldrich and the Origins of the Fed* (Columbus: The Ohio State University Press, 2005); *The Commoner* (Lincoln, Nebraska), Dec. 27, 1907, Vol. 7, No. 50, 1; C. A. Hanson, Clement, National Bank Rutland, Vermont to Chairman, House Committee on Banking and Currency, August 29 1913, ff: Misc. Correspondence, Box 19, Carter Glass Papers (CGP), Special Collections, University of Virginia Library, Charlottesville, Virginia; Carter Glass to Dr. H. P. Willis, *Journal of Commerce*, June 9, 1913, ff: Misc. Correspondence, Box 19, CGP. Glass discusses Owen's views on the inclusion of qualified state banks becoming Federal Reserve members.

commercial and investment bankers from New York to Jekyll Island, Georgia to draft a bank bill. It was in that secret meeting, not publicly known until the 1930s, that the consensus was reached among the most powerful men in Washington and New York to create a central bank.[59]

In the midterm elections in 1910, Democrats regained control of the House. Carter Glass (D-VA) became the Chairman of the House Committee on Banking and Currency, and Senator Aldrich retired. Glass had worked in the railroad industry as a young man and then in newspaper publishing before embarking upon his political career, which began with his election in 1899 as a state senator in the Virginia Assembly. In 1902, he was elected to the U.S. House of Representatives, where he made banking and currency his area of expertise. The findings of the National Monetary Commission were submitted to the Senate in January 1912. The Jekyll Island bill was included in the report without attribution of its origin. From March 1911 to March 1913, Glass blocked the Republican bank bill on the grounds that it would place too much power in the hands of banking interests in the Northeast.[60]

In 1912, Woodrow Wilson campaigned on banking and currency reform, and the Democrats gained control of both houses of Congress and the White House. In March 1913, federal bank reform legislation was in the hands of Carter Glass in the House, while Robert Owen was now Chairman of the newly renamed Senate Committee on Banking and Currency. Wilson favored Glass's version of the bill, which omitted a federal deposit insurance provision. The final version of the Glass-Owen bill offered an

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[59] Wicker, *The Great Debate*, 1-4, 44-45.
[60] Ibid., 4-6.

innovative system of twelve reserve banks and a central Federal Reserve Board based in Washington, D.C. The board would provide government oversight over the regional reserve banks, which would be run by bankers. The long-debated bank reform bill finally passed December 23, 1913.[61]

From 1908 to 1913, the advocates of federal deposit insurance legislation fought to have this provision incorporated into the bank reform legislation. Its elimination from the final bank bill has obscured the historic importance of this political battle. The federal deposit insurance proposals were in fact the strongest measures proposed that would directly address a major panic. The National Monetary Commission commissioned the first scholarly study of the New York Safety Fund. The author, Robert E. Chaddock, a Ph.D. in economics from the University of Pennsylvania, published his study in 1910. Chaddock did not make any policy recommendations per se, but his conclusion, which summarized the strengths and limitations of the bank insurance systems in operation before the Civil War, made two points clear. State bank insurance programs had operated successfully before the Civil War to secure currency. Deposits, which represented the fastest growing portion of the money supply even before the Civil War, were initially covered in the New York program. Subsequently, deposits were eliminated as a liability by the state assembly after the first bank failures depleted the insurance fund.[62] Chaddock's study became a key source for future scholarship, but

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[61] Wicker, *The Great Debate*, 77-79.
[62] Robert E. Chaddock, *The Safety Fund Banking System in New York, 1829-1866* (Washington: GPO, 1910), 382-88.

Senator Aldrich and his allies in Congress and the private sector remained focused on the reforms that they perceived served their interests and opposed federal deposit insurance.[63]

On June 25, 1910, the Sixty-First Congress enacted the policy alternative to federal deposit insurance favored by Republicans and conditionally embraced by Democrats. The U.S. Postal Savings Act of 1911 was landmark legislation that offered a U.S. government guaranty of savings accounts for the first time. This guaranty was limited to $2,500 in accounts that were offered and administered by the federal government, entirely outside of the commercial banking system. This legislation offered protection to the nation's most economically vulnerable people, but neither did it do anything to protect the majority of the national currency in bank deposits in commercial banks, nor did it prevent future bank panics from occurring.[64]

From March 1909 to March 1913, Democrats from the Middle West and the South continued to introduce federal deposit insurance bills, nine times in Congress, which were all blocked in committee. Owen did not introduce deposit insurance during this time until he became chairman of the Senate Committee on Banking and Currency in March 1913. With Democrats now in a majority in Congress and in the White House, Owen used the power of that position to advance federal deposit insurance. As the Owen-Glass banking bill was coming to a floor vote in the fall of 1913, Owen maneuvered to include federal deposit insurance in the bank reform bill he was drafting in his committee.[65]

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[63] Wicker, *The Great Debate*, 3.
[64] Edwin Walter Kemmerer, *Postal Savings: An Historical and Critical Study of the Postal Savings Bank System of the United States* (Princeton, NJ: Princeton University Press, 1917).
[65] *1950 FDIC Annual Report*, 63-101; 69 Cong. Rec. S1111-12 (Dec. 18, 1913).

As the bank bills in the House and Senate were moving towards a floor vote in their respective houses of Congress, the opponents of deposit insurance circled the wagons. Carter Glass was steadfast in his opposition to federal deposit insurance, either as a part of the bank bill or as a separate measure.[66] Notwithstanding, Democrats in the Senate continued to advocate for the legislation. On November 10, 1913, John Sharp Williams (D-MS) submitted a deposit insurance bill in the Senate as an amendment to Glass's bank bill. On November 25, Gilbert M. Hitchcock (D-NE), the second ranking Democrat on the Senate Banking Committee, reintroduced Williams's bill with his own deposit insurance provision, and on December 1, Owen introduced Glass's bank bill with an amendment. When Owen was certain this bill would pass in the Senate, he sent it to the Senate floor. For the first time since 1886, a federal deposit insurance bill had a floor debate. Republicans like Henry Cabot Lodge rejected the legislation on constitutional grounds. In his view, the federal government had no place in banking or in printing and issuing paper money.[67] The American Bankers Association, which represented the interests of the largest banks, initiated a full-blown public relations campaign to oppose the legislation.[68]

The opinion among state and national bankers from the Middle West was mixed. On December 18, Senator Ollie James (D-KY) read to Congress a telegram from the presidents and cashiers of four state banks in Frankfort, Kentucky who wrote, "We

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[66] Glass, Carter, *An Adventure in Constructive Finance* (Garden City, NY: Doubleday, Page & Co., 1927), 208-9.

[67] 63 Cong. Rec. S1111 (Dec. 18, 1913).

[68] "Deposit-Guaranty Upheld by the U.S. Supreme Court," *Banker's Magazine*, Feb. 11, 1911; Vol. 82, No. 2, from *American Periodicals*, 161; "Bryan's Absurdity," *Banker's Magazine*, Vol. 77, No. 5, Nov. 1908, from *American Periodicals*, 760.

consider the guaranty of deposits in the currency bill as grossly unjust to the State banks unless they are allowed to take the benefit of the guaranty. We suggest either the elimination of the guaranty feature or suggest that the guaranty extend to banks taking stock in regional [Federal Reserve] banks."[69] Senator William Thompson (D-KS) read a letter from E. V. Lanyon, president of the National Bank of Pittsburg, Kansas, in support of making deposit insurance part of the currency law:

> Kansas as you well know has a state guaranty law, and a number of other states have been talking of enacting similar laws for the protection of State bank deposits. I think it would be much better for Congress to pass a guaranty law and make it a part of the new currency bill rather than to have the different States enact such laws.[70]

Despite this range of views from both sides of the political aisle and among bankers in both systems, Owen's bank bill with a deposit insurance provision passed in the Senate the same day. This was the first time a chamber of Congress had passed a federal deposit insurance bill, but that was as far as it would go.

The controversial provision appears to have been eliminated behind closed doors before the conference committee met. This bit of political scandal is significant for two reasons. The political leaders who quashed deposit insurance in 1913 were key players in 1933 and the political tactic of working to eliminate this provision by excluding the provision's key proponents was also repeated in 1933. There was considerable speculation in Congress and by the press about what would happen to the bank bill and particularly its deposit insurance provision in conference committee. On December 18,

[69] 63 Cong. Rec. S1111-2 (Dec. 18, 1913).
[70] Ibid.

Senator Joseph Bristow (R-KS), who served on the Senate Banking Committee with Owen, read an article from the conservative *New York Sun* published December 17 into the *Congressional Record*. He asserted the federal deposit insurance provision of the Senate bank bill was being eliminated in secret, and not by members of Congress.

> The Democratic and Republican leaders in the Senate are striving to finish the debate and take a final vote on the currency bill to-morrow night or Thursday at the latest so the bill may go to the conference committee of the two Houses and be agreed on by Saturday night.
>
> The work of the conference committee is being simplified by Secretary [William] McAdoo, H. Parker Willis, and certain democratic leaders who are meeting nightly in secret.

At this point, Senator Owen apparently got up and started to leave the chamber. Senator Bristow asked him to stay until he finished reading the article because he wanted to ask him a question.

> Meetings have been held at the Raleigh Hotel, the Treasury Department, and other places, but always under circumstances of great secrecy.
>
> For several days mysterious hints have been thrown out from administration sources that Secretary McAdoo was relieving Congress of some of the more important details that Senators and Representatives had been expecting later on to commit to a conference committee. Hints have been thrown out of midnight conferences at the Treasury Department.
>
> It seems incredible to the men in Congress who have been reading the New Freedom and reflecting on the wholesome advice given by the author of the little volume that there should be a third legislative body at work, not in the open light of day, as the president has advised, but under conditions of profound secrecy.

To emphasize his main point, Bristow then added, “Now we get to the important part of the article,”

> Of course there is an additional ground for surprise in the fact that the Secretary of the Treasury with one of his newspaper advisors, who has enjoyed some distinction in the authorship of the Glass bill, should take over the work of legislating on the currency.
>
> From time to time decisions reached in these secret conferences have been hinted at. It was learned to-day for example that the proposed guaranty of bank deposits in the administration bill has been eliminated by Secretary McAdoo and members of his third house.

Senator Bristow went on to say,

> I don't know anything about the reliability of the information upon which this was based, but I heard a rumor last night that the Democratic caucus was going to drop out of the bill the provision relating to the insurance of bank deposits, and if it was not dropped there it would be dropped in the conference between the two Houses, that rumor being afloat in the Chamber and the cloakrooms yesterday, I was very interested when I saw this article this morning.

Then Bristow asked Owen directly, "I should like to ask the chairman of the committee if it is proposed or has been suggested by him or his advisors that that feature of the bill is to be eliminated in conference or by the Democratic caucus?"[71]

Owen was furious. He repeatedly asked Bristow for the author of the article (there was none) and the source of the rumor (Bristow refused). Owen then stated unequivocally, "I have attended no meetings in the Treasury now in the Raleigh Hotel, nor did I know there were any in progress."[72] Treasury Secretary William McAdoo later stated he supported the deposit insurance provision in 1913. At the very least, Owen was excluded from the discussions about it at the White House.[73] Owen and Glass had long

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[71] 63 Cong. Rec. S1118 (Dec. 18, 1913).
[72] Ibid.
[73] William G. McAdoo, *Crowded Years: The Reminiscences of William G. McAdoo* (New York: Houghton Mifflin Company, 1931), 253-4.

been adversaries in the negotiation of the bank bill. Now the rift was public and personal, and ultimately Glass had the upper hand. Glass successfully removed the deposit insurance provision in the conference committee.[74] Congress passed the Owen-Glass banking bill five days later without a deposit insurance provision.

Owen, Williams, and another Nebraska representative, M. P. Kinkaid (R-NE), continued to introduce deposit insurance legislation in December and again in January and March in 1914. After that, there was a lull in proposals and the legislators continued to work behind the scenes petitioning Carter Glass to support the measure.[75] Business owners from around the country continued to be interested in the legislation. On March 3, 1914, I. H. Green, President of Green De Laittre Company, Importers, Wholesalers and Coffee Roasters wrote to Senator Carter Glass,

> Dear Sir:-
>
> When the currency bill was passed the reserve for the liquidation of depositor's accounts in case of failure of a bank was eliminated. The statement was made at the time that a little later on a bill would be introduced in Congress covering that feature . . . If it is the intention of introducing that bill, I will be pleased if you will let me know the appropriate date on which it will be introduced. I would like this information as I have prepared an article in favor of it.

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[74] Carter Glass, *An Adventure in Constructive Finance* (Garden City, NY: Doubleday, 1927), 208-9.
[75] M. Kinkaid to Carter Glass, January 21, 1914, ff: 1914 Misc. correspondence, Box 42, No. 2913, CPG, Kinkaid writes, "Herewith I am transmitting H.R. 11744, to provide for the insurance of deposits in national banks, and it will be a personal favor if you will cause this bill to be referred to the Treasury Department for recommendation by the Secretary, assuming this will be in accord with the practice of your honorable committee"; Letter from John Williams to Carter Glass, June 25, 1914, ff: 2, Box 22, No. 2913, CGP. Williams writes, "May I ask that my bill be brought to the attention of your committee in a serious way."

There is no record that Glass responded to this letter or to the letters of the two Congressmen who continued to introduced deposit insurance legislation in the House.[76] The study of the state deposit insurance programs commissioned by the deposit insurance subcommittee of the Senate Committee on Banking submitted to Congress May 12, 1914 was favorable, but the political momentum for the legislation had dissipated.[77]

With war quickly approaching in Europe, Secretary of the Treasury McAdoo first used the powers of the Aldrich-Vreeland Act to stem the tide of a bank panic in 1914. When the Federal Reserve System was implemented later that year, McAdoo, now chairman of the Federal Reserve Board, moved to use the power and authority of the newly created Federal Reserve System to underwrite the government mobilization of the war effort. Although McAdoo was initially a powerful opponent of the deposit insurance provision in 1913, he did utilize an insurance product guaranteed by the U.S. government during the war. The United States offered insurance on American cargo crossing through European waters during the war. McAdoo, who married Wilson's daughter, was an unsuccessful presidential candidate in 1920 and 1924, but he returned to Congress as a Senator from California as a key supporter of federal deposit insurance in 1933.[78]

Owen's proposal to facilitate massive government lending in the event of a liquidity crisis was embraced in the Aldrich-Vreeland Act, but he came to believe this

[76] T. H. Green to Hon. Carter Glass, March 26, 1914, ff: Corresp. Re: Banking and Currency, Box 44, No. 2913, CGP.
[77] George H. Shibley, *Guaranty of Bank Deposits in the States, 1908-1914* (Washington, DC, GPO, 1914), 1-62.
[78] William L. Silber, *When Washington Shut Down Wall Street: The Great Financial Crisis of 1914 and the Origins of America's Monetary Supremacy* (Princeton, NJ: Princeton University Press, 2008); Douglas Craig, *Progressives at War: William G. McAdoo and Newton D. Baker* (Boston: Houghton Mifflin Company, 1931), 126-141.

mechanism would be insufficient to stop a bank panic. This mechanism did not formally become a part of the policy making mission of the Federal Reserve System. After five years of debate, the Banking Act of 1913 represented a fundamental change in the role of government in money and banking. Structurally, it established a system of twelve federal banks instead of having one central bank that would have greater ability and more flexibility to affect monetary policy, presumably in a positive way. With respect to currency, it gave the federal government sole authority to print and issue paper money for the first time. There were no more national bank notes, only U.S. Treasury notes. This U.S. currency was intended to be more elastic; it was backed by a broader range of security types: specie, government bonds, and some specified non-governmental securities. Membership was mandatory for national banks, but eligibility was open to qualified state banks, which could apply for membership, a provision Owen worked hard to include. The Federal Reserve Act did not unify the banking system, but it was a move in that direction.[79]

Supporters of the Federal Reserve bill hoped that it would strengthen the national banking system enough to withstand future bank panics. Senator James A. Reed (D-MO) served on the conference committee and advocated for the final bill from the Senate floor:

> The truth of the matter is that this bill is intended to strengthen our banking system. The truth is the bill will probably benefit banks by removing from them the great menace of panics and constriction. By removing this menace from the banks we remove it from the country. The panic first strikes the bank, but within

[79] Carter Glass to H. Parker Willis, *Journal of Commerce*, June 9, 1913, ff: 1912-1913 Misc. Correspondence, Box 17, No. 2913, CPG.

> the next succeeding moment strikes the depositor of the bank; it strikes the borrower from the bank; it strikes the business of the country; it goes down and strikes the man who digs in the trench and who toils in the mine.[80]

Senator Reed neglected to mention farmers.

As a bank reform measure that came out of the worst bank panic in U.S. history, the Banking Act of 1913 did not fundamentally address the potential for future bank panics. As one prominent economist has noted, there was very little direct debate in Congress regarding the prevention of bank panics.[81] The Federal Reserve System was the product of political compromise and had substantive structural weaknesses. It effectively excluded the majority of banks in the rural precincts from membership. It did nothing to regulate the relationship between banking and market speculation, and it did not address the intangible and intrinsic issue of public confidence in the banking system. As a banker who had survived three major panics in his lifetime, Owen understood these weaknesses and continued to press for deposit insurance while Democrats continued to hold a majority in Congress. Democrats from the Middle West and South introduced eleven more deposit insurance bills in Congress from 1914 to 1919, four by Owen; none got out of committee.[82] As another prominent economist has noted, if the Banking Act of 1913 had included Owen's federal deposit insurance bill, the next twenty years of U.S. economic history would have been substantially different.[83] The failure to pass federal deposit insurance in 1913 entailed a catastrophic cost to millions of Americans.

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[80] Glass, *An Adventure*, 220.
[81] Wicker, *The Great Debate*, 78.
[82] *1950 FDIC Annual Report*, 63-101.
[83] Allan Meltzer, *A History of the Federal Reserve, Vol. 1: 1913-1951* (Chicago: University of Chicago Press, 2003), 70.

However, the Banking Act of 1913 still marked a turning point in federal deposit insurance legislation. Before 1913, the majority of proposals called for an "insurance" program made up of "assessments" from member banks. After the creation of the Federal Reserve System, the majority of proposals still called for "insurance," but those proposals now called for the federal government to fund the "insurance" program, partially or entirely. The creation of the first federal bank in the aftermath of the Panic of 1907 was the strongest political opportunity for federal deposit insurance since 1886. As Owen was shepherding the Banking Act through the Senate, he successfully passed a federal deposit insurance proposal as part of that legislation. Once again, opponents of deposit insurance prevailed, but the advocates persisted, as the structure of the Federal Reserve System was flawed in a banking system in which most banks and assets were excluded. Members of Congress, under the leadership of Robert L. Owen, continued to introduce deposit insurance legislation in the Democratic-controlled Congress nearly every year until 1919.

CHAPTER VII

HENRY B. STEAGALL, ***FEDERAL*** DEPOSIT INSURANCE, AND THE "MID-CONTINENT REVOLUTION," 1920-1933

Legislative Phase III, 1920-1933

An examination of the bills introduced in this period by party, region, and their features demonstrates how the political will to enact federal deposit insurance coalesced after more than forty years. This analysis makes clear the dominant role of Democrats from the rural Middle West and South under the leadership of Henry Steagall. It also shows how the political base in favor of deposit insurance expanded to new stakeholders in the largest urban centers, Chicago, New York, Detroit, and San Francisco. When deposit insurance was passed in 1933, the legislation had been transformed from an "insurance" product designed to strengthen the national bank system to a fundamental bank reform that reformulated the whole banking system and the relationship of the U.S. government to banking and the economy.[1]

Between 1920 and 1933, thirty-two legislators from eighteen states introduced sixty-five federal deposit insurance bills. The first wave of bills from 1920 to 1929 followed a post-World War I deflationary recession in 1920-21, followed by a sustained economic depression that impacted farmers in the Middle West and South most severely. Republicans regained control of Congress in 1920 and held that majority and the White

[1] *Annual Report of the Federal Deposit Insurance Corporation for the year ended December 31, 1950* (Washington, DC: Federal Deposit Insurance Corporation, 1950), 63-101, hereafter *1950 FDIC Annual Report*.

House until 1930. The Federal Reserve exacerbated the recession by retracting the money supply from December 1920 to August 1930. The federal government was supposed to have oversight of the Federal Reserve through the Federal Reserve Board in Washington, but this tight credit policy was coordinated by the Federal Reserve Bank of New York during the 1920s. It benefitted creditors, like investment bankers who favored a strong dollar abroad, and put debtors at a disadvantage, particularly family farmers. When poor crop conditions in the Middle West and South compounded falling agricultural prices, those regions experienced an economic collapse that preceded the Great Depression. All eight state deposit insurance programs were closed by 1929.[2]

Twice as many federal deposit insurance bills were introduced in the wake of the crash of the New York Stock Exchange in 1929. Democrats regained control of the House in 1930, and the Senate in 1932, and worked to enact fundamental bank reform legislation. In this second wave of legislative activity, the political support for federal deposit insurance reached a critical mass across party lines and across the country. The public outcry was audible to all legislators in Congress and bipartisan support was critical, but the leadership of Henry Steagall was decisive in the passage of federal deposit insurance legislation in 1933.[3]

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[2] Susan Estabrook Kennedy, *The Banking Crisis of 1933* (Lexington: University of Kentucky Press, 1973), 215; *1950 FDIC Annual Report*, 65; Lawrence E. Clark, *Central Banking Under the Federal Reserve System* (New York: Macmillan Company, 1935), 397-98; Lester V. Chandler, *Benjamin Strong: Central Banker* (Washington, DC: Brookings Institution, 1958), 41-47, 77-79, 93-103; Milton Friedman and Anna Jacobson Schwartz. *A Monetary History of the United States, 1867-1960* (Princeton, NJ: Princeton University Press, 1963), 409-410n165; Elmus R. Wicker, *Federal Reserve Monetary Policy, 1917-1933* (New York: Random House, 1996); Ben S. Bernanke, "A Century of U.S. Central Banking," *Journal of Economic Perspectives* 27, No. 4 (2013): 3-16; Elmus R. Wicker, *The Banking Panics of the Great Depression* (Cambridge: Cambridge University Press, 1996), 1-23.

[3] *1950 FDIC Annual Report*, 63-101; Kennedy, *The Banking Crisis*, 214-23; Charles W. Calomiris and Eugene N. White, "The Origins of Federal Deposit Insurance" in *The Regulated Economy: A Historical*

Democrats continued to dominate the introduction of deposit insurance bills during this final legislative phase. As Table 8 shows, Democrats introduced the majority of bills from 1920 to 1929 by a margin of more than four to one. After 1929, there was increased support from Republicans, but Democrats still put forth legislation more often than Republicans, by a margin of two to one. Table 8 also shows that Henry D. Steagall (D-AL) was the key political leader during this legislative phase, introducing a total of eight bills, the most of any legislator.[4]

In this final legislative phase, the Middle West and South were the geographic strongholds of political support for federal deposit insurance. As Table 9 shows, in the first wave of twenty-three bills that followed the recession of 1920-21, twenty-one came from the Middle West and South. With one notable exception discussed below, all the bills introduced from 1920-1929 came from the rural states and districts most deeply affected by the deflationary recession of 1920-21, particularly those with deposit insurance programs.

Of the twenty-three bills introduced in this period, thirteen bills came from the Middle West from states with failing deposit insurance programs. The remaining ten bills came from states without deposit insurance programs. Legislators from these regions increasingly understood that no single state or region with a predominantly agricultural economy was strong enough to withstand a major financial crisis.

Approach to Political Economy ed. Claudia Dale Goldin and Gary D. Libecap, 145-88 (Chicago: University of Chicago Press, 1994).
[4] *1950 FDIC Annual Report*, 63-101.

Table 8

Legislative Phase III: Fed. Dep. Ins. Bills by Historical Context & Political Party, 1920-1933

Historical Context	**Republicans**	**Democrats**	**Total by Context**
Jan. 1920 – Oct. 1929	(88) ID, (89) IW, (91) IW, (92) NM	OK (86) OK, (87) OK, (90) OK, (93) OK, (94) IL, T.A. Doyle (95) AL, **Steagall, H.S.**, (96) OK, (97) OK, (98) AL, **Steagall, H.B.**, (99) GA, (100) NE, (101) GA, (102) OK, (103) NE, (104) GA, (105) OK, (106) OK, (107) AL, **Steagall, H.B.**, (108) NE	
Subtotal by Party	4	19	23
Nov. 1929 – Jun. 1933	(110) IW, (121) NY, (124) OH, (127) OH, (128) OH, (131) TN, (132) KS, (135) MI, (136) OH, (137) OH, (138) MI, (143) NY, (146) CA, (147) MI	(109) GA, (111) AL, **Steagall, H.B.**, (112) OK, (113) SC, (114) GA, (115) NE, (116) IL, (117) OK, (118) SC, (119) IW, (120) OH, (122) IL, (123) NE, Shallenberger, A.C., (125) FL, (126) OK, (129) AL, **Steagall, H.B.**, (130) OK, (133) AL, **Steagall, H.B.** (This bill, HR 11362, passed in the House May 27, 1932), (134) FL, (139) CA, (140) FL, (141) OK, (142) TX, (144) NE, (145) NE, Shallenberger, A.C., (148) AL, **Steagall, H.B.**, (149) VA, Glass, C., (150) AL, **Steagall, H.B.** (This bill, HR 5661, in amended form became law June 16, 1933.)	
Subtotal by Party	14	28	42
Total by Party	**18**	**47**	**65**

Note. Source: *1950 FDIC Annual Report,* 63-101. The number preceding each state references the order that the bills were introduced from 1-150.

Table 9

Legislative Phase III: Fed. Dep. Ins. Bills by Historical Context & Region, 1920-1933

Historical Context	**Northeast**	**Middle West**	**South**	**West**	**Total by context**
Jan. 1920 – Oct. 1929		(86) OK, (87) OK, (89) IW, (90) OK, (91) IW, (93) OK, (94) IL, Doyle, T.A. (96) OK, (97) OK, (100) NE, (102) OK, (103) NE, (105) OK, (106) OK, (108) NE	(95) AL, **Steagall, H. B.**, (98) AL, **Steagall, H.B.**, (99) GA, (101) GA, (104) GA, (107) AL, **Steagall, H.B.**	(88) ID, (92) NM	
Subtotal by region	0	15	6	2	23
Nov. 1929 –Jun. 1933	(121) NY, La Guardia, F. H., (143) NY	(110) IW, (112) OK, (115) NE, (116) IL, (117) OK, (119) IW, (120) OH, (122) IL, (123) NE, Shallenberger, A.C., (124) OH, (126) OK, (127) OH, (128) OH, (130) OK, (132) KS, (135) MI, Vandenberg, A.H, (136) OH, (137) OH, (138) MI, Vandenberg, A.H., (141) OK, (142) TX, (145) NE, Shallenberger, A.C., (147) MI, McLeod, C.J.	(109) GA, (111) AL, **Steagall, H.B.**, (113) SC, (114) GA, (118) SC, (125) FL, (129) AL, **Steagall, H.B.**, (131) TN, (133) AL, **Steagall, H.B.**, (This bill, HR 11362, passed in the House May 27, 1932), (134) FL, (140) FL, (148) AL, **Steagall, H.B.**, (149) VA, Glass, C., (150) AL, **Steagall, H.B.** (This bill, HR 5661, became law in amended form June 16, 1933)	(139) CA, McAdoo, W. G., (144) CA (146) CA	
Subtotal by Region	2	23	14	3	42
Total by Region	**2**	**39**	**20**	**5**	**66**

Note. SOURCE: *1950 FDIC Annual Report,* 63-101. The number preceding each state references the order that the bills were introduced from 1-150. For the purposes of this analysis, the Northeast includes the Mid-Atlantic States, NY, NJ, PA, MD, and DE, and the New England states, MA, CT, RI, VT, NH, and ME; the Middle West includes states west of the Mississippi and east of the Rocky Mountains, TX, OK, KS, NE, SD, and ND plus OH, IN, IA, MN, IL, MI, WI and MO; the South include the states along the southern the Atlantic coast to the Gulf Coast, VA, NC, SC, GA, AL, MS, LA plus WV, KY and TN; and the West includes the states along the Rocky Mountains, NM, CO, WY, and MT, to the Pacific Coast.

The outlier in this first wave of bills signaled a shift in the political base of support for federal deposit insurance. In 1924, HR 8977 was introduced by Thomas A. Doyle (D-IL), who represented Chicago's Fourth District. This federal deposit insurance bill was the first one introduced by a representative from a major urban center. Of even equal, if not greater, significance, this bill was written by P. W. Chavers, the founder and president of the Douglass National Bank, the first national bank chartered to an African American.[5]

Pearl William Chavers was a community leader and developer in the tradition of Joshua Forman and Robert L. Owen. Chavers's ancestors were free people of color, descendants of French Huguenots who came to North Carolina as indentured servants in 1700. His family lived in Chatham County, North Carolina, until 1867, when they moved to Ohio, where Chavers was born. His father died when he was young, and Chavers worked his way through a business college and became a successful entrepreneur. Chavers also established a newspaper, *The Columbus Standard*, in 1901, a ladies garment factory in 1905, and a real estate partnership in 1906. A leader in the care and uplift of his community, Chavers was a trustee of the Lincoln Ohio Industrial Training Institute for Colored Youth, the president of the Board of Directors for the Home for Aged Colored People, and a regional leader of Booker T. Washington's National Negro Business League. In 1908, Chavers became a delegate to the Republican national convention where he met Booker T. Washington, his role model.[6]

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[5] *1950 FDIC Annual Report,* 63-101; Madrue Chavers-Wright, *The Guarantee* (New York: The Wright-Armstead Associates, 1985), 1-24.
[6] Chavers-Wright, *The Guarantee*, 1-24.

Chavers and his wife moved to Chicago's South Side in 1917 to open a new branch of his garment factory and start a family. His wife had grown up on the South Side, and she missed big city life. The young couple arrived just as a migratory wave of unskilled blacks from the South moved into the neighborhood. The South Side had been a relatively peaceful and prosperous community for blacks. The "Old Settlers" first came to the neighborhood in the 1840s, some as runaway slaves. However, as the population increased dramatically, the Chicago Real Estate Board blocked the area from expansion. Overcrowding contributed to racial tensions in public spaces along the border between black and white neighborhoods. The South Side became known by a new moniker, "The Black Belt."[7]

The Woodfolk Savings Bank, a black-owned bank in the neighborhood, had been shaken by riots in 1918 and failed in the spring of 1919. That July, another cataclysmic wave of racial violence killed dozens of people, both black and white, and destroyed thousands of black homes and businesses. The Woodfolk Savings Bank and the home of its president, Carter G. Woodfolk, were both bombed. The Chavers's family escaped the violence, but they could hear the bombing of Woodfolk's home a few blocks from their home. Although his employees were terrified to come to work during the riots, Chavers never closed the doors of his factory.[8] The governor called six thousand national guardsmen to restore order to the city.

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[7] Chavers-Wright, *The Guarantee*, 1-24; Allan Spear, *Black Chicago: The Making of a Negro Ghetto, 1890-1920* (Chicago: University of Chicago Press, 1967).
[8] Chavers-Wright, *The Guarantee*, 32; William Tuttle, *Race Riot: Chicago in the Red Summer of 1919* (Urbana: University of Illinois Press, 1970).

On the South Side, fifteen hundred people gathered in St. Mark's Methodist Episcopal Church to discuss the bombings. Chavers observed that some of their anger was directed towards Carter Woodfolk. The bank building was the Woodfolk Bank's biggest asset, and its destruction compromised the ability of the bank to repay its depositors. In spite of the bank's worsened financial position, Chavers took over the trusteeship of the bank to honestly and expediently liquidate the bank's remaining assets to return as much money as possible to depositors. Chavers was motivated by sympathy for people in the African-American community who had lost their savings and by their perception that "colored bankers cannot be trusted." Soon afterward, Chavers began organizing a national bank for the community. He was careful not to name it after himself, but after a source of inspiration for his community. The Douglass Bank received its charter in 1921. It was the first national bank chartered to an African American. As Chavers opened his bank for business, he began drafting legislation to protect his bank and his community.[9]

In 1924, Chavers used his political connections in Chicago to persuade U.S. Representative T. A. Doyle to introduce his bill. Like every other deposit insurance bill since 1886, except Owen's bill in 1913, Chavers's bill languished in committee. Dissatisfied with this outcome, Chavers redirected his efforts. In 1926, Chavers himself ran for U.S. Representative of Chicago's First District and made his deposit insurance plan the center of his platform. His bid was unsuccessful, but his conviction that the legislation was critically important never waned. Chavers stepped down from the bank in

[9] Chavers-Wright, *The Guarantee*, 6, 24-38, 49, 76-77.

1931 for health reasons. Only a year later, despite cash advances from the Reconstruction Finance Corporation and a "prosperity drive" that reportedly increased deposits "1000 percent," the overall depletion of the bank's deposits the resulted in the institution's collapse.[10] Chavers strongly believed that federal deposit insurance could have stemmed the run on his bank. The bank's executives at the time also attributed the failure to a lack of community confidence. The *Chicago Defender* reported,

> Following a steady withdrawal of deposits from the Douglass National Bank over the last nine months, the capital at the bank dwindled from $2,000,000 to $408,000, making conditions so desperate that the Board of Directors voted on May 20, 1932 to close the institution. Saturday the bank's doors failed to open. Three weeks ago, the bank launched a prosperity drive to get more deposits; this would have saved the bank had it been successful, but the people lacked confidence and the bank had to close.[11]

Chavers was heartbroken; community confidence was the very thing he wanted his bank to create. As his health was failing and he was observing the financial collapse around the country, Chavers wanted to revive his deposit insurance bill in Congress but lacked the political connections to do so.[12]

Chavers died in the spring of 1933, denied the opportunity to see that a version of the legislative idea he advocated for was enacted. Decades later his daughter, Madrue Chavers-Wright wrote a memoir to chronicle her father's extraordinary accomplishments which she felt were obscured because he was financially ruined in the banking crisis. Interestingly, she chose to center the story of his life on his one-page legislative proposal.

[10] "Douglass Bank Launches Big Prosperity Campaign," *Chicago Defender*, May 14, 1932, "Federal Officials Probe Failure of Douglass Bank," *Chicago Defender*, May 28, 1932, 1.
[11] Chavers-Wright, *The Guarantee*, 390.
[12] Madrue-Wright, *The Guarantee*, 389-90.

The bill may have stalled in committee, but as Chavers-Wright understood her father, that insurance plan represented the very best of her father's innovative intelligence, leadership, and aspirations for his community. Chavers was part of the small cadre of extraordinary leaders wholly vested in the development of their communities who carried the federal deposit insurance idea forward.[13]

The crash of the New York Stock Exchange in 1929 precipitated a crisis across the banking sector. In the second and final wave of federal deposit insurance bills, the base of political support for federal deposit insurance expanded across party lines and around the country, but the core political support continued to come from Democrats in the Middle West and South. As Table 9 shows, thirty-seven out of the forty-two bills introduced from 1929 to 1933 came from those two regions. Nearly one-half of the bills from the Middle West continued to come from states that had deposit insurance programs. Two of these bills were introduced by Ashton C. Shallenberger, the former governor of Nebraska and named defendant in the landmark Supreme Court case, *Shallenberger, Governor of Nebraska v. First State Bank of Holstein* (1911), which established the legal right of state legislatures to compel the participation of private banks in a state deposit insurance program. Shallenberger's support shows that leaders from states with deposit insurance programs continued to carry this legislative idea to the national level, despite the failures of the state level programs. After 1929 four times as many bills came from states without programs. The political will in support of deposit

[13] *1950 FDIC Annual Report,* 63-101; Chavers-Wright, *The Guarantee*, 77, 390, 394.

insurance had clearly surpassed the core of leaders who had carried the idea forward for almost forty years.[14]

After 1929, the federal deposit insurance bills from major urban centers across the country signaled that the base of support for federal deposit insurance was expanding nationwide in the advancing financial crisis. In the Northeast, the first and only federal deposit insurance bill from New York City was introduced in 1932 by Republican Fiorello La Guardia, who represented Manhattan's Twentieth District including East Harlem's large population of Italian immigrants. La Guardia had been in Congress ten years when he introduced his first federal deposit insurance bill in January 1932, a year after the failure of the deceptively named Bank of the United States. That bank was part of an enormous conglomerate of banks, real estate, and insurance companies. It failed as a result of speculative business practices intended to manipulate the company's stock price. The internal financial collapse ultimately led to a run on the bank and a loss of $220 million dollars impacting 440,000 depositors of mostly small accounts belonging to immigrants, many of whom misunderstood the name of the bank to mean the accounts were insured by the federal government. Signs carried in the street the day of the bank run stated, "The U.S. government is liable. Name of bank was Bank of U.S."[15] The Bank of the United States was the biggest failure of a New York bank since the failure of the Knickerbocker Trust Company in 1907. The collapse of this bank, larger than

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[14] *1950 FDIC Annual Report*, 63-101; Smith, "Guaranty of Bank Deposits," 69; Calomiris and White, "Federal Deposit Insurance," 164.
[15] *New York World-Telegram & Sun Collection*, http://hdl.loc.gov/loc.pnp/cph.3c17261.

hundreds of previously failed banks combined, propelled the continued collapse of banks across the country.[16]

In the Middle West, support for deposit insurance came from Michigan for the first time since 1886. The failure of the largest banks in Detroit led two Michigan legislators, Senator Arthur Vandenberg and Representative Clarence J. McLeod of Michigan's Thirteenth District, to introduced deposit insurance bills multiple times in 1932-33. The failure of the largest banks in a large metropolitan area was an alarming signal of systemic collapse.[17]

In the West**,** legislators from California introduced deposit insurance bills for the first time. California was a wealthy state with a diverse economy and strong banking system. The political support of two representatives and one senator brought the base of political support for deposit insurance to the west coast. California's largest bank, the Bank of America in San Francisco, also supported the measure. The Bank of America opened in 1905 as the Bank of Italy by an Italian immigrant, Amadeo Pietro Giannini, for immigrants who were often discriminated against by existing banks. By 1928, it had become the largest branch banking institution in the country, with four hundred and fifty-three branches in California and $1.4 billion in capital. The bank became a separate center of financial power in the United States, independent from New York. In 1930, the bank was renamed the Bank of America National Trust and Savings Association.

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[16] *1950 FDIC Annual Report, 63-101*; Kennedy, *The Banking Crisis*, 1-6.
[17] *1950 FDIC Annual Report,* 63-101; Kennedy, *The Banking Crisis*, 1973, 1-6; Robert G. Rodkey, "State Bank Failures in Michigan," *Michigan Business Studies* 7, No. 2 (1935): 1-69; Kennedy, *Banking Crisis of 1933*, 77-102; Frank Freidel, *Franklin D. Roosevelt: Launching the New Deal* (Boston: Little, Brown and Company, 1973), 182.

In 1933, Bank of America was not happy with its treatment by Washington during the period when banks were re-certified to open by the Reconstruction Finance Corporation (RFC) after Roosevelt's "bank holiday." The bank was initially denied re-certification by the RFC, apparently more for political reasons than financial ones. The decision to prevent the Bank of America from re-opening was made on the recommendation of the San Francisco Federal Reserve Bank. Giannini claimed the data used by the San Francisco Fed to make its assessment were not current. Apparently, the San Francisco Fed did not trust Giannini, who was an independent powerbroker in California finance. The closing of the Bank of America would have been catastrophic for California, and the impact of its permanent failure would have been felt as far east as Chicago. Giannini appealed the RFC's decision and McAdoo worked behind the scenes to reopen the bank. The decision was reversed, but the largest bank in California felt it did not get a fair shake from the Federal Reserve. There was strong support from California for a new federal institution to guaranty deposits and supervise banks.[18]

The California legislators introduced three deposit insurance bills during the floor fight for bank reform between March and April 1933. In particular, Senator William G. McAdoo was a powerful advocate of the measure in the Senate. McAdoo had been the Secretary of the Treasury from 1913 to 1918. He had been part of the Wilson administration cabal that allegedly worked behind the scenes to kill the deposit insurance provision in 1913. McAdoo later wrote that he favored the measure at the time, although Senator Owen had been excluded from meetings held at the White House. Interestingly,

[18] Freidel, *Franklin D. Roosevelt*, 232-34; William G. McAdoo, *Crowded Years: The Reminiscences of William G. McAdoo* (New York: Houghton Mifflin Company, 1931), 253-54.

during World War I, McAdoo created a U.S. government-backed War Risk Insurance for U.S. cargo travelling through war zone waters. By 1933, McAdoo was introducing deposit insurance legislation himself. Like Glass, he had been present at the birth of the Federal Reserve System, which had failed to intervene effectively in the current banking crisis. Like Glass, McAdoo had come to understand some additional institutional structure was needed to address the causes and collateral damage of bank panics. Also significantly, McAdoo had been Amadeo Giannini's attorney before entering the Senate.[19]

In this last legislative phase from 1920 to 1933, the majority of deposit insurance bills still called for an "insurance" program that would strengthen the national banking system, but an analysis of features of the last sixty-five bills shows a fragmentation of policy ideas under conditions of increasing financial stress. There were both more conservative proposals that called for greater financial and administrative control by private sector and more liberal proposals that called for greater administrative and financial control by the federal government. This fragmentation suggested that the final form of federal deposit insurance might emerge as an entirely new institutional formulation, and it did.[20]

With regard to eligibility, the majority of bills introduced from 1920 to 1933 called for the inclusion of national banks, but increasingly the proposals approached a

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[19] Freidel, *Franklin D. Roosevelt*, 232-4; 63 Cong. Rec. S1118 (Dec. 18, 1913); McAdoo, *Crowded Years*, 253-4; *1950 FDIC Annual Report,* 63-101; Kennedy, *The Banking Crisis*, 214-23; Helen M. Burns, *The American Banking Community and New Deal Banking Reforms, 1933-1935* (Westport, CT: Greenwood Press, 1974), 160-161; Douglas B. Craig, *Progressives at War: William G. McAdoo and Newton D. Baker*, 1863-1941 (Baltimore: The Johns Hopkins University Press, 2013), 106-8, 110, 113, 177.
[20] *1950 FDIC Annual Report,* 63-101.

reconciliation of the national and state banking systems. Sixty-one out of sixty-five bills included national banks, but unlike earlier legislative periods, only seven of those bills called for *only* national banks to be included. Fifty-four bills called for eligibility defined by Federal Reserve membership, which would have included all national banks that were required to become members and state banks that chose to become members. After 1929, ten of the bills that defined eligibility in terms of Federal Reserve membership also specified the inclusion of other qualified state banks not in the Federal Reserve System.[21]

A few bills envisioned deposit insurance programs that resolved or avoided the national and state banking systems completely. Two bills introduced by J. W. Taylor (R-TN) required that all banks join the Federal Reserve System. A more radical idea was proposed by Senator S. W. Brookhart (R-IA), who introduced four bills envisioning the creation of an entirely new banking system of cooperative federal banks that would be federally managed as depositor-owned nonprofits. This variation among the proposals with respect to eligibility demonstrated an increasing recognition, however awkward politically, that to be effective, federal deposit insurance needed to include both state and federal banks.[22]

With respect to administrative authority, the majority of bills called for the main federal bank authorities to supervise federal deposit insurance, but far fewer bills named the Comptroller of the Currency. Between 1920 and 1933, thirteen bills called for the Comptroller of the Currency to supervise, eighteen specified the Secretary of the Treasury, and another eighteen proposed the Federal Reserve. All the bills introduced

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[21] *1950 FDIC Annual Report,* 63-101.
[22] Ibid.

before the New York Stock Exchange crashed called for one of these three banking authorities. But after 1929, a significant number of bills called for an entirely new administrative authority. A total of sixteen bills specified an alternative federal authorities like the Federal Farm Board or proposed entirely new authorities like a Bureau of Insurance, a Federal Bank Liquidating Board, a Federal Banking Commission, a Guaranty Board, a Federal Guaranty Insurance Corporation, and finally, a Federal Deposit Insurance Corporation. This sharp departure from the two previous legislative periods reflected a crisis in confidence in existing federal institutions.[23]

With regard to liabilities, the bills introduced between 1920 and 1933 were significantly more restricted than in earlier legislative phases. Only three bills covered all liabilities. The liability of the vast majority of bills introduced in this period was limited to deposits only. Of the sixty-two bills that limited liability to deposits only, only fifteen covered all deposits unconditionally. A few bills that limited liability to deposits only added additional protection for depositors: the immediate reimbursement of deposits. The majority of bills that limited liability to deposits called for additional protections for the insurance program. For example, some of the bills that covered deposits only specified only covering deposits that were not otherwise secured. Other bills excluded deposits in interest-bearing accounts. Some bills, including four introduced by Henry Steagall, specified that deposits would be reimbursed only after liquidation. Some bills put limits on the amount of each account that would be covered. For example, some bills would only insure a percentage of the deposits, ranging from 25 to 75 percent. Some

[23] *1950 FDIC Annual Report,* 63-101.

bills, including four introduced by Steagall, restricted the insurance coverage to a flat dollar amount, ranging from $1,000 to $10,000. The proponents of federal deposit insurance never abandoned the fundamental idea, but the proposals in this phase began to set more stringent liability limits as bank failures became endemic in the 1920s.[24]

With respect to the source of the guaranty, the vast majority of bills from 1920 to 1933 continued to call for an “insurance” program. Out of the sixty-five bills introduced in this period, fifty-four called for “insurance” as the source of the guaranty, ostensibly through an insurance fund created through assessments from member banks. Fourteen bills proposed alternative models, one structured more towards the private sector and one structured more towards the public sector. Ten bills proposed that bank deposits be guaranteed through a “surety” company; four bills called for the guaranty to come from the “U.S. government.”[25]

An analysis of the funding of these proposals demonstrates that the ideological lines between private sector “insurance” and a public sector “government guaranty” continued to become more blurred between 1920 and 1933. Whether the deposit insurance proposals called for “insurance” or the “U.S. government” to be the source of the guaranty, the financial structure of most proposals was increasingly a hybrid between the public and private sector. As Table 10 shows, among the fifty-one bills calling for “insurance,” fourteen called for an insurance program financed through bank funds only. The majority of the “insurance” bills in this period called for private and public funding. Twenty-four of the “insurance” bills proposed financing through assessments or bank

[24] *1950 FDIC Annual Report,* 63-101.
[25] Ibid.

funds already in existence and for funding through the federal government, either from the Federal Reserve or the Treasury Department. Most surprisingly, twelve "insurance" bills called for funding entirely from the federal government through Federal Reserve earnings, taxes banks paid the government already, or through direct appropriations from the Treasury.[26]

Four "insurance" bills from Georgia representative C. H. Brand embraced this dichotomy much more directly. Like most proposals in this period, Brand called for a government-managed, private-sector "insurance" fund. Brand's bills stand out because of the language included in his proposals. In every bill, Brand wrote that federal deposit insurance was "in effect a U.S. guaranty." Brand was an experienced banker, the president and a director of the Brand Banking Company, and a director on the board of both a national bank and a state bank in Georgia. He died in office in May of 1933 and did not live to see the enactment of federal deposit insurance or receive the gratification from knowing that his forthright insight that any government-managed insurance program would ultimately and effectively carry a U.S. government guaranty was correct.[27]

Conversely, among the four bills in this period calling for a "U.S. government" guaranty, every one of the four bills called for the insurance fund to be at least partly financed through the public sector. As Table 10 shows, two of these bills called for insurance funded through assessments only, and two bills called for a combination of assessments and government appropriations.

[26] *1950 FDIC Annual Report,* 63-101.
[27] Ibid.

Table 10

Federal Deposit Insurance Bills: Source of the Guaranty and Sources of Funding by Legislative Phase, 1886-1933

	Source of the Guaranty			Sources of Funding					
				Bank		Bank + Gov		Gov	
		#	% tot	#	% tot	#	% tot	#	% tot
Phase 1, 1886-1906	INS	18	72.0%	16	88.9%	1	5.6%	1	5.6%
	US GOV	7	28.0%	2	28.6%	2	28.6%	3	42.9%
Subtotal 1		**25**	**100.0%**	**18**	**72.0%**	**3**	**12%**	**4**	**16.0%**
Phase 2a 1906-1912 (Before Fed)	INS	39	90.7%	30	76.9%	5	12.8%	4	10.3%
	US GOV	4	9.8%	4	100.0%	0	0.0%	0	0.0%
Subtotal 2a		43	100.0%	34	79.0%	3	7.0%	1	2.3%
Phase 2b 1913-1919 (After Fed)	INS	14	82.4%	1	7.1%	2	14.3%	11	78.6%
	US GOV	3	16.6%	1	33.3%	2	66.7%	0	0.0%
Subtotal 2b		17	100.0%	2	11.8	4	23.6%	11	64.7%
Phase 2 1906-1919	INS	53	83.3%	31	58.5%	7	13.2%	1	28.3%
	US GOV	7	11.7%	5	71.4%	2	28.6%	0	0.0%
Subtotal 2		**60**	**100.0%**	**37**	**61.7%**	**5**	**11.7%**	**15**	**21.7%**
Phase 3, 1920-1933	INS	51	78.5%	14	27.5%	24	47.1%	13	25.6%
	US GOV	4	6.1%	1	25.0%	3	75.0%	0	0.0%
	SURETY	10	15.3%	10	0.0%	0	100.0%	0	0.0%
Subtotal 3		**65**		**25**	**38.5%**	**27**	**41.5%**	**13**	**20.0%**
Total		**150**		**70**	**46.7%**	**37**	**24.7%**	**30**	**20.0%**

Note. Source: *1950 FDIC Annual Report*, 63-101.

The proposals calling for a government guaranty were still a very small percentage of the total bills introduced in this period. As in the first two legislative phases, all these proposals came from legislators in the Middle West and South: one bill from J. H. Lewis (D-IL), one from D. U. Fletcher (D-FL), and two by J. W. Taylor (R-TN). Calling for the U.S. government to be the source of the guaranty was still a radical, impolitic proposal, but the financing of these bills shows that they were always structured as a hybrid between the public and private sector.[28]

The ten bills that called for a "surety company" as the source of the guaranty offered the most private sector-oriented model among all the deposit insurance proposals from 1886 to 1933. The surety model of insurance is a three-party contract, commonly used today to insure licensed tradesmen and people released from jail on bail. In the first case, the tradesman purchases a bond from a surety company to protect his clients by covering any accidents that occur on the job. If the tradesman hurts himself working, the surety company is liable. In the second case, a person released from jail on bail pays a surety company to guaranty the bail amount to the court. If the defendant does not return to court, the surety company is liable. In 1924, the first surety bill proposed that participating commercial banks would buy bonds from a surety company equal to their deposits on account. These bonds would be held by the surety companies on behalf of depositors in case of bank failure. The surety companies would have the right to inspect the participating banks like the Comptroller of the Currency. The federal government would have the right to inspect the surety company. This model was first proposed by T.

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[28] *1950 FDIC Annual Report,* 63-101.

A. Doyle in the legislation written by P. W. Chavers in 1924. Although it might appear like this was asking the wolf to mind the henhouse, Chavers's bill was extremely conservative, requiring that 100 percent of bank deposits be backed by surety bonds, which would leave the banks with substantially less liquidity. One measure of Chavers's legacy is that his idea of a private surety company was picked up nine more times in Congress between 1925 and 1932. Chavers does not appear to have been aware of this, perhaps because most of the bills died in committee, but seven bills introduced by W. W. Hastings (D-OK), one by J. G. Strong (R-KS), and one by H. P. Beam (D-IL) also proposed using the surety concept after Chavers. Some of these bills required something less than 100 percent of deposits be backed by surety bonds, but most followed suit. As law, Chavers's original bill offered a way to secure commercial bank deposits through a privately managed, privately funded method with U.S. government oversight that had the potential to re-structure commercial banking as a more conservative, but more self-regulated industry.[29]

Table 10 also demonstrates the ideological evolution of the idea of federal deposit insurance over time. Between 1886 and 1933, fewer and fewer federal deposit insurance proposals called for funding from private banks alone. By the third legislative phase, the majority of federal deposit insurance bills proposed a hybrid institution with funding from both the private and the public sector. Over time, both bills that called for the guaranty to be "insurance" and bills that called for the "guaranty" to be the "U.S. government" increasingly suggested a financial partnership. Table 10 clearly shows that

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[29] *1950 FDIC Annual Report,* 63-101.

the ideological tipping point towards greater state financial responsibility took place in 1913 with the creation of the Federal Reserve System.

The Federal Reserve System itself was a unique public-private institution, where initially the twelve reserve banks were expected to be run by bankers and the Federal Reserve Board ostensibly provided government oversight. In practice, the Federal Reserve was dominated by Benjamin Strong and the Federal Reserve Bank of New York. The federal bank pursued monetary practices that favored policies that supported the dollar abroad and exacerbated the economic problems of farmers and other debtors. The failure of the Federal Reserve to stop the financial collapse of the 1930s helped to pave the path to the creation of an entirely new public-private federal institution for banks. This institution was called a "Corporation" that would offer "Deposit Insurance," but the final authority and guarantor would effectively become the federal government.[30]

Steagall's bills encapsulated the ideological evolution that led to the federal deposit insurance enacted in 1933. Steagall introduced his first bill in 1925, the year Owen retired from Congress, and would go on to introduce a total of eight bills from 1925 to 1933. Like Owen and Bryan before him, Steagall's bills were initially in the

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[30] Lawrence E. Clark, *Central Banking Under the Federal Reserve System* (New York: Macmillan Company, 1935), 397-98; Lester V. Chandler, *Benjamin Strong: Central Banker* (Washington, DC: Brookings Institution, 1958), 41-47, 77-79, 93-103; Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton, NJ: Princeton University Press, 1963), 50, 409n165; Elmus R. Wicker, *Federal Reserve Monetary Policy, 1917-1933* (New York: Random House, 1996); Ben S. Bernanke, "A Century of U.S. Central Banking," *Journal of Economic Perspectives* 27, No. 4 (2013): 3-16; Elmus R. Wicker, *The Banking Panics of the Great Depression* (Cambridge: Cambridge University Press, 1996), 1-23; William Greider, *Secrets of the Temple: How The Federal Reserve Runs the Country* (New York: Simon & Schuster Paperbacks, 1987), 310; Federal Deposit Insurance Corporation, "4000 - Advisory Opinions - Full Faith and Credit Behind the FDIC Deposit Insurance Fund," Alan J. Kaplan, Counsel, November 9, 1987, https://www.fdic.gov/regulations/laws/rules/4000-2660.html; Federal Deposit Insurance Corporation, "Symbol of Confidence," https://www.fdic.gov/consumers/assistance/protection/depaccounts/confidence/symbol.html

mainstream of the majority of deposit insurance bills since 1886. Steagall's first four bills called for government-managed, privately-funded insurance for national banks, a plan that would cover deposits only and be administered by the Department of the Treasury.

In the heat of the banking crisis of the 1930s, after Steagall became the chairman of the House Committee on Banking and Currency, his proposals began to vary. On March 7, 1932, his bill called for an insurance program open to Federal Reserve members only and limited the guaranty to deposits up to $1,000 under a new administrative authority, a Federal Bank Liquidating Board. This bill also called for the Federal Reserve to initially capitalize the insurance program with $150 million. His next bill, introduced on April 14, 1932, included these features and also called for the inclusion of qualified state banks that were not Fed members. Although Glass blocked the bill in the Senate, the passage of HR 11362 in the House on May 27, 1932 was a milestone that signaled broad national support for a bill that would stabilize all banks in the United States under a new federal authority.

The following year, Steagall's bill of May 10, 1933 also called for the creation of a new federal authority, the Federal Deposit Insurance Corporation, and raised the liability for 100 percent coverage to $10,000. This bill also included $150 million of capitalization from the federal government. This measure was introduced again on May 17, 1932, passed by Congress with amendments, and signed into law June 16, 1933. The final form of the bill contained a number of modifications, but Steagall's basic structure was preserved. The Federal Deposit Insurance Corporation represented a synthesis of one hundred and fifty deposit insurance bills introduced over forty years. The Federal Deposit Insurance Corporation would be a federally managed bank deposit insurance program that was both publicly and privately funded and open to all commercial banks.[31]

Steagall's success was not a foregone conclusion. He entered Congress in 1915. Like Fiorello La Guardia, Steagall was in Congress ten years before introducing his first federal deposit insurance bill. He was a popular congressman with his constituents and known as a progressive, but in 1925 he was just another minority member of Congress and not even the ranking Democrat on the House Committee on Banking and Currency. Otis Theodore Wingo of Arkansas had held that role since 1921 and would have become chairman when the Democrats regained control of Congress in 1932 had he not died in office in October 1930.[32]

Steagall's progressivism was shaped both by his personal and political experience. His family was of English, Welsh, and Irish descent. His earliest English ancestor came to America in 1621. Steagall's paternal grandfather and great grandfather were Methodist ministers. Steagall's father, William C. Steagall, was a country doctor from Putnam County, Georgia, who trained at Bellevue Hospital in New York City. After medical school, William Steagall moved to Dale County, Alabama, choosing to bring his talents to the remote, southwest corner of the state, north of the Florida panhandle. He married Mary J. Peacock in 1860, and together they had six children.

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[31] *1950 FDIC 1950 Annual Report,* 63-101.
[32] "Democratic Committee to Select Wingo Successor," *Arkansas Democrat* (Little Rock, AR), October 22, 1930, 1.

Henry Steagall often accompanied his father on his rounds when he was young. As his daughter Myra recorded in a memorial to her father:

> From early childhood he accompanied him on calls to the sick. This association with suffering humanity—as well as the observations and counsel of his gifted father shaped his life and character. He was affected by his observation of the terrible hardships suffered by the rural farm families of his youth. He witnessed the small-town bank failures before regulation and understood the basic principles of fairness and justice. All of these things contributed to making him a compassionate and progressive legislator.[33]

Steagall's family was respected and involved in both public affairs and the economic development of the state. His father served in the Alabama state senate and helped to establish a bank in his community. Henry Steagall attended common schools in Dale County, graduated from the Law Department of the University of Alabama at Tuscaloosa, was admitted to the bar in 1893, and opened his law practice in Ozark, Alabama. He married Sallie Mae Thompson from a prominent political family in Tuskegee, Alabama in 1900, "one of the prettiest and charming young women in the state."[34] Tragically, she died in 1908, leaving him with five children. Steagall, who never remarried, remained very close to his children and his family in Alabama during his long Congressional career.[35]

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[33] Congressman Henry Bascom Steagall Family History, ff: Myra Law – Family Genealogy Series 4, Box 1 of 1, Henry Bascom Steagall Collection (HBSC), Special Collections & Archives, Auburn University, Auburn, Alabama; Biographical Memoranda, 1901, ff: Myra Law Family Genealogy – Series IV, Box 4 of 5, HBSC.

[34] News clipping, n.d., ff: Misc. Steagall Speeches and Newspaper Clippings, 1919-1934 +/-, Box 4 of 5, HBSC.

[35] Russell Kent, "Henry Steagall—"Little Man's Friend," *The Birmingham News-Age Herald*, April 10, 1938, ff: Misc. Steagall Speeches and Newspaper Clippings, 1919-1934 +/-, Box 4 of 5, HBSC.

Steagall's political career was shaped by the progressive wing of the Alabama Democratic Party from the beginning. He started in politics as a supporter of Governor J. F. Johnston during the free silver days and made speeches on his behalf for unlimited coinage. Johnston was a Democrat and ardent anti-Populist who helped the Democrats defeat the Populists by resorting to fraud and tampering with ballot boxes in 1892 and 1894. However by 1896, Johnson recognized that the needs of farmers had to be addressed, and he ran for governor as a reformer and won. As governor, he implemented a reform to force under-taxed corporations and landowners to pay higher taxes. He also established a state commission to set and enforce railroad rates, investigated the notorious convict-lease system, and increased road construction and spending for public schools. His proposals, when they passed, were often in weakened form, moderated by powerful interests. Southern progressivism did not extend to the civil rights of blacks. His government also created a new state constitution that unilaterally disenfranchised black voters.[36]

Steagall held his first public office in 1902 when he became the solicitor of Dale County. In 1906-1907, he served in the state house of representatives. When he ran for district attorney of the Third Judicial Circuit in 1907, a local newspaper commented, "In politics, Mr. Steagall is what Bryan and the Colonel [Edward M. House] call "a Progressive." In Alabama, Steagall was known to be associated with progressive politicians such as Johnston, but as a smart, well-spoken lawyer with a bright future, he

[36] "Steagall for U.S. District Attorney," n.d., ff: News Clippings, Election Campaigns, Box 1 of 1, HBSC; Encyclopedia of Alabama, Joseph E. Johnston (1896-1900) http://www.encyclopediaofalabama.org/article/h-1534#sthash.FUUNlzVa.dpuf

soon earned the confidence of the press and the "Old Guard" elites in the Alabama Democratic Party.[37]

His national career began as a delegate to the 1912 Democratic National Convention. He ran for a congressional seat in 1913 against a more established Democratic candidate and lost, but he ran an impressive campaign.[38] In 1914, he was widely endorsed by the state press and elected to Congress, where he served fourteen consecutive terms in the House of Representatives. In his national career, Steagall carried his progressive principles carefully in public and within his party. In a draft of a letter to his constituents during his 1918 re-election campaign, he wrote, "since the day Woodrow Wilson proclaimed his faith in the principles of progressive Democracy . . .," and he crossed out the letters "ive" in the word "progressive." In 1918, "progress," not "progressive," was politically expedient.[39]

Like Carter Glass, Steagall advocated for railroad regulations that would check the concentration of power in that industry.[40] However, Steagall wanted the federal government to do more than regulate monopolies and trusts; he wanted the federal government to help people. He was proud of his work on rural credit. In 1923, he wrote his brother Orlando, known as Lander, to say that he had been appointed to the conference committee for the Personal Rural Credits legislation, which would lower

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[37] "Steagall for U.S. District Attorney," n.d., ff: News Clippings, Election Campaigns, Box 1 of 1, HBSC; *Encyclopedia of Alabama,* Joseph E. Johnston (1896-1900), http://www.encyclopediaofalabama.org/article/h-1534#sthash.FUUNlzVa.dpuf.

[38] "The Man Steagall," November 28, 1913 HBSC, ff: News Clippings, Election Campaigns, Box 1 of 1, HBSC; "Steagall Accepts His Defeat Cheerfully," April 10, 1914, ff: News Clippings, Election Campaigns, Box 1 of 1, HBSC.

[39] "To the People of the Third Congressional District," August 1, 1918, ff: 1. Misc. Steagall Correspondence, 1917-1937, Box 1 of 1, HBSC.

[40] Untitled and undated speech transcript with notes in Steagall's handwriting, ff: 1. Misc. Steagall Correspondence, 1917-1937, Box 1 of 1, HBSC.

interest rates for Alabama farmers. Steagall wrote that it was "the first really important conference upon which I have served." "Conference committees," he told his brother, "is where legislation gets written." After eight years in Congress, this experience allowed him to get close to both the Farm Loan Board and to the Secretary of the Treasury.[41]

Privately, Steagall was a severe critic of Wilson during and after the World War, but he was a strong supporter of Wilson in public, especially his domestic legislation. Steagall wanted the United States to neither initiate a draft nor send troops to Europe, nor did he think it was Wilson's duty "to reform all the governments of the world in accordance with his notions." He, did however, speak of his admiration for Wilson's domestic accomplishments in the highest terms:

> I believe that it is safe to say that more legislation has been enacted for the Advancement of our agricultural interests and uplift of the toiling masses than had been placed on our Statue Books in a quarter of a century before. Our financial system has been rescued from a coterie of selfish financiers who once dictated the supply of money, controlled the price of labor, and its products and often dominated the Government itself. The passage of the great Federal Reserve Act and Rural Credits law constitute a new birth of freedom for every legitimate interest of the Country, Bankers, Merchants, Farmers and Laborers alike. When I was elected to Congress, recognizing as I did the importance of financial legislation and an adequate supply of money to the people of our section, so many of whom for a long time have been borrowers, I sought assignment to the Committee on Banking and Currency.[42]

He was also in favor of increasing income and inheritance taxes. Initially, these taxes were put in place to finance the war; now that the war was over, Steagall wanted to see

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[41] H.B. Steagall to O. Steagall, March 3, 1923, ff: 1. Misc. Steagall Correspondence, 1917-1937, Box 1 of 1, HBSC.

[42] H. B. Steagall to Orlando Steagall, May 3, 1923, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC; H. B. Steagall to J. H. Adams, April 10, 1917, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC.

the funds serve a different purpose: "Everywhere our policy has been to place man above money," he wrote his brother.[43]

Steagall's progressivism was to the left of Glass, but it would be fair to characterize Steagall's racial views as deeply paternalistic. Like Carter Glass, Steagall supported segregation and disfranchisement. Steagall upheld the racial caste system he was born into, but he also worked to apply the law fairly to all people. As a young attorney, he successfully defended both black and white clients. When he died in 1943, hundreds of black people, who knew him as "Marse Henry," paid their respects.[44]

As a legislator, he worked for all the people of his district and was respected by them. He was known as a defender of the "Little Man."[45] His family was part of a rising middle class in Alabama, not a part of the landed or industrial elite. The railroad unions supported him.[46] Farmers in distress wrote to him.[47] Furthermore, he was willing to put the needs of his constituents above his political career. In 1921, for example, he voted for a Republican tariff bill as an emergency measure to restore cotton prices, breaking ranks with his party leadership. To his brother Lander he wrote, "that vote for the Republican measure lost him a spot on the House Ways and Means Committee which

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[43] H. B. Steagall to Lander Steagall, May 3, 1923, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC.
[44] Atticus Mullin, "Thousands Gather in Ozark To Mourn Henry B. Steagall," n.d., ff: Misc. Steagall Speeches and Newspaper Clippings, 1919-1934 +/-, Box 4 of 5, HBSC.
[45] Russell Kent, "Henry Steagall—"Little Man's Friend," *The Birmingham News-Age Herald*, April 10, 1938, ff: Misc. Steagall Speeches and Newspaper Clippings, 1919-1934 +/-, Box 4 of 5, HBSC.
[46] "Steagall Assails Anti-Poll Tax Bill at Lawyers Parley," *The Atlanta Constitution*, June 3, 1943, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC; Brotherhood of Locomotive Engineers, Brotherhood of Firemen and Enginemen, Order of Railway Conductors, Brotherhood of Railway Trainmen National Legislative and Information Bureau to H. B. Steagall, June 22, 1926, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC.
[47] W. C. Jackson September to H. B. Steagall, October, 19, 1931, ff: 2. Steagall—Official Correspondence —Misc. 1931-1932, Box 1, HBSC.

made the appointments to all other committees and was the career path to the Speakership."[48] To one of his constituents he wrote, "I thought it best for the people of my district and I voted for it and I have not changed my views."[49]

Steagall had his hand on the pulse of rural banking his entire career. Two of his brothers managed banks in his home district. Lander was the cashier of the Abbeville State Bank in Abbeville, Alabama. His brother, Albert, was the president of the Henry National Bank, also in Abbeville.[50] The brothers frequently discussed the economic challenges of the 1920s and 30s in Alabama and Washington. One specific issue they discussed was the obstacles the Federal Reserve Board in Washington presented to rural banks in this time of recession. In 1921, Steagall wrote Albert that he was working with the Comptroller of the Currency, John S. Williams to petition the Federal Reserve in Washington to reduce the penalty interest rates for banks in his county.[51] These small rural banks survived the deflationary period of the early 1920s. Steagall later personally wrote to the Governor of the Federal Reserve Bank in Atlanta, Max B. Wellborn, to thank him for efforts of the Reserve Bank in Atlanta, which enabled every national bank to weather the deflationary recession in 1920-21. However, Steagall could see that the deflationary policies imposed by the Federal Reserve Board through Benjamin Strong and the Federal Reserve Bank of New York were not in the interest of rural banks.

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[48] H. B. Steagall to Orlando Steagall, January 23, 1921, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC.
[49] H. B. Steagall to Lander Steagall, Jan 23, 1921, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC; H. B. Steagall to Ben Austin, Spring AL, Jan 18, 1921, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC.
[50] Orlando Steagall to Porter Steagall August, 21, 1918, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC.
[51] H. B. Steagall to Albert Steagall, February 4, 1921, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC.

Steagall had initially been an enthusiastic supporter of the Federal Reserve System, but came to understand that the monetary policies strengthened the dollar for creditors and hurt the livelihood of debtors.[52]

Although his family weathered the deflationary recession of 1920-21, Steagall was well aware the people in his district were suffering. In 1921, he wrote to a friend in his district, "There is not a moment that I don't think of our people and the struggle through which they are passing. I am hoping that conditions will continue to improve and that the worst period of the depression has passed."[53] However, by the end of the decade, Steagall's district was still devastated by depressed cotton prices, and bank failures in Alabama became rampant. Steagall emerged as the most ardent champion of federal deposit insurance legislation.[54] As the economic situation deteriorated and his power grew in Congress, he could leverage that power in service to this legislative idea.

Steagall introduced federal deposit insurance in 1925, 1926, 1928, and 1930, but as a Democratic-minority member of a Republican-controlled Congress, he could not get the necessary backing from the Republican administration. On March 5, 1930, Steagall spoke at length in favor of his bill. At a time when banks were continuing to fail at one hundred per month, Steagall focused his speech on the Federal Reserve policies that were hurting national banks in rural communities since the 1920-21 recession: 1) Since March

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[52] H. B. Steagall to M. B. Wellborn, April 25. 1927, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC; Lawrence E. Clark, *Central Banking Under the Federal Reserve System* (New York: Macmillan Company, 1935), 397-98; Lester V. Chandler, *Benjamin Strong: Central Banker* (Washington, DC: Brookings Institution, 1958), 41-47, 77-79, 93-103; Elmus R. Wicker, *Federal Reserve Monetary Policy, 1917-1933* (New York: Random House, 1996).
[53] H.B. Steagall to B. J. Austin, January 18, 1921, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC.
[54] H. B. Steagall to Governor Wellborn, Governor, Federal Reserve Bank of Atlanta, April 25, 1927, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC. Steagall later nominated Wellborn to the FDIC Board of Directors (FDRL).

1922, the Federal Reserve had taken away the right of member banks to charge for the collection and remittance of checks, 2) National banks were not given immediate clearance for checks when they were received by the Federal Reserve, which led to cash flow issues in smaller banks, especially at harvest time. 3) National banks were required to keep reserves with the Federal Reserve but received no interest on these balances. 4) Federal Reserve profits from member banks were not distributed to member banks. Member banks were obligated to subscribe to Federal Reserve Stock, which earned a 6 percent return, but member banks did not realize this gain. Since 1923, Steagall had been introducing bills to redistribute the Fed's profits. The Federal Reserve banks had more than once made enough net profit in a single year to cover all the losses sustained by depositors in national banks from the foundation of the national banking system to 1925. Steagall went on to warn that branch banking, which many argued would solve the economic constraints face by small unit banks, would lead to a banking monopoly that would come to dominate the Federal Reserve System. Steagall strongly advocated for the preservation of rural banks, arguing, "Something must be done to preserve our historic banking system, with its services and credit facilities for all sections and all communities in our country."[55]

In the same period, Steagall was working to get debt relief to poor farmers with debt relief. He received many letters from his constituents in dire straits at this time. In 1931, W. C. Jackson of Ashford, Alabama, wrote, on lined sheets from a 4" x 6" yellow pad in pencil:

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[55] Speech of Hon. Henry B. Steagall of Alabama in the House of Representatives, 71 Cong. Rec. (March 5, 1930), ff: 1. Steagall Constituent Correspondence, 1925-1932, Box 1, HBSC.

> Dear Sir Mr. H. B. Steagall i am writing you Because i am Worried i made a Borry from the seed lone an the drouth struk us an my crop fell very short an i am doing Every thing in the world I can to pay the deat an i Iive in the South East Alabama in calling distance of Where I was Born an i have form the bigest poshin [portion?] of all my life There is Some mens out working for the seed lone they have come to see me and talk like some body was going to get in trouble am i am doing all i can an i don't want to get in trouble all i know to do is what you white people tell me to do from W. C. Jackson Ashford, Ala R2B38 [56]

Steagall had drafted the legislation to create Federal Land Banks that could offer loans to farmers such as Jackson with payment terms that would give farmers time to find a fair price for their crops before they had to repay the loan. As government banks, these banks would be nonprofits and therefore able to offer loans to farmers at lower interest rates.[57] In 1932, however, Steagall admitted to a constituent that the legislation had not been implemented as he intended and had actually led to more foreclosures. Fresh credit was needed, but on terms that farmers who were already in debt could work with.[58]

The economy swung like a see-saw after November 1929. Bank reform legislation was considered in 1930 and again in 1931, but it was postponed each time because the economy seemed to recover. However, the financial system continued to falter. As people hoarded money and banks raised their reserves, credit tightened,

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[56] W. C. Jackson September to H. B. Steagall, October, 19, 1931, ff: 2. Steagall—Official Correspondence—Misc. 1931-1932, Box 1, HBSC.

[57] H.B. Steagall to J. H. Bankhead, March 19, 1926, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC.

[58] H. B. Steagall to Hon. J. R. Morgan, The American National Bank, Opalika, Alabama, August 10, 1932, ff: 9. Constituent Correspondence, 1932-1936, Box 1, HBSC; H. E. Deese, Ashford, Alabama to H. B. Steagall, September 10, 1931, ff: 2. Steagall Official Correspondence—Miscellaneous—1931-1932, Box 1, HBSC.

economic activity stalled, and the country headed for a liquidity crisis. The Federal Reserve did not sufficiently intervene as a lender of last resort.[59]

In 1932, the Democratic House and Republican Senate worked hard to forestall the escalating economic crisis. As the Chairman of the House Committee on Banking and Currency, Steagall held hearings on bank reform. Unlike the Senate hearings in 1931, where deposit insurance was not a designated topic, the House Committee on Banking and Currency took direct testimony on the legislation in 1932.[60] Now seventy-five years old, former Senator Robert L. Owen offered key testimony. In 1913, Owen could not take his bank reform proposals far beyond the national banking system, but in 1932, Owen made the case for federal deposit insurance in the broadest possible terms, emphasizing the importance of deposit insurance for the stability of the monetary system over the protection of the depositor. In his testimony to the Committee, he argued that the purpose of federal deposit insurance was:

> to provide the people of the United States with an absolutely safe place and a convenient place to put their savings and their deposits is essential to the stability of banking, bank deposits and loans, the checks which function as money, and business conditions in every line. It is essential to the stability, therefore, of manufacturing and distributing goods in this country through the merchants and jobbers and wholesalers. It is essential to the maintenance of the commodity prices in this country, including not only of textiles and all manufactured goods, but of those things which are produced by the farmers, miners, foresters and persons engaged in railroads and public utilities.

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[59] Kennedy, *The Banking Crisis*, 1-6.

[60] To Provide a Guaranty Fund For Depositors in Banks, Hearings before the Subcommittee of the Committee on Banking and Currency, U.S. House of Representatives, Seventy-Second Congress, First Session, on H.R. (10241) 11362 A Bill to Amend The National Banking Act and The Federal Reserve Act, And to Provide A Guaranty Fund For Depositors In Banks And For Other Purposes, March 14, 23, 24, 25, 26, 29, 30, April 1, 2, 6, 8, 1932, Owen testimony, 117-34, Shallenberger testimony, 101-11 (Washington, DC: GPO, 1932).

> It is essential to the stability of the income of the Nation. . . . It is a far greater matter than the very important end of protecting the individual depositor or the bank from loss.[61]

More than fifty years after deposits had become the dominant portion of the money supply, Owen was trying to educate Congress, the public, and particularly the financial community that the federal government had to secure the money supply to secure the economy as a whole. He was concerned with the terrible injustice of bank failure to small depositors, but he cleverly framed the government's obligation to depositors in terms of the government's obligation to itself: "The Government issuing the charter should see to it that those who are its humblest citizens and upon whose shoulders the success and prosperity of this country depend, should be safeguarded as well as the Government safeguards itself."[62] However, the receptivity to his arguments did not yet outweigh the criticisms of the measure.

Congress did pass a number of measures to counteract the financial crisis in 1932. In January, Congress created the Reconstruction Finance Corporation (RFC) to lend federal government funds to state and local governments, corporations, commercial banks, and mortgage banks. It also strengthened the ability of the Federal Reserve to make loans to failing member banks. Deposit insurance legislation continued to be introduced in the House and the Senate. On April 14, Steagall introduced a federal

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[61] To Provide a Guaranty Fund For Depositors in Banks, Hearings before the Subcommittee of the Committee on Banking and Currency, U.S. House of Representatives, Seventy-Second Congress, First Session, on H.R. (10241) 11362 A Bill to Amend The National Banking Act and The Federal Reserve Act, And to Provide A Guaranty Fund For Depositors In Banks And For Other Purposes, March 14, 23, 24, 25, 26, 29, 30, April 1, 2, 6, 8, 1932, Owen testimony, 117-34, Shallenberger testimony, 101-11 (Washington, DC: GPO, 1932), Robert L. Owen testimony, March 25, 1932, 117, 119.
[62] Ibid., 123.

deposit insurance bill. By May 15, Steagall worried that his bill had been "under fire long enough for the big banks to defeat it." According to Steagall, Glass offered to accept Steagall's deposit insurance bill if Steagall accepted branch banking, but Steagall refused, believing this provision would end local unit banking.[63] On May 27, Steagall's bank bill with a deposit insurance provision did pass the House. For the second time since 1886, federal deposit insurance legislation had come successfully to a floor vote.[64] In the midst of the advancing financial crisis, Glass blocked this bill from passage in the Senate, as he had blocked Owen's bill from passage in the House twenty years earlier.[65]

In the fall of 1932, Democrats regained majority control of both houses of Congress and the White House. Carter Glass was now Chairman of the Senate Appropriations Committee, and a majority member of the Senate Committee on Banking and Currency. When the Seventy-Third Congress took office in March 1933, the banking crisis was still accelerating. Forty-eight states had declared bank holidays or put restrictions on withdrawals.[66] It was now incumbent on the Democratic-majority Congress to pass bank reform legislation. Steagall was adamant that federal deposit insurance would be included in the bank bill. Glass continued to prefer alternatives.

The incoming president would play a critical role in the legislative process. As the governor of New York, Roosevelt had repeatedly rejected deposit insurance schemes

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[63] H. B. Steagall to O. Steagall, May 15, 1932, ff: 2. Steagall—Official Correspondence—Misc. 1931-1932, Box 1, HBSC.
[64] *1950 FDIC Annual Report,* 63-101.
[65] Joseph W. Barr, "Role of Deposit Insurance in Combating Bank Failures," *Commercial and Financial Chronicle*, 200, no. 6406 (September 24, 1964): 53, 80-83.
[66] Elmus R. Wicker, *The Banking Panics of the Great Depression* (Cambridge: Cambridge University Press, 1996), 1-23, 128-9.

as impractical.[67] As the Democratic nominee in 1932, Roosevelt had responded to a letter from the president of an Ohio insurance agency who urged Roosevelt to make a commitment to federal deposit insurance on the campaign trail to ensure his victory and assure the public. Roosevelt responded that he was opposed to deposit insurance on the grounds that it would be "dangerous" because it would lead to "laxity in bank management" and would be "an impossible drain on the federal treasury."[68]

At his first press conference on March 8, Roosevelt took questions on deposit insurance. After explaining ground rules to the press corps by defining "on the record," "background," and "off the record" when asked about a U.S. "government guaranty" of bank deposits, he responded, off the record:

> I can tell you as to guaranteeing bank deposits my own views and I think those of the old administration. It is that the general underlying thought behind the use of the word "guaranty" with respect to bank deposits is that you guaranty bad banks as well as good banks and the minute the government starts to do that the government runs into a probable loss.
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> The whole objective of the plan we are working on can be stated this way: There are undoubtedly some banks that are not going to pay 100% on the dollar. We all know it is better to have that loss taken than jeopardize the credit of the United States Government or to put the United States Government further in debt, and therefore, the one objective is going to be to keep the loss in individual banks down to a minimum, endeavoring to get 100% on them, but not having the United States Government liable for the mistakes and errors of individual banks and not putting a premium on the future of unsound banking.[69]

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[67] Frank Freidel, *Franklin D. Roosevelt*, 214, 225.

[68] Franklin Roosevelt to John E. Emmons, Bethel, OH, October 10, 1932 in response to a letter from Emmons of September 26, 1932, ff: Federal Deposit Insurance Corporation, Box 121: Federal Deposit Insurance Corporation, Printed Materials Collection, Franklin Delano Roosevelt Library (FDRL), Hyde Park, New York; Emmons asked Roosevelt to publicly declare himself in favor of deposit insurance during the campaign to secure his victory and assure the public. Roosevelt's response was later published in the conservative *New York Sun* in 1934 by the Republican National Committee to discredit Roosevelt for taking credit for federal deposit insurance.

[69] *Complete Presidential Press Conferences of Franklin D. Roosevelt, Vol. 1-2*, 1933 (New York: DA CAPO Press, 1972), 13-16.

Roosevelt's position on this policy was clear; a government guaranty carried both a moral hazard for bankers and threatened the full faith and credit of the United States. He also understood there was a growing rise in popular support for the legislation, and he would not allow these remarks to be used even as background. He told the reporters that he did not want to see articles in the press which would lead depositors to believe their banks would not have to pay their depositors. When asked about deposit "insurance," he retorted shortly, "Haven't touched that."[70]

This press conference took place in the middle of Roosevelt's declared "bank holiday," when he was waiting to see if that measure would turn the tide in public confidence. The bank holiday was effective in bringing hundreds of millions of dollars of bank deposits back into the banking system, but it did not reverse the financial collapse.[71] Behind closed doors, Roosevelt and Glass worked on a Senate bank bill that omitted any provision for deposit insurance. Glass still preferred a sinking fund, which could help failed banks to liquidate, basically institutionalizing what the RFC was doing but not promising a perpetual guaranty. Steagall, who Roosevelt jokingly referred to as "Brother Steagall" in private, was largely left out of their discussions. In Roosevelt's view, Steagall was both too righteous and too leftist.[72]

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[70] *Complete Presidential Press Conferences of Franklin D. Roosevelt, Vol. 1-2*, 1933 (New York: DA CAPO Press, 1972), 13-16.
[71] Wicker, *Panics of the Great Depression*, 1-23, 147.
[72] Franklin Roosevelt to Speaker of the House, Henry T. Raney, Telegram, March 27, 1934, ff: Federal Deposit Insurance Co., 1934, Box 1, Federal Deposit Insurance Company, OF 2911, FDRL; Kennedy, *The Banking Crisis*, 1973; Freidel, *Franklin D. Roosevelt*, 1973; William Leuchtenburg, *Franklin D. Roosevelt and the New Deal*, 1932-1940 (New York: Harper & Row, 1963).

In the spring of 1933, Roosevelt and Steagall were at a stand-off. Roosevelt threatened to veto any legislation that included the insurance measure.[73] Steagall had the power to block any bank bill that did not include it. Glass hated state banks; he thought most rural banks had a low probability of success because they were too small and too undiversified. Having forty-eight state banking systems was impossible to regulate in a country growing as powerful as the United States. Glass was reported to have said in early March, "Let them go down the sewer," but soon he became resigned to the idea of a deposit insurance measure. According to Steagall, Glass acknowledged by mid-March that federal deposit insurance would have to be included in any bank legislation Congress would pass.[74] In a letter to his brother Lander, Steagall wrote:

> Don't mention this unless it is in the papers, but Senator Glass and I have agreed on a banking bill that will include my deposit guarantee bill. We will probably introduce it tomorrow and there will be no difficulty in passing it, unless the President interferes and I do not think he will.[75]

That compromise took two months to work through the legislative process. In the meantime, banks continued to fail. Members of Congress received thousands of letters from around the country asking for deposit insurance.[76] The banking sector of the economy had continued to collapse. Between January 1 and June 30, 1933, another four thousand banks failed; 80 percent of these were state banks. In the same period, these

[73] "Bill May Be Split Up," *New York Times*, April 12, 1933, 3.
[74] "Steagall Battles Glass," n.d., ff: Steagall—Scrapbook, 1936, Box 1, HBSC.
[75] H. B. Steagall to Lander Steagall, March 15, 1933, ff: 1. Misc. Steagall Correspondence 1917-1937, Box 1 of 1, HBSC.
[76] 1500 telegrams sent to Senator Glass in favor of the Glass Banking Bill, 1933, Box 259: Telegrams: Glass Banking Bill, 1933, Carter Glass Collection (CGC), Special Collections, University of Virginia, Charlottesville, Virginia.

commercial banks lost an additional $4 billion in bank deposits, 43 percent from national banks and 57 percent from state banks.[77] Steagall's letter suggests that Glass knew that the public outcry made federal deposit insurance inevitable.

A coalition of political support for federal deposit insurance converged in the spring of 1933. Between March 4 and June 16, fifteen federal deposit bills were introduced from all regions of the country and from all political parties. Many of the bills were introduced by familiar faces in the Middle West; A. H. Vandenberg (D-MI), D. U. Fletcher (D-FL), A. C. Shallenberger (D-NE), J. W. Taylor (R-TN), and W. W. Hastings (D-OK) had all introduced deposit insurance bills in the past. Seven representatives introducing federal deposit insurance bills for the first time came from across the country: J. L. Whitley (R-NY), T. A. Jenkins (D-OH), C. J. McLeod (R-MI), L. A. Johnson (D-TX), W. G. McAdoo (D-CA), A. E. Carter (R-CA), and D. S. Church (D-CA). The last three deposit insurance bills were passed back and forth between Steagall and Glass.

Since Glass had quietly accepted that the measure would pass in some form, the critical path to the passage of the federal deposit insurance provision came down to the issue of eligibility. Glass fundamentally believed that state banks, and particularly rural state banks, had a high probability of failure because they could not diversify their risk were not uniformly supervised. Steagall believed that country banks were the lifeblood of rural communities and that the interests of the Federal Reserve protected industrial interests at the expense of agricultural interests. From 1921 to 1932, 80 percent of the

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[77] Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics, 1914-1941* (Washington, DC, GPO, 1942), 16-17, https://fraser.stlouisfed.org/files/docs/publications/bms/1914-1941/BMS14-41_complete.pdf.

nearly twelve thousand banks that failed were state banks. However, at the beginning of 1933, 66 percent of the eighteen thousand commercial banks still in operation were state banks, and 49 percent of the $36 billion dollars deposited in those commercial banks were in state banks.[78] From a monetary perspective, a significant portion of the money supply was still in the state banking system.

On May 10, Glass and Steagall introduced their bank reform bills. The deposit insurance provision in Steagall's bank bill called for an insurance program open to Federal Reserve members and solvent state banks. The fund would be accumulated through assessments to member banks based on a percentage of loans made in a given period paid by the borrower. The initial capitalization would come from stock subscriptions, from member banks (a percentage of their capital stock), Federal Reserve Banks (a percentage of their surplus), and from the U.S. government ($150 million). The insurance would cover 100 percent of deposits up to $10,000, 75 percent of deposits up to $50,000, and 50 percent of deposits over $50,000. The bill passed the House.

The Glass bill offered an insurance program open to Federal Reserve members only. The Senate Committee on Banking and Currency reported the Glass bill to the Senate floor on May 15. As time ticked towards the end of the legislative session, the bill was not called to a vote. The deadlock was broken by an amendment by Arthur Vandenberg, who called for a temporary program that would insure deposits up to $2,500

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[78] Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics, 1914-1941* (Washington, DC: National Capital Press, 1943), 16-17, https://fraser.stlouisfed.org/files/docs/publications/bms/1914-1941/BMS14-41_complete.pdf.

for Federal Reserve members only and take effect immediately. Speaking from the Senate floor, Vandenberg was adamant:

> There is no remote possibility of adequate and competent economic re-cooperation in the United States in the next twelve months . . . until confidence in normal banking is restored; and in the face of the existing circumstances I am perfectly sure that the insurance of bank deposits immediately is the paramount and fundamental necessity of the moment.[79]

His amendment was accepted; the bill passed and went to conference committee. Later that year, Vandenberg explained to the State Bankers Association how the amendment broke the deadlock: 1) the $2,500 limit covered a majority of depositors. In 1933, 96.76 percent of the depositors in national banks had deposits of less than $2,500.[80] 2) The $2,500 limit put the measure on par with the U.S. Postal Savings System and thereby created an opportunity to bring those deposits back into the commercial banking system. 3) The cost of the insurance would be largely off-set by the limits the Banking Act put on the amount of interest banks could pay on deposit accounts, and 4) his amendment called for a temporary fund as an emergency measure to stop the downward economic spiral. The temporary plan, Vandenberg argued persuasively, "represented a *maximum* answer with a *minimum* of speculation in terms of financial risk."[81] The limits of the temporary plan countered so many arguments against deposit insurance that the amendment made it

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[79] 73 Cong. Rec. S3731 (May 19, 1933).
[80] 73 Cong. Rec. H5893 (June 13, 1933).
[81] Arthur H. Vandenberg, Jr., "An Address in Defense of the Bank Deposit Insurance Law and an Answer to the American Bankers Association from the "Proceedings of Thirty-Second Annual Convention National Association of Supervisors of State Banks, 1933" in Arthur H. Vandenberg, Jr., *The Private Papers of Senator Vandenberg* (Boston: Houghton-Mifflin Company, 1952), 42 (emphasis in original); 73 Cong. Rec. S4240 (May 26, 1933).

politically very difficult for the Senate not to support it. This amendment passed with concentrated support of Midwestern Senators and the Senate bill went to conference committee.[82]

On June 1, as the bill went into conference committee, the *New York Times* reported that Roosevelt called Glass and Steagall for a meeting to the White House. In addition to Roosevelt, Glass, and Steagall, the meeting included Secretary of the Treasury William Woodin, a former industrialist with no banking experience; Under Secretary of State Dean Acheson, an attorney and liberal democrat with no banking experience who had clerked for Louis Brandeis, with no banking experience; Chairman of the Federal Reserve Board Governor Eugene R. Black, a former investment banker; and Comptroller of the Currency J. F. T. O'Connor, the manager of Roosevelt's California primary and McAdoo's former law partner, also with no banking experience.[83] It is interesting to note that O'Connor was originally from North Dakota and had started his political career by opposing the radicalism of the Farmer's Non-Partisan League that enacted state deposit insurance in North Dakota in 1917.[84] Every member of Roosevelt's administration in that meeting was opposed to the deposit insurance provision.[85] Steagall was entirely outnumbered. In O'Connor's diary notes of this meeting, Steagall did not attend, or did

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[82] *1950 FDIC Annual Report*, 63-101; *Kennedy, The Banking Crisis of 1933*, 219, Bascom M. Timmons, *Garner of Texas a Personal History* (New York: Harper, 1948), 180; Bascom M. Timmons, *Jesse H. Jones: The Man and the Statesman, A Study of Secretary of Commerce Jess H. Jones of Texas* (New York: Holt, 1956), 194-5.
[83] "Deposit Insurance Stirs New Dispute: Glass Says Vandenberg Plan Will Remain in Bank Bill"; *New York Times*, June 2, 1933, A4.
[84] Burns, *The Banking Community*, 106-7.
[85] "Roosevelt Warns of Bank Bill Veto: Sharply Opposes Temporary Deposit Insurance in Letters to Glass and Steagall, Measure is held doomed," *New York Times*, June 6, 1933, 1; Freidel, *Franklin D. Roosevelt*, 442-3.

not attend all of it.[86] Roosevelt also wrote to both Glass and Steagall individually, demanding that they remove the deposit insurance provision and threatening to veto the bill if they did not.[87]

Glass tried to end the stand-off by making a public statement that deposit insurance would remain in the bill, but Steagall continued to publicly indicate that the provision was still in jeopardy.[88] The bill remained in conference committee until an agreement was reached with the president. On June 7, Roosevelt agreed to a compromise. The final deposit insurance provision limited liability to $2,500, delayed the implementation of the temporary plan until January 1, 1934, and the permanent plan to January 1, 1935. State banks were only eligible to participate if they were certified as solvent by state banking authorities and examined by the FDIC as well. All participating banks were eventually required to join the Federal Reserve. As amended, the bill was passed by Congress on June 13, two days before the end of the session. The same day, the American Bankers Association (ABA) waged an eleventh-hour campaign to defeat the bill. The ABA sent telegrams to all its member banks urging them to telegraph Roosevelt to lobby him to veto the bill. Notwithstanding, Roosevelt signaled he would

[86] Freidel, *Franklin D. Roosevelt*, 442-3.
[87] "Deposit Insurance Stirs New Dispute: Glass Says Vandenberg Plan Will Remain in Bank Bill," *New York Times*, June 2, 1933, A4; "Roosevelt Warns of Bank Bill Veto: Sharply opposes Temporary Deposit Insurance in letters to Glass and Steagall. Measure is held doomed," *New York Times*, June 6, 1933, A1.
[88] "Deposit Insurance Stirs New Dispute: Glass Says Vandenberg Plan Will Remain in Bank Bill"; *New York Times*, June 2, 1933, A4; "Roosevelt Warns of Bank Bill Veto: Sharply opposes Temporary Deposit Insurance in letters to Glass and Steagall. Measure is held doomed," *New York Times*, June 6, 1933, 1; "Conferees Split on Banking Bill," *New York Times*, June 7, 1933, A4.

sign the bill by publicly announcing that he called Glass, not Steagall, to congratulate him.[89]

Roosevelt felt he could live with the compromise on the deposit insurance provision: The $2,500 liability limit was one-quarter of what Steagall asked for, but it would still cover 90 percent of depositors. Roosevelt strongly believed that the limited liability would incentivize depositors to continue to exercise some discretion in their choice of bank and incentivize bankers to make good management decisions. Roosevelt also favored delaying the start of the temporary fund to at least perform some kind of preliminary audit before admitting a bank to the federal insurance program. Additionally, he favored the requirement that all FDIC member banks would also have to join the Federal Reserve to unify the two banking systems in the United States once and for all. Having arrived at what he hoped was a secure compromise, Roosevelt signed the bill on June 16. Referencing his own effort to declare the provision "killed fourteen times this session," Roosevelt joked with reporters that the bill had "more lives than a cat."[90]

The following day, the *New York Times* buried the lead. On June 17, the lead article in the *Times* was Roosevelt's signing of the National Recovery Act (NRA). The article began:

> Assuming unprecedented peacetime control over the nation's economic life, President Roosevelt placed in operation to day his sweeping program for the recovery of the Depression. Within two hours he signed acts of Congress giving

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[89] "Roosevelt Backs Bank Compromise," *New York Times*, June 8, 1933, A3; "Wires Banks to Urge Veto of Glass Bill: Bankers Association Attacks," *New York Times*, June 16, 1933, 14; "Bank Reform Bill Swiftly Approved," *New York Times*, June 14, 1933, 1.

[90] "Roosevelt Hails Goal, He Calls Recovery Act Most Sweeping Law in Nation's History, Johnson Administrator, Million Jobs by October 1, Employer's Urge to Hire More Men with Government Stopping Unfair Competition" *New York Times*, June 17, 1933, 1.

> him control over industry, power to coordinate the railroads, and authority to start work on a $3,300,000,000 public works program, and then began the active administration of these and other major measures.[91]

In a paragraph that listed "other major measures," the Glass-Steagall Act was included. Deposit insurance was mentioned at the bottom of the article in a section that was sub-headed, "fatigued by the session." Deposit insurance was mentioned in a list of features of the Banking Act:

> The Glass-Steagall Act is directed towards a unified banking system, provides a limited deposit guaranty, requires divorcement of security affiliates from banks under government supervision, compels private bankers to give up either the deposit or the security business, and requires stricter regulation of national banks.

The enactment of federal deposit insurance, which many historians later called the most important legislation passed during the Depression, was given, as it is called in the business world, a soft launch.[92]

The enactment of federal deposit insurance immediately restored public confidence in the banking system and put an end to a financial crisis that was ultimately a crisis of faith. Roosevelt hailed it the "second most important legislation in the history of the country," after the creation of the Federal Reserve, but emphasized Glass's contribution to the bill, the separation of commercial and investment banking. Glass

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[91] "Roosevelt Hails Goal, He Calls Recovery Act Most Sweeping Law in Nation's History, Johnson Administrator, Million Jobs by October 1, Employer's Urge to Hire More Men with Government Stopping Unfair Competition" *New York Times*, June 17, 1933, 1.

[92] "Roosevelt Hails Goal, He Calls Recovery Act Most Sweeping Law in Nation's History, Johnson Administrator, Million Jobs by October 1, Employer's Urge to Hire More Men with Government Stopping Unfair competition," *New York Times*, June 17, 1933, 1; David Kennedy, *Freedom from Fear: The American People in Depression and War, 1929-1945* (New York: Oxford University Press, 1999), 153, 366.

emphasized that the enacted legislation was 98 percent of the bill he passed in the Senate, also downplaying the enactment of the deposit insurance provision. Only Vandenberg called attention to the long political battle and himself, calling the bill a "grudging surrender on the part of Secretary Woodin and Wall Street to the irresistible mid-continent revolution typified by my immediate temporary deposit amendment." While Vandenberg's hubris was a source of aggravation for Steagall, his comment that the passage of the measure was a "mid-continent revolution" captured a historic truth of the long legislative history of federal deposit insurance.[93]

Steagall refrained from making personal comments in the press. He used the media to educate the public in detail on the protections of the legislation. He did a major radio address for the National Broadcasting Company on June 18.[94] In July, he a published four-column article in *The Washington Herald* on two consecutive Sundays to explain the specifics of the bill to the public. These messages were both a public service and a political tactic. The delay of the temporary fund was politically expedient, but it also allowed time for repeal.[95]

Steagall worked hard over the next two years to make sure the permanent federal bank insurance law protected depositors and bankers in rural communities. The start date of the permanent program was pushed back another year, and Steagall successfully used

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[93] *Commercial and Financial Chronicle*, June 24, 1933, Vol. 136, No. 3548, 4343-4, reprint of the Banking Act of 1933 and statements by Glass to the Senate on June 13, 1933; "Conferees Agree on Banking Bill," *New York Times*, June 13, 1933, 1; "Bank Reform Bill Swiftly Approved," *New York Times*, June 14, 1933, 1.

[94] Radio Address over National Broadcasting Company on June 19th at 7:15 PM By the Honorable Henry Steagall, Chairman of the House Committee on Banking and Currency on "The Insurance of Bank Deposits," 1933, ff: 2. Misc. Steagall Speeches & Newspaper Clippings, 1919-1934 +/-, Box 1 of 1, HBSC.

[95] "Rep. Steagall Tells How U.S. Bank Bill Will Insure Depositors from Losses," *Washington Herald*, July 16, 1933, ff: Steagall Scrapbook, Box 1, HBSC.

this delay to negotiate an increase in the liability limit to $5,000. He also maneuvered to postpone the requirement that all state banks join the Federal Reserve. He managed to do this twice; eventually, he had the requirement dropped altogether in 1939. Against very powerful interests and even against the leadership of the Democratic Party, Steagall succeeded in establishing a federal deposit insurance system that incorporated both banking systems in the United States and preserved them. For better or worse, the tail, in this case, small rural communities across the continental United States, had indeed wagged the dog, financial interests based in the northeast.[96]

One final legislative effort that took place after the passage of the Glass-Steagall is less well known. When the Seventy-Third Congress returned to Washington in January 1934 and the temporary deposit insurance program went into effect, the proponents of federal deposit insurance from the Middle West and South were not satisfied. U.S. Representative Clarence J. McLeod (R-IL) introduced legislation to reimburse the people who lost their deposits in banks that did not reopen after the bank holiday in March 1933. U.S. Senator Duncan U. Fletcher (D-FL) introduced a similar bill in the Senate. McLeod's bill called for a payment to each depositor in a national bank closed by the federal government up to $2,500 of his or her claim.[97] An initial estimate by the Comptroller of the Currency estimated that these losses amounted to $1,815,000,000 in national banks alone.[98]

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[96] H. B. Steagall to O. M. Steagall, May, 11, 1935, ff: 3. Correspondence 1931-1937, Box 1 of 2, HBSC; Freidel, *Franklin D. Roosevelt*, 442-43; Leuchtenburg, *Franklin D. Roosevelt*, 60; Kennedy, *The Banking Crisis*, 214-23, Burns, *The Banking Community*, 172; Calomiris and White, "Federal Deposit Insurance," 145-88.

[97] "M'Leod Bill Loss is put at a Billion," *New York Times*, May 2, 1943, 35.

[98] "Controller Says Federal Payments Would be Hazardous," *New York Times*, March 28, 1934, 41.

McLeod was born and raised in Detroit. He served in World War I, where he rose in rank from private to second lieutenant. He attended law school in Detroit and was admitted to the Michigan bar in 1919. At twenty-five, McLeod was the youngest person ever to serve in Congress when he filled a vacancy in 1920. In 1922, he was elected on his own merit and served consecutive terms until 1941, except one term in 1937-38. In 1933, some of the largest banks closed were in Michigan. In April, McLeod introduced legislation for the Reconstruction Finance Corporation to liberalize its loan policy so that more banks could get loans on 70 percent of the book value of their existing assets and reopen. When this bill stalled, McLeod introduced deposit insurance legislation for the first time in May 1933.[99]

In April 1934, McLeod introduced a bill calling for reimbursement to the depositors with accounts in banks that had been closed by the federal government in March 1933 and were not allowed to be reopened. After Roosevelt's "bank holiday" ended March 13, 1933, thousands of banks had remained closed. The banks that the Reconstruction Finance Corporation (RFC) did certify to reopen were shorn up with RFC funds. By June 1934, the federal government still owned 25 percent of the bank capital in the United States. The RFC had made a judgment about which banks survived and which banks failed. Even San Francisco's Bank of America had to appeal the RFC's decision not to reopen it. McLeod's bill called for the federal government to purchase the

[99] *Biographical Directory of the United States Congress, 1774-2005* (Washington, DC: GPO, 2005), https://www.senate.gov/pagelayout/history/h_multi_sections_and_teasers/Biographical_Directory.htm; *1950 FDIC Annual Report,* 63-101, 192.

assets of the remaining closed banks at a price sufficient to reimburse depositors up to $2,500 and then liquidate the assets over a ten-year period.[100]

This bill drew a firestorm of opposition. In March, J. F. T. O'Connor, the Comptroller of the Currency, called the bill "hazardous."[101] In a presidential press conference in April, which also gave the bill front page coverage, Roosevelt argued the legislation would be difficult to administer equitably, and he refuted that the government had a moral obligation to reimburse these depositors.[102] The Secretary of the Treasury, Henry Morgenthau Jr., and the legal department of the Reconstruction Finance Corporation publicly spoke out against it.[103] There were many in both the public and private sectors who did not want to establish any precedent for retroactive reimbursement of any kind. In a letter to the leaders of Congress and the entire New York delegation, the president of the Merchants Association called the measure "a barefaced raid on upon the Treasury."[104] In a similar vein as the federal government's denial to compensate depositors of the Freedman's Bank for their losses in 1874, the government in 1933 did not want to establish a precedent of the federal government appearing to "guaranty" the deposits of national banks it had only supervised.

Citizens, of course, felt otherwise. Steagall heard from many of them from all over the country. W. J. Williams from Pine Bluff, Arkansas wrote that any bank that

[100] Freidel, *Franklin D. Roosevelt*, 233-4; Kennedy, *The Banking Crisis of 1933*, 77-102; Robert G. Rodkey, "State Bank Failures in Michigan," 1-69; Freidel, *Franklin D. Roosevelt*, 182.
[101] "Controller Says Federal Payments Would Be Hazardous," *New York Times*, March 28, 1934, 41.
[102] "Measure to Pay Depositors in Closed Banks is Called Impossible to Administer," *New York Times*, April 19, 1934, 1.
[103] "Treasury Assails Bank Pay-Off Plan," *New York Times*, April 16, 1934, 7; "Treasury Opposes Bank Deposit Bill," *New York Times*, April 17, 1934, 10.; "RFC Counsel Hits M'Leod Bank Bill," *New York Times*, May 6, 1934, N9.
[104] "The Bank Pay-Off," *New York Times*, May 23, 1934, 18; "Scores Pay-Off Plan: Merchants Association Letter Asks Defeat of Rider," *New York Times*, May 24, 1934, 4.

carried the sign "Under national government supervision – member Federal Reserve" had an obligation to pay.[105] Ambrose Prediger of Tannersville, New York, wrote:

> Everyone in this neck of the woods is vitally interested in the passage of the McLeod-Fletcher bills which is now before both Houses. 10,000,000 people are interested. Our bank here was a member of the Federal Reserve System and as such most depositors took it for granted the government was behind their deposits. The McLeod bill means justice to those depositors. It will enable the government to take over the banks, releasing the frozen deposits and receiving as security the frozen assets of the banks.[106]

Mrs. James Bashgate of Polo, Missouri wrote, "The people in general are not wanting easier ways to borrow more money. But they do want access to their savings in closed Banks, that are slowly but surely consumed by liquidators throughout the country."[107] Daniel Guinan, a Pennsylvania banker, presciently made the Keynesian argument for counter-cyclic spending when he wrote to Steagall. He supported the McLeod bill on the grounds that the deposits in closed banks represented "money needed for the promotion and development of industrial activity."[108]

Although a House maneuver to force the McLeod bill to a floor vote through a petition failed by fifty votes, Steagall succeeded in making a version of McLeod's proposal into a part of the Banking Act of 1934, which raised the liability limits of the permanent deposit insurance program to $5,000 and delayed the implementation of the

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[105] W. J. Williams to H. B. Steagall, April 15, 1934, ff: 9. Response to the Banking Legislation 1932-34, Box 2, HBSC.
[106] Ambrose W. Prediger to H. B. Steagall, April 4, 1934, ff: 9. Response to the Banking Legislation 1932-34, Box 2, HBSC.
[107] Mrs. James Bashgate to H. B. Steagall, July 2, 1934, ff: 16. Constituent Correspondence 1932-1939, Box 1, HBSC.
[108] Daniel Guinan to H. B. Steagall, April 25, 1934, ff: 16. Constituent Correspondence 1932-1939, Box 1, HBSC.

permanent program to 1935. Roosevelt made it clear that he opposed any “pay-off” in the bank bill. The provision in Steagall’s bill proposed reimbursing depositors in national banks closed by the federal government up to $1,000,000,000. It passed in the House but was lost in conference committee.[109]

The enactment of federal deposit insurance both is and is not a triumphal story. The passage of the Glass-Steagall Act stopped the banking crisis of 1933. McLeod, Fletcher, Steagall, and others understood that the legislation left tens of thousands of people behind. They also understood that the federal government had a direct hand in determining the banks that did not reopen after March 1933 and before the temporary Federal Deposit Insurance system took effect in January 1934. The McLeod bill deserves our attention; its failure stands for the failure of the federal government to insure the deposits in banks it closed but did not reopen and the catalog of catastrophic loss that came before that.

The Banking Act of 1933 is taught as a triumphal story of the New Deal era, and it was, but it also represents a harsh line in the sand. The McLeod bill died at the end of the first legislative session in 1934 without coming to a floor vote.[110] Other New Deal programs would be enacted, but McLeod and Steagall believed the people who lost their savings between March 16, 1933 and January 20, 1934 were no less deserving than the people whose banks had been shored up by the RFC. The purpose of federal deposit insurance was not just to restore public confidence or to preserve state banks. In the eyes

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[109] “M’Leod Bill Move Defeated in House,” *New York Times*, 33; April 24, 1934; “Bank Guaranty and Pay-Off Plan Passed in the House,” *New York Times*, May 25, 1934, 1.

[110] “M’Leod Bill Move Defeated in House, Vote 227 to 122 Tabled Resolution,” *New York Times*, Apr 24, 1934, 33.

of the legislators who advocated for the McLeod bill, reimbursement was not a "pay-off" to a false claimant or a "bail out" of a bad actor; it was a federal obligation, and their effort to bring more people into the lifeboat was a moral one. The Glass-Steagall Act of 1933 left tens of thousands of people behind. Those who have benefited from the Federal Deposit Insurance Corporation for the last eighty years can scarcely imagine life in the absence of its protection.

CHAPTER VIII

CONCLUSION

The call for government-managed bank obligation insurance was a recurring, democratic impulse that began with the first generation of Americans. This legislative idea repeatedly emanated from outside the centers of political and financial power. Any community of people whose local economies were too small or too undiversified to withstand the shockwave of a bank panic could be motivated to support state bank insurance. In 1829, the leadership that created the first government-managed bank insurance program came from western New York. Joshua Forman, who had championed building a canal from the Hudson River to Lake Erie as a “bond of union,” conceived of state-managed bank insurance as a means of further tying the frontier settlements in the western part of the state to the center of commerce in New York City. Government-managed deposit insurance programs then spread west to states, building a market economy along commercial arteries that led back to New York City. The six pre-Civil War programs were closed by 1866 after the federal government took over the issue of bank notes.

The impulse to enact state-managed bank insurance re-ignited in Oklahoma in the midst of the 1907 panic. State bank deposit insurance programs then spread through an agricultural corridor from Texas to North Dakota and to the South and West. After 1920, economic depression in this region, triggered by post-World War I deflation and exacerbated by tight federal monetary policy and poor harvests, preceded the Great Depression of the 1930s. By 1929, thousands of banks and the eight state deposit insurance programs collapsed.

At the federal level, the call for government-managed deposit insurance took the form of one hundred fifty bills introduced into Congress between 1886 and 1933. From 1886 to 1906 these bills followed the bank panics of the Gilded Age and came from across the political spectrum and from every region of the country. After 1907, the main leaders calling for federal deposit insurance were progressive Democrats predominantly from states in the rural Middle West and South that had adopted state deposit insurance systems. The political leadership advocating for deposit insurance was handed down through three generations from William Jennings Bryan to Robert L. Owen to Henry B. Steagall. Over forty years of federal advocacy, the measure reached a floor vote just twice before 1933, first in 1913 and then in 1932. Waves of bank panics after the stock market crash of 1929 triggered a downward spiral that threatened a systemic collapse of the banking system in 1933. Federal deposit insurance was enacted in the crucible of that crisis, but the impetus of this government obligation to insure bank deposits was strongly opposed by Roosevelt. As this study has shown, the notion of government bank deposit insurance had percolated for over one hundred years through every region of the country before it became federal law in 1933.

There were and are reasonable arguments both for and against government-managed bank deposit insurance. Critics argued that government-managed bank deposit insurance put the credit of the government at risk for potentially overwhelming liabilities.

Critics argued that federal deposit insurance interfered with the free market by increasing adverse selection, where customers would be less motivated to discern between well-run banks and poorly-run banks. They also argued that government deposit insurance would lead to moral hazard, wherein bank managers would take larger risks because bank deposits were insured. In 1933, opponents of deposit insurance pointed to the vulnerability of state banking systems, made up of small, undiversified, often poorly-regulated unit banks, to bank failure and bank panics. They favored the abolishment of state banking altogether rather than securing weak banks with government insurance.

Advocates of bank deposit insurance sought to level the playing field in an economic system divided between the massive capital accumulation at its financial center and the peripheral economies of rural communities across a vast continent. They sought to stabilize the banking system as a whole and to protect individual depositors from bank failures and bank panics that were often triggered by the collapse of financial markets in New York and exacerbated by the monetary policies of the federal government. Advocates argued that individual depositors were poorly positioned to judge a well-managed bank from a poorly-managed one. They argued that government supervision could check the propensity for moral hazard. Advocates argued that banking held a special place in the public domain and that individual depositors should not have to pay the consequences for bank failures, whether due to individual corruption or systemic economic collapse.

The opponents of government deposit insurance always included the most powerful financial interests. A bank insurance fund accumulated through government-mandated assessments of private banks asserted the government authority over the private sector to compel participation. Assessments based on a percent of capital redistributed risk among the largest banks and the smallest meant that the largest banks contributed the most to an insurance fund, where the smallest banks were often, but not always, the most vulnerable to failure. Federal bank deposit insurance was not part of Roosevelt's legislative agenda. It took the financial devastation of millions of Americans over increasingly systemic bank panics for Congress to gather the political will to override the most powerful financial interests for the protection of the general welfare and the economy as a whole.

Unquestionably, bank deposit insurance was a radical idea. The creation of the FDIC was radical because it represented a fundamental renegotiation of the balance of power in the United States between the federal government and state government, between the federal government and the private sector, and between the federal government and its citizens. By distributing default risk across all banks in the United States, federal deposit insurance leveled the playing field between industry and agriculture and between Wall Street and Main Street. The fourteen state bank insurance programs were radical experiments that employed the power of the state to regulate the private sector for the general welfare. These programs were important precedents that boldly experimented with the key components of deposit insurance over time: eligibility, supervision, liability, and the source of the guaranty. The one hundred and fifty federal deposit insurance bills proposed a range of federal regulatory frameworks based on these same components that reflect a dynamic range of thinking about this legislative idea and the role of government. One of the key findings of this study is that, over time, in the context of increasingly destructive bank panics, both in the state programs and the federal proposals, the government became the ultimate guarantor of the insurance.

The leaders who conceived of and carried this policy idea forward over one hundred years were cut from the same cloth. Entrepreneurial statesmen men like Joshua Forman, a former-Federalist from western New York, William T. Price, a Republican from Wisconsin, and P. W. Chavers, a Chicago Democrat, devoted decades of their lives building the main streets of their communities. The most powerful political advocates of government-managed deposit insurance were Martin Van Buren, William Jennings Bryan, Robert L. Owen, and Henry B. Steagall, progressive Democrats who rose to power representing frontier constituencies. All of these men, from Joshua Forman to Henry Steagall, leaned into the principles and processes of representative democracy to leverage the power of the state to balance the financial interests of the most powerful with the financial interests of average people. Unlike many New Deal programs, federal deposit insurance in 1933 protected every depositor in every member bank, no matter where they lived, where they banked, how they made their living, or how much money they made, regardless of race, creed, gender, or any other social barrier.

This investigation frames the long history of bank deposit insurance with the economic history of the United States shaped by a century of territorial expansion across a vast continent. As market capitalism evolved to industrial capitalism and finance capitalism, the original colonial divide between a coastal commercial economy and an agricultural periphery was dramatically sharpened by the continental expansion of the

United States westward and then redefined by the isolation of a large agricultural mid-continent between two ocean-facing commercial coasts. This history of a bank regulation complicates the narrative that the United States was built on an ideological consensus of laissez-faire capitalism and shows that from the barren expanse of Saul Steinberg's "View of the World from 9th Avenue," Main Street has challenged Wall Street over the role of government in banking, currency, and the economy from the beginning of the Republic.

This study also frames the history of bank deposit insurance in the historical context of the steadily expanding commitment of the federal government to secure the credit and currency of the United States. Beginning with the Funding Act of 1790, the federal government established the credit of the United States by guaranteeing the war debts of each state and the Continental Congress. Starting with the Mint Act of 1792, the federal government secured part of the money supply, specie, that is, government-minted gold and silver. Some seventy years later, the Banking Acts of 1863 and 1865 guaranteed a second part of the money supply, bank notes, creating a single national currency for the first time. Seventy years after that, the Banking Act of 1933 secured the third and final part of the money supply, bank deposits. Federal Deposit Insurance Corporation federally insured bank deposits and regulated a bifurcated system of state and national banks for the first time. The creation of FDIC in 1933 marked the culmination of the federal commitment to secure the credit and currency of the United States in times of existential economic crisis, during the first years of the Republic, the Civil War, and the banking crisis of 1933.

The creation of federal deposit insurance in 1933 represented a new resolution of a twenty-year political battle among Democrats about the appropriate role of government in the economy that began with Carter Glass and Robert L. Owen in 1913 and ended with Carter Glass and Henry Steagall in 1933. Like Roosevelt, Carter Glass had long opposed deposit insurance, not because of the threat it posed to the largest financial interests, but because of the risk it posed to the federal government and because of its potential to create economic disincentives. But after the catastrophic failure of the Federal Reserve System to stem the threat of systemic financial collapse in 1933, Carter Glass withdrew his long-held opposition to federal deposit insurance ahead of Roosevelt, and Owen and Steagall and the "mid-continent revolution" prevailed.

The 1933 law represented a hard-won, and in some ways awkward political compromise that included some of the most radical ideas and conservative conditions that had been proposed since 1886. With respect to eligibility, the legislation broke an institutional barrier in U.S. banking by including all commercial banks in FDIC, national and state. National banks were compelled to participate. Participation for state banks was voluntary, but they had to be approved for membership. With respect to governance, the legislation created a new government authority to supervise the insurance program, the Federal Deposit Insurance Corporation. That hybrid public-private institution gave the federal government the authority to audit all member banks, national and state, for the first time. With the creation of the Federal Deposit Insurance Corporation there were four government regulatory authorities over banks: the FDIC, the Federal Reserve, the Comptroller of the Currency, and individual state banking authorities. Government bank regulation in the United States became more complex. With respect to liability, the legislation covered the bank deposits of member banks, up to specified limits. The initial liability coverage of FDIC, $2,500, matched the coverage of the Postal Savings System accounts. With respect to the source of the guaranty, the legislation defined the protection as "insurance" and its supervisory authority as a "Corporation." The FDIC was intended to run as publicly-managed and privately funded insurance program in that member banks contributed to the insurance fund through assessments. Private banks participated in the ownership of the corporation by owning its capital stock. Yet, FDIC was more of a public-private partnership than private insurance. With respect to its funding, it received a large infusion of initial capital from the federal government and an annual percentage of the profits from the twelve Federal Reserve banks. The public-private structure of the Federal Deposit Insurance Corporation clearly reflected the one hundred years of government bank insurance history that preceded its creation in 1933 in which in the power of the state became fundamental to the eligibility, supervision, liability, and the source of guaranty. The public perception that FDIC is a government-managed private sector insurance fund obscures a fundamental insight about the crucial role of government in securing the public's faith in banking, money, and the economy. This insight was part of the democratic impulse to enact government bank insurance that began with the first Americans who, from the beginning of the Republic, were looking to tie the welfare of the periphery of the United States and American capitalism to its center.[1]

[1] Golembe and Warburton, "Bank Obligations in Six States," VIII:3.

CHAPTER IX

EPILOGUE

In the course of its implementation in the last eighty years, in which no depositors have lost their money in a failed commercial bank, the administrators that run FDIC, the politicians who regulate it, and the public who depend on it have come to understand that the ultimate source of FDIC's guaranty is the credit of the federal government. This study had shown that the initial structure of FDIC was a public-private partnership that belied its institutional name as a "Deposit Insurance Corporation." Then in practice, like the state programs before it, when the insurance fund was depleted in times of financial crisis, the federal government used its credit to insure the ongoing protection of the program and the confidence of the public. Today, FDIC has a $1 trillion line of credit with the federal government. FDIC's total liability is four times that amount. Albeit somewhat quietly, FDIC's website currently states that the Deposit Insurance Fund (DIF) is guaranteed by the "full faith and credit of the United States." The FDIC sign displayed in banks across the United States is the symbol of that faith.[1] It is a big promise.

The weakest link of the American banking system today is not the failure of unit country banks; it is the potential collapse of the nation's largest banks deemed "too big to fail." As the FDIC has helped to fold the assets of failing banks into larger, stronger

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[1] Federal Deposit Insurance Corporation, 1000 – Federal Deposit Insurance Act, Sec 14, https://www.fdic.gov/regulations/laws/rules/1000-1600.html; Federal Deposit Insurance Corporation, https://www.fdic.gov/regulations/laws/rules/4000-2660.html; Federal Deposit Insurance Corporation, "Symbol of Confidence," https://www.fdic.gov/consumers/assistance/protection/depaccounts/confidence/symbol.html.

banks, the agency has contributed to the trend of creating fewer, larger banks. The safety of the largest banks and entire system depends on regulation.[2]

The fundamental interdependence of a government guaranty of bank obligations and a government's authority to regulate banks was not fully understood in 1829. In 1934, the first administrators of FDIC clearly understood that the success of a federal deposit insurance program was predicated on the government's ability to effectively regulate banks. This included the authority to audit their books, to act on the information in those audits, to take over the operation and assets of failing banks, and to borrow funds when the insurance fund was breached. In times of economic plenty, the lobbyists of the banking industry have been successful in reducing the regulatory system on which FDIC depends. In 1992, Congress was persuaded to let the largest banks stop paying their assessments altogether. As banking has become more internationally competitive, the domestic pressure has increased to match more liberal regulatory policies of other countries. In 1999, Congress rescinded the separation of commercial and investment banking. In 2003, bank lobbyists almost succeeded in dramatically lowering the capital requirements of banks to match European regulatory practices. The multiple state and federal regulatory institutions in the United States are often at odds with regard to regulatory policy. FDIC was just beginning to reverse this trend when the real estate market, built on decades of high-risk and fraudulent loan practices, collapsed in 2008. The simultaneous collapse of the derivative markets which bundled high-risk mortgages

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[2] Gary Stern and Ron Feldman, *Too Big to Fail: The Hazards of Bank Bailouts* (Washington, DC, Brookings Institution Press, 2005), 1-17; Gretchen Morgenson and Joshua Rosner, *Reckless Endangerment: How Outsized Ambition, Greed and Corruption led to Economic Armageddon* (New York: Times Books, 2011), 40-45, 132-140, 231-232; Shelia Bair, *Bull by the Horns:Fighting to Save Main Street from Wall Street and Wall Street from Itself* (New York: Simon & Schuster Paperbacks, 2012), 1-7, 21-26.

into lower-risk financial products led to near-global financial collapse. The 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act attempted to rebuild some of this regulatory structure. In 2017, Congress is moving again towards bank deregulation. Federal deposit insurance may or may not be essential to the future stability of the American economy, but it will only be as effective as its willingness and power to regulate.[3]

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Pursuing a PhD in American history and undertaking a major research project of my own design has been a long-simmering aspiration. There are many people who inspired this undertaking and whose love and support was essential to completing it.

My love of history starts with the brilliant and inimitable Sr. Eleanor Fox, RSCJ, who I was lucky to have for three years of history in high school. Fox had scant interest in the antics of teenage girls – but she cared deeply about the people we were going to become. Her famous *New York Times* class required us to read the paper every day my senior year and set me up for everything that followed. One of the great pleasures of doing this dissertation was reuniting with Sr. Fox in New York where we enjoyed many museum visits between my research trips to New York archives. We honored her long career at a special gathering at Sacred Heart in the summer of 2015.

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[3] Gary Stern and Ron Feldman, *Too Big to Fail: The Hazards of Bank Bailouts* (Washington, DC, Brookings Institution Press, 2005), 1-17; Gretchen Morgenson and Joshua Rosner, *Reckless Endangerment: How Outsized Ambition, Greed and Corruption led to Economic Armageddon* (New York: Times Books, 2011), 40-45, 132-140, 231-232; Shelia Bair, *Bull by the Horns: Fighting to Save Main Street from Wall Street and Wall Street from Itself* (New York: Simon & Schuster Paperbacks, 2012), 1-7, 21-26, 323-353.

I come to history most personally from bearing witness to it. In college and in my 20s, I lived and worked in the People's Republic of China and Guatemala, where U.S. foreign policy had the shallowest reach and the deepest in the post-World War II era. In China, I witnessed the early days of the post-Mao period in 1981-82. In Guatemala, I witnessed the end of a thirty-year Civil War from 1988-1990. In Guatemala, I lucked into working as a research assistant on several anthropological studies. Working for David Stoll in Guatemala, when he was conducting his own doctoral research, was an object lesson in learning to interrogate all sources, primary and secondary, for the influence of ideology. Though I first went to business school, working for Dr. Stoll was a fundamental part of my training as a historian.

Working in the private sector as a financial analyst and manager for ten years prepared me to work with much of the source material for this project. In business school at the University of Wisconsin–Madison, I had the good fortune to work as a Research Assistant for Anne Minor. The plan to pursue a mid-career PhD began with a conversation with Dr. Minor after 9/11 in the fall of 2001.

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The historical record of many of the principal historical actors in this study was decidedly slim. From Joshua Forman and Martin Van Buren to Robert L. Owen and Henry B. Steagall, there are few, if any, personal papers regarding their involvement with this controversial legislation. I am therefore grateful to the research librarians at the Onondaga Historical Association, the Lamont Library at Harvard University, the Ralph Brown Draughton Library at Auburn University, the New York Historical Society Library, and the Federal Deposit Insurance Corporation who pointed me to related and underutilized materials. My work at the FDIC library also happily coincided with a reunion with Mike Warburton, who taught me to rock climb when I was young. Mike, I recently learned, is also the grandson of Clark Warburton, one of the brilliant FDIC economists whose institutional research undergirds this study.

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Special thanks to John Kaiser for sending me to the National Archive to examine the Freedman's Bureau Papers. My research there, which put the passbooks of former slaves in my hands, forms the moral imperative of my federal story. When I was at

College Park, I also found the strategic planning, operations, and after-action reports of my father's unit in World War II. These records included his original hand-written intelligence reports, details of the day he earned a Bronze Star and a Purple Heart, and allowed me to follow him literally hour by hour from D-Day + 6 to V.E. Day. My father, Ralph L. Gates, died fifty years ago this summer; I am so very grateful my training as a historian led me to re-enter his life as a twenty-six-year-old Captain on Omaha Beach.

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