FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON 25

ADDRESS OF

MR. H. EARL COOK

DIRECTOR, FEDERAL DEPOSIT INSURANCE CORPORATION

Before the

WISCONSIN BANKERS ASSOCIATION

MILWAUKEE, WISCONSIN JUNE 23, 1948

As our Banks Grow So Does the Nation

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ADDRESS OF HON. H. EARL COOK, DIRECTOR, FEDERAL DEPOSIT INSURANCE CORPORATION, BEFORE THE WISCONSIN BANKERS ASSOCIATION.

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Mr. Chairman, Members of the Association, and Distinguished Guests:

It is a great pleasure for me to come to the great State of Wisconsin. Your economy and your contribution to the greatness of this Nation are in most ways closely akin to those of my own state, Ohio. I know that you all take great pride in being residents of this great Midwest that is breadbasket and butter churner for most of the United States. I am sure that, like me, you take pride in the fertile fields, the mineral resources, the humming factories and the splendid homes and families with which God has endowed our section of this planet.

There is another reason why I am particularly proud to be with you today. My tenure as Director of the Federal Deposit Insurance Corporation has been rather brief. But long before my appointment to that position I, both as a banker and as Superintendent of Banks for the State of Ohio, had many an occasion to meet and to appreciate the outstanding ability of that fine fellow Wisconsinite of yours, Leo T. Crowley.

The Corporation I represent today owes so much to Leo Crowley for his fine organizational activities and for his firm hand at the helm during the first twelve years of its existence. The Nation owes him gratitude for his unselfish and able service as Alien Property Custodian and as Foreign Economic Administrator during the years of the war. I am proud to number him among my friends.

I am proud of our Middle-West; and I am tremendously proud of the results our forefathers achieved in making this vast sprawling continent of contrasts—starting only with wilderness and desert—the most bounteous, the most powerful and the most delightful Nation in the world; a Nation which has given unlimited opportunity to everyone willing to work and pay the price of success. I say to you that the banking profession has made a great contribution to our growth as a Nation. Without them our development would have been retarded indefinitely. With them, and their inherent American feeling of independence, we have risen to great heights. We have seen occasional crises, we have passed through many years of trial and error, and

we cannot yet be sure that all answers to the problems of financing soundly such an agricultural and financial giant as the United States have been solved.

The uncertainties probably always will be lurking just around the corner. Inflation here, the threat of war there, deflation hiding in the shadows, overproduction, unemployment and all the other unpredictables of a complex economy.

Yet the banking system, I believe, is now so geared that it can meet the appearance of any of these threats to much better advantage than ever before in its history.

May I trace for you briefly the ways in which banking not only has adapted itself to previous crises but has influenced our history?

One might summarize the history of American banking with scenes from the life of Alexander Hamilton financing the American Revolution, of Robert Morris presiding over the Bank of North America, of Gallatin and Biddle and their struggles to establish the First and Second Banks of the United States. Salmon P. Chase could recount his difficulties during the War between the States, and before our eyes the elder J. P. Morgan would save the Treasury once again.

Aldrich, Knox, Hepburn, Strong, Glass and Steagall each would play an important part in the story. There is no one book that summarizes it effectively. Properly written, such a book would give life and prestige to the part played by banking in the economic development of the United States.

I cannot presume to write that book, but I should like to express a few of the ideas I should include if I were sufficiently gifted to be its author.

There has never been a large-scale development of trade and industry without a corresponding expansion in banking. Each civilization that has come to maturity has had to find ways to finance its trade. It is true that the relationship between a client and his banker in ancient Thebes, Rome and Athens was forgotten during the dark ages when trade ceased almost to exist, but when the new world was discovered and trade began to expand again the developments in banking had to parallel those in trade.

In reality the customs of modern banking took their rise from the rules of the goldsmiths who settled near Threadneedle Street,

London, in the fourteenth century. In the beginning, when the Biblical veto against interest still was observed, the goldsmith collected storage charges from the merchants for keeping their gold in his strong boxes. Orders from the customer to transfer part of his gold to another merchant later became checks. The goldsmiths' issues of transferable warehouse receipts for convenient amounts of gold ultimately became bank notes. Discovery by the goldsmiths that it was safe to lend on such warehouse receipts in excess of the gold on deposit laid the basis for modern credit banking.

Rapid rise in the volume of trade with the New World spread these new ideas first in the Americas and later to India and China. Lack of gold in the British settlements made the need for credit banking in these areas peculiarly acute. But where the traditions left by the goldsmiths had molded banking customs in England along conservative lines, there were no such restrictions upon the thinking and practices of the American colonists. They needed money quickly and, in what seemed in that day, large amounts. They established new banks and these banks printed notes. Naturally, some of these experiments failed and the early monetary history of the colonies contained sad stories of many bank notes becoming utterly worthless. The early settlers who established banks were not bankers. They knew nothing of banking traditions nor of the basic principles of economy underlying banking. If a little money was a good thing, then more money would be better and they printed more than could be redeemed. These new bankers themselves were also innovators. They thought that the conservative practices of English banks were a conspiracy against their efforts to better themselves. Their accusations against the British were not unlike the later complaints of the West against Wall Street. The financial chaos that resulted from unregulated printing of bank notes did not put the colonists in a strong financial position to carry on a war against England. The notes ceased to be worth a continental. The notes, issued so freely on such a weak specie base, led to coining of a phrase that still is in our American language. They became so unpopular that since then anything worthless has been "not worth a continental".

It took the strong hands and the wise understanding of Alexander Hamilton to establish order and to give real value to the American dollar. With the independence prevailing in each colony, tact, diplomacy, integrity and firmness were necessary. With the backing of Congress and under the guidance of Hamilton, order finally was established. The first lessons in banking in the New World had been learned the hard way.

It was a natural result of the need for uniform regulation of banking that led Hamilton and the Continental Congress to the creation

of a strong central bank with widespread powers. The repressive measures necessary for establishing a sound money system may have been a bit too rigorous at times and may have failed to give the rapidly growing republic sufficient money for the vigorous business expansion which was taking place. At any rate, reaction against the concentrated money power of the bank induced Congress to refuse to renew its charter. Here was the beginning of a sentiment that years later crystalized in the form of distrust of Wall Street.

Five years of experiment with state banks followed, but results were so thoroughly chaotic that in 1816 Congress granted a charter to the Second Bank of the United States. For a period under Biddle this institution met the needs of the moment quite efficiently, but the old drive for more money, combined with Jackson's distrust of centralized monetary power, brought this phase of American experimentation with banking to a close. The die had been cast, the American people wanted a banking system more responsive to local needs than seemed possible for any centralized bank. From that time forth Congress has always protected the rights of the local bank from encroachment on the part of any centralized system.

After the termination of the charter of the Second Bank of the United States in 1836, the country reverted to a State banking system. The variety of interpretations of the powers and limitations on the powers of a bank prescribed by the various state legislatures produced a peculiar situation. The Secretary of the Treasury secured whatever degree of uniformity that was achieved by personal leadership rather than by law. There was no national credit policy. This was the situation at the time the Civil War broke out. Before the end of that war, Secretary Chase was convinced that a national banking system was an essential. With this end in view he introduced a bill under which local banks were established under a national charter. Bank notes were issued with Government bonds for their security and state banks were starved out of existence by taxation of their note issues.

In these early days the power to create credit was primarily based upon the power to issue bank notes. The tightness or availability of money varied with restrictions upon the rights to issue such notes. The full possibilities of credit banking were not realized by the banks until a little later in banking history when Government taxation upon banknote issues had become so severe that such issues were no longer considered a profitable privilege.

With the creation of a system of national banks existing side by side with state banks, the problem of maintaining a consistent nation-

al financial policy remained unsolved. The United States was still subject to greater fluctuations in total volume of credit than any other country. Recognition of the need for a more stable and rational financial policy led to the establishment of the Federal Reserve System in 1914. Under this system the rights and privileges of the state banks have been maintained. Like other parts of the American Government the organization of the dual banking system, as it now exists, depends upon a series of checks and balances. Their main purpose is to maintain a satisfactory balance between national and local interests; to maintain a national financial policy without putting undue handicaps upon the efforts of the local bank to serve its community.

Recognition of the need for a national credit policy led to the establishment of the First and Second Banks of the United States. The goal was to secure a banking system which would carry out national credit policies and yet be sufficiently responsive to local conditions so that the local businessman would not feel that he had to explain his credit needs to New York or Washington in order to have his requirements met. This problem was solved by the creation of a dual banking system which centers sufficient power in the Federal Reserve System to permit control of those credit policies which are by their nature national in scope, but which also protects the local bank in its duties of meeting the requirements of the local community.

In the meantime, there is one intermediate step which Congress has taken which gives promise of at least easing the strain of depression. Creation of the Federal Deposit Insurance Corporation has protected the depositors in the banks against the strongest blows of deflation. Funds which businesses have put in the banks for safe-keeping and for use in hard times will actually be available when needed. The individual depositor will have his savings always available to ease him over the period of hard times. This is only a general statement without special reference to the $5,000 insurance limitation or to the fact that the Federal Deposit Insurance Corporation has been perfecting a technique of merging banks where possible so that all deposits are protected. The mere fact that this country is never again going to be subjected to widespread runs on the banks in itself should ease psychologically the extreme expansion and contraction to which we have been exposed in the past.

We of the Federal Deposit Insurance Corporation like to think that a new era of banking was brought in by the Banking Act of 1933. Today there are nearly 13,400 commercial banks and trust companies and 200 mutual savings banks whose deposits are insured by the Corporation. These institutions comprise 92 percent of all the banks in the Nation, and they hold 95 percent of all the deposits which, as of December 31, 1947, amounted to 154 billion dollars.

In the more than 14 years of its operation, the Corporation has promptly advanced $87,000,000 in the 245 insured banks that have been placed in receivership. More than 330,000 depositors in those institutions were completely protected.

By authorization of the Banking Act of 1935, the Federal Deposit Insurance Corporation exerts every effort to forestall failures by aiding the merger of weak insured banks with stronger institutions. There have been 159 such mergers, with the Federal Deposit Insurance Corporation disbursing some $176,000,000 to protect an additional 1,000,000 depositors. The advantages of this type of action are that all depositors are fully protected and that there is no interruption to banking service in the community. The successor, or absorbing bank, takes over all sound assets of the weak bank. The difference between the amount of these sound assets and the deposit liabilities assumed by the continuing bank is paid promptly in cash by the Federal Deposit Insurance Corporation. The advantages of this latter technique, when it is made more flexible to care for situations where there is only one bank in a town or where existing competitors will not assume liabilities and assets, are obvious. It is the logical vehicle for depositor and community protection, in our opinion, and will be used wherever possible.

The Federal Deposit Insurance Corporation required not only Federal legislation but Federal capital to get it started in 1933. The Treasury and the twelve Federal Reserve banks subscribed $289 million to the Corporation's original capital at that time. Upon recommendation of the Corporation in 1946, a law enacted by Congress in 1947 empowered the Federal Deposit Insurance Corporation to repay this original investment in amounts that would not reduce its total capital and surplus below one billion dollars. I am happy to report that all but $43 million of the original capital has been repaid and that we expect to have the balance repaid before the end of this year. We, as well as the banks, shall take pride in having an agency for the protection of depositors created and sponsored by the Government, yet financed entirely by the member banks for the protection of their depositors.

Ladies and Gentlemen, I bring you the greetings of the entire Board of Directors and staff of the Federal Deposit Insurance Corporation. We hope that you will visit us at our offices any time you are in Washington so that we may benefit from your practical experiences in the field. We hope that you will consider all facilities of the Corporation at your disposal. We, in the final analysis, work for the insured banks.

Thank you again for the privilege of being here with you today.

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May 11, 1949	Missouri Bankers Association Kansas City, Missouri	"What is Past is Prologue"

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