

"Banking in a Free Nation"

ADVANCE - FOR RELEASE AT 2:30 P.M., CDT, THURSDAY, JUNE 16, 1949

EXCERPTS FROM THE ADDRESS OF MR. H. EARL COOK, DIRECTOR, FEDERAL DEPOSIT INSURANCE CORPORATION, WASHINGTON, D.C. BEFORE THE 58th ANNUAL CONVENTION OF THE ILLINOIS BANKERS ASSOCIATION

ST. LOUIS, MISSOURI

June 16, 1949

In an address to the Illinois Bankers Association at Jefferson Hotel, St. Louis, Missouri, today, H. Earl Cook, Director of Federal Deposit Insurance Corporation, used "Banking in a Free Nation" as his theme. He remarked upon the advantages of our form of government, which encourages rather than stifles individual initiative and free enterprise, and gave some recently released data along these lines.

Mr. Cook pointed out that the free enterprise which is a mark of our independence, in turn works to support our united form of government and makes it succeed. He said that cooperative individual enterprise is nourished and protected and made more efficient by unity.

To show how our free economy functions to the greater advantage of the individual than does the socialized or communistic form of government, Mr. Cook went to the record of this country as compared with Great Britain and Russia in the production of electric power. He disclosed that our estimated production of more than 300 billion kilowatt hours of electric power in 1947, which had risen from the 114 billion of 1938, represented an average of 2,117 kilowatt hours per person. In Britain, the 42½ billion kilowatt hours of 1947 was increased only to about 45 billion during 1948, the first year of nationalization, the latter being only about 918 hours for each person. Soviet Russia, with a population approximately equal to that of Britain and this country combined, produced only 60 billion kilowatt hours in 1948, or about 315 for each person.

Mr. Cook went on to discuss how the basis on which our government was founded has been carried into the creation of our banking system, composed of thousands of individual members.

He emphasized that the freedom of banking, just as personal freedom, carries responsibilities, an important one being that the banking system cannot tolerate those which would abuse its good name.

Describing bank supervision as actually the watchdog of the banking system, Director Cook pictured properly constituted supervision as a clinic for the detection and treatment of ailing cases. He stressed the necessity of isolating and curing or eliminating defectives, to avoid the dire consequences of epidemic.

Mr. Cook explained how the creation of the Federal Deposit Insurance Corporation acted to restore confidence and how it has worked to protect those who might have suffered had there been no Federal bank deposit insurance. He reported that the FDIC has aided 408 banks during its 15½ years existence. He said that no depositor in any insured bank has lost anything in more than 5 years, because it has been possible to avoid receiverships, which also means that no depositors' funds have been tied up even temporarily during that time because of bank suspensions.

Mr. Cook stressed three important points in sound and successful bank operation; competent management, adequate capital, and ample protection against dishonesty. He said that while stockholders have a responsibility to depositors, directors have an even closer responsibility to them, in addition to having a responsibility to the other stockholders they represent. He reminded directors of the necessity of protecting both depositors and stockholders by maintaining reasonable amounts of insurance against employee infidelity and other forms of dishonesty.

He touched on the currently controversial subject of bank risks, suggesting that the test should be to have directors consider maximum loss and danger possibilities and then ask themselves whether their bank can afford to run the risk.

In closing Mr. Cook urged bankers to keep up their good work and pointed out that not only are we making history today, but what we now are doing will have great bearing on the future.

Copied from "The Great Lakes Banker"
of July 1949

BANKING IN A FREE NATION

Address by Earl Cook, Director, Federal Deposit
Insurance Corporation, Washington, D. C., before
the Illinois Bankers Association Convention,
June 16, 1949

St. Louis, Mo.

Mr. Chairman, Ladies and Gentlemen of the Illinois Bankers

Association: I am in a somewhat embarrassing position on this particular occasion because I am endeavoring to pinch-hit for one of the finest administrators and one of the most accomplished speakers in public life and that is the Honorable Maple T. Harl.

As Harry Hausman has told you, at the last moment, night before last, developments occurred which made it necessary for Mr. Harl to remain in Washington and he asked me to come out and fill his shoes. I think I can do it physically in tonnage, but I don't think I am quite up to the occasion.

I will endeavor just briefly to speak to you about some of the things of interest to bankers in general and to your organization in particular.

Let me pay this tribute to the leadership of the Illinois Bankers Association. You have one of the most outstanding organizations of its kind in the United States. Through your most efficient Secretary, Harry Hausman; your President, Harry Emerson, and all of your good, efficient leaders, you have performed outstanding work.

I was most interested in what Mr. Cooper told us of the operations of the office of Supervisor of Banking for the State of Illinois. That is

most constructive work, and I am sure that under his administration the same high degree of efficiency will be continued as was under his predecessors in the past.

You will be interested in knowing of the contributions that your Association has made to the Federal Deposit Insurance Corporation in particular--other banking agencies as well, in Washington.

You have taken a keen interest in Federal legislation to the end that the thing that Mr. Cooper alluded to, that is, to continue the independence of several banking agencies, namely, the Federal Deposit Insurance Corporation, the Comptroller's Office and the Federal Reserve System, will be continued as independent--and there will be the preservation of the dual banking system.

You gentlemen of your organization have conferred with your representatives in Washington, worked hard with them, and we appreciate more than I can tell you the outstanding work, Harry, that you and your associates and your organization have done.

Just to speak to you briefly--this may seem as a repetition of what has been said--about our concept of banking in a free nation, Illinois, itself, is an outstanding pioneer state, outstanding at the cross-roads of the nation. You have diversification of agriculture; you have manufacturing. The influence of the State of Illinois has a tremendous impact upon the economy and upon the thinking of the nation.

While you are twenty-third in size as to area, you are third in population. The influence of the transportation system which crosses

your state, all of this, besides the many great headquarters, has had, a tremendous impact on what the nation does.

You have 870 insured banks. Only one state, Pennsylvania, has more. So you have a good many outstanding records.

Your twelve and one-half billion dollars of bank assets places you third in the nation. I could spend a great deal of time elaborating on the glories of Illinois, but you folks know them more than I do.

I want to tell you that we in Washington and other places are most appreciative of the place your state occupies in the business of the nation.

As I said, I am in a little embarrassing position because Mr. Harl wanted to come. He had made his plans to come. At the last moment he was not able to come here, and I am sure his message would have been of far more importance and of far more interest than what I am able to give you after just a few hours' notice.

All of us are keenly interested in this thing we call the dual system of banking because it is characteristic of the American Way of Life. It parallels our political situation. We have two major parties. We have a balance of power because their records are before the American people. The people can change if the records do not please them. So with the banking system.

We believe it has given a healthy state of competition and yet kept under control by supervision such as you have in your own state as well as the national supervisory agencies.

To confirm what we say that individual enterprise does, just recently I read an editorial which was headed "Capitalism in Power." It goes on to dwell upon the effect of the free enterprise system as compared with socialistic or communistic forms of government rampant in so many sections of the world now.

Just as an illustration, in 1947 the United States produced 307,000,000,000 kilowatt hours of electric power. In socialist Britain in the same year, electric power totaled 42,500,000,000 as contrasted with our 307,000,000,000. But in Soviet Russia with a population tremendously greater than ours and potentialities for production greater than even that of our own nation, produced only 60,000,000,000 kilowatt hours. In other words, the production per capita in the United States was 2,117 kilowatt hours as compared with the 918 kilowatt hours per individual in England and 315 in Russia.

Just to emphasize that a little further, the United States has one automobile for every four of its people, Great Britain has one for every twenty-two, and Russia has one for every 252.

I could go on and give you innumerable instances of that, but it only emphasizes what can be done in a free economy such as we have and banking in the United States is typical of that free economy.

No nation in the world could have a gathering such as you have here today where men can express themselves freely. You might discuss differences of opinion, but that is possible only here. It is symbolic of the rights we have in America.

Just to dwell with you briefly now upon what we conceive to be one of those evidences of freedom of action, the Federal Deposit Insurance Corporation, which as you know came into being after the Banking Act of 1933 in its temporary form, emerged in 1935 in its permanent form. A number of states previous to that time had their state guarantee laws which being too local in nature, not sufficiently wide spread, fell of their own weight, but the demand for federal guarantees of deposits was persistent.

Senator Vandenberg of Michigan and Representative Steagall of Alabama and Carter Glass were the outstanding statesmen--they were the gentlemen who inspired largely this formation of the organization of the Federal Deposit Insurance Corporation.

As you know, the \$289,000,000 of capital with which this corporation was formed has been repaid to the government. I believe they were the first agency in the government to return the capital with which they were created.

In addition to that, I am sure you would like to know some of the accomplishments of this corporation. Let me tell you that since its inception in 1935, the corporation has come to the aid of 408 banks. That is a lesser number than failed in any one year from 1923 to 1933. In the process of handling these 408 banks, this corporation paid the depositors some \$311,000,000 and that amount was paid to 1,500,000 depositors.

We have, in that process taken over the distressed assets of these banks closing through receivership or by merger with other strong

banks, but to indicate the efficiency of the corporation--and I say that with a great deal of pride--out of \$311,100,000 which was paid the depositors, we have liquidated assets to where net losses are approximately \$26,000,000.

We have had, of course, the advantage of rising prices. We have had the war economy where inflation and rising prices were inevitable. That has helped to make this record possible.

The problem is to so conduct the affairs of this corporation that when an emergency comes, we can meet it.

You will be interested in knowing, ladies and gentlemen, within the past year we have taken over some five or six banks not by receivership. We have done it by merging with other banks and of those six, I believe four were directly due to internal manipulation, defalcations. That was a phase which I don't think the Congress had in mind when the corporation was created--that we should insure the fidelity of the official members of banks--but that is what it amounts to.

We had this glaring case at Newark, New Jersey. We had another case in Oklahoma, another case in Indiana, and one recently in my home state--within fifty miles of my home town. It was a rather small bank of a million dollars. The cashier had managed to dissipate more than the entire capital structure of that bank.

We stepped in and merged with another bank without a loss of a dollar to a depositor.

There is one thing we say in our corporation as a result of observation over the experiences of a good many banks and that is this. A combination of slow horses and fast women works havoc with the operations of these banks and that is what often happens.

That was the case in some instances I could tell you about, but those are the things, ladies and gentlemen, that we are trying to do, to keep this banking economy of ours on an even keel.

The corporation was created to restore the confidence of the people of this nation in its banking system. It is now our responsibility to maintain it. There are many things which might be said about the corporation and its activities and I want to refer once again back to that question of fidelity which I just mentioned to you which will interest you. In your own state there have been a number of instances. One case the defalcation was \$46,000; the surety bond was \$10,000. Another case where you had a loss in the bank of defalcation of \$108,000, the bond was \$10,000. I remember in each of these cases the defalcation was sufficiently serious to force the bank into receivership or force it to be merged with another bank.

You had another case of a \$277,000 surety bond against \$100,000.

I am not hitting at Illinois particularly. I am not so proud of my own state. We have had a few bad ones out there.

The State of Ohio had one case where the loss was \$472,000. The surety bond was \$25,000.

I am emphasizing that, gentlemen, not with the purpose of stressing additional fidelity coverage for the benefit of F.D.I.C. It is our job to protect the depositors, but one thing we must recognize is that in the case of defalcation which is sufficiently serious to jeopardize the bank, the people who lose first are the stockholders. We will pay off the depositors--but not the stockholders. Some of them have five, ten shares. They are not represented on the board. They don't have anything to say to the management of the bank. They take for granted the officers and directors are honest and that the management is correct.

We wake up sometimes in the morning and find some of the most trusted people of our staffs have been the ones that have wrecked the banks, so we are thinking in terms of adequate coverage to be carried for the benefit of the equity owner to bail him out, because as I say, he is the one who loses before we do.

There are many other things I might say to you, ladies and gentlemen, but I know you have a full program. You have many other things to do. I should not take more of your time, but only to emphasize again the pleasure in coming to the Illinois Bankers' Convention.

I had the pleasure of attending the Missouri convention in Kansas City a few days ago. I didn't anticipate I would have this supreme pleasure now. I do appreciate it.

I personally have so many good friends in Illinois--Chicago and all over the state. I have worked with many of you gentlemen over the years past in association work. You have a fine, high type, grade of

leadership in the banking system in the State of Illinois. You are doing wonderfully good work.

Again I express my pleasure, and I thank you.