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BEFORE THE

ANNUAL CONVENTION OF THE MISSOURI BANKERS ASSOCIATION

"A GLIMPSE INTO OZARK ARCHIVES"

KANSAS CITY, MISSOURI

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"A GLIMPSE INTO OZARK ARCHIVES"

It is a great pleasure to see again so many of my friends, particularly those among you whom I met when I was privileged to address your annual meeting six years ago. Though I cannot claim the mantle of native son, I can, nevertheless, lay claim to more tenuous connections. My son and one of my daughters have shown the good judgment to make Missouri their home. Beyond that, I feel a certain direct lineage going back to the days when Tom Sawyer and Huckleberry Finn, my heroes of long ago, represented the ultimate of boyhood adventure.

The title of my address at your 1949 convention, "What Is Past Is Prologue", fits my subject today better than it did then. Today I propose to review the formative years of Missouri banking, a period of over a century ago. My purpose will be to indicate the timelessness of the essential problems which confront banking. The importance of viewing events in their proper perspective was brought home to me by something I read recently. Let me quote the statement:

"...We are living in a day of marvelous prosperity. Nothing like it has ever before been witnessed. Money is plentiful and capital active. Markets are strong and enterprise abounds on every hand. In this plenitude of our country's wealth and activity let us not lose sight of the possibilities of disaster. To guard against reckless speculation, excessive and long-time loans, overdue paper, overdrafts and the use of the bank's funds by its officers are a few of the precautions which, if strictly observed, will contribute to the continued prosperity and safety of our financial institutions."

Does not this statement sound like something out of yesterday's newspaper? Would you be surprised if I told you it was made before an annual meeting of the Missouri Bankers Association, just 50 years ago? It was made in this very city on May 23, 1905; and the speaker was the Hon. John Swanger, then Secretary of State of Missouri.

Different morals might be drawn from this instance. The lesson I want to point out, however, is the fallacy of thinking that our times and our circumstances are unique. The events of history are more than an assortment of facts chiefly useful in TV giveaway shows. Without insisting that history repeats itself, I nevertheless believe that we have much to learn from study of the past. A knowledge of history enables us to bring to our every-day problems the humility and perspective upon which good judgment depends.

To the chronicler of events, the history of banking in Missouri shows but little difference from the history of banking in other States. One characteristic thread, however, runs through the fabric of Missouri's banking history. That characteristic can be described by one much-maligned word: conservatism. The wild excesses of note issues, the frequent tendency toward loose supervision, the premature receptivity to innovations -- these manifestations of a speculative bent characteristic of banking in many States were not welcomed in Missouri. During the formative period of American banking, few States had so favorable a record and reputation for sound banking as Missouri.

Before there were banks, the people, of course, had to have some means for carrying on trade. The first currency in Missouri consisted of furs and peltries. St. Louis was well situated for a supply of this currency, having been founded as a fur trading post in 1764, and having available the rich supply of furs from the headwaters of the Missouri River. The different kinds of peltries, then ranging in value from 12 $\frac{1}{2}$ ¢ for raccoon skins up to \$5 for otters, were exchangeable at established rates. At that time St. Louis was also the center of the lead trade in the West. Lead was an indispensable ingredient of one of the chief necessities of life at that time: namely, bullets -- so it was also accepted as barter money.

Probably the first coin in Missouri was silver, sent from Spain to pay the garrison at St. Louis when that Territory was still in Spanish hands. Spanish silver again came into good supply some 20 years after the cession of the Louisiana Territory when a large trade grew up between St. Louis and Santa Fe, sometimes extending even into Mexico, consisting of tinware and dry goods sold in exchange for silver. The Spanish and Mexican dollars were often cut into four pieces, which passed as quarters, the origin of today's familiar 25-cent coin.

The Louisiana Purchase which, in 1803, brought Missouri within the jurisdiction of the United States stimulated an influx of population and increased commercial activity which accentuated the shortcomings of the existing currency system. People of substantial means often

found it difficult to obtain the necessary cash to pay their taxes. Frequently letters, which were then sent collect, remained in the postmaster's hands for weeks until the addressee could raise 25 cents to pay the postage. To fill such needs for currency and to take advantage of the great opportunities opened up by the Louisiana Purchase, some of the leading citizens of St. Louis were stimulated to press for a bank.

They received their wish when the Bank of St. Louis, the first bank in Missouri, was chartered in 1813. However, the war then going on and other delays prevented its opening until 1816. Although sponsored by leading business men of the city, it nevertheless fell victim to their inexperience in banking and to its own liberal charter. Free of any requirement of specie payment or other supervision, it advanced large sums for real estate speculation and, unable to honor its excessive note issue, it fell before the financial storm which swept the country in 1819.

Meanwhile, in 1817, another bank, the Bank of Missouri, was chartered. Names familiar in Missouri history, among them Lilburn W. Boggs, afterwards Governor, and Thomas H. Benton, later Senator, highlighted its list of officers. It started with a large paid-up capital, enjoyed the support of leading fur traders, and for a time was a depository for United States funds. But all these favorable factors could not offset the misfortune of starting at an inopportune time. The rampant speculation then surging through the country, particularly the boom in real estate, infected the Bank of Missouri. Much of the paper held by the bank as security for loans proved to be worthless, and the bank was forced into liquidation after only five years of operation.

This unfortunate beginning of banking in Missouri cast a long shadow. The view that banks were contrivances of the rich to cheat the poor received broad popular support. As late as 1839 Senator Benton, reflecting this popular view, and perhaps recalling his unfortunate connection with Missouri's second bank, congratulated the citizens of Springfield that they had no bank within a hundred miles. This prejudice against banks did not go as deep, however, as it did in Iowa, where the Constitution expressly prohibited the establishment of any bank. The Missouri Constitution of 1820 provided merely that the State should never charter more than one bank, and that it -- the State -- should own at least one-half the bank's capital stock. Yet 17 years were to elapse before even this authorization was to be utilized.

By grace of this restriction and abstention, Missouri escaped the banking excesses which afflicted much of the country during the 1820's, and particularly the 1830's. But what was a people, numbering some 70,000, and on the threshold of the new opportunities accompanying State-hood, going to do without a bank? As much as we might dislike to admit it, things went along quite well. in the decade following

1820. The population of the State doubled, industry expanded and the people were generally prosperous. Whether the State's development was hindered by the limited amount of specie in circulation and dependence upon the notes of private banks and the banks of surrounding States cannot be determined. In any event, agitation for a bank continued, and in 1828 the United States Bank opened a branch in St. Louis. It was a great boon to that city, but offered little advantage to the outlying areas, whose residents were benefited more by the relatively large sums of specie brought in by immigrants. For Missouri, astride the main road to the West, was growing rapidly, and many of that hardy band who stopped in Missouri on their way West, decided to stay.

The St. Louis branch of the United States Bank, despite its estimable services, was destined for a short career. After only a few years of operation, the parent Bank's charter expired. That burning political issue concerning renewal of the charter of the Bank found St. Louis on the side of Clay, who favored renewal, while the State outside of St. Louis supported Jackson, the victorious opponent of the Bank. Thus, in 1835, Missouri -- then boasting a population of nearly 250,000 and having in St. Louis a thriving commercial city of 10,000 -- again found itself without a bank.

The most important of the various agencies which supplied circulating medium to Missourians after the branch closed was the agency of the Commercial Bank of Cincinnati, one of the largest and most successful banks of that day. However, it was not able to give much help outside of St. Louis; and though the merchants of the city appreciated its services, they still wanted a bank of their own. Their petition was granted, and in 1837 the State Bank of Missouri was chartered, a fulfillment of the authorization granted by the State Constitution 17 years earlier.

Establishment of the State Bank of Missouri marked the beginning of a new banking era in the State. The bank's charter was a conservative one, having important restrictions regarding loans and the amount of note issue. The State held four-fifths of its capital stock, making it a public depository and fiscal agent. Provisions for semi-annual reports and for examinations, then quite uncommon, were included in its charter. That the bank was able to survive the panic which swept the country almost simultaneously with its establishment was a tribute to its careful design. When the banks throughout most of the country were forced again in 1839 to suspend specie payments, the State Bank of Missouri was the only bank in the West which did not suspend, a harbinger of the reputation it was to acquire as the "Gibraltar of the West".

Addressing your convention fifty years ago, the then Comptroller of the Currency, the Hon. William Ridgely, recalled an incident illustrative of the bank's reputation. Let me use his own words:

"...My father has recently told me that he remembers very well as a boy, along in the 'forties, when his father was conducting a private banking business in Springfield, that he was frequently sent out on the street with a bag of gold and silver to buy from the merchants any bills he could find of the State Bank of Missouri. These were always current and good, and were used by my grandfather to remit to St. Louis to keep his account there good. There was no way of sending except by mail, and sometimes the stagecoaches were robbed, so that the usual practice was to cut the notes in half, and send one portion one day and the other portion by some subsequent mail."

The notes of the Bank circulated freely above or at par, and are even said to have commanded a premium over gold on the Pacific Coast. In fact, the Bank's high standards were too high to suit many elements among its clientele. For example, when in 1839 the Bank refused to receive on deposit the notes of banks which had suspended specie payments, local merchants objected strenuously. Notes of such out-of-state banks made up a large part of the circulation, and the Bank's refusal to accept these notes was a severe blow to their business. Several merchants therefore transferred their accounts to private banks, to insurance companies and to the St. Louis Gas Light Company, all of which were then doing a banking business. Two years later the bank rescinded this particular action, but its continuing conservative policies caused the commercial interests of the State to turn increasingly to institutions which, though not possessing bank charters, furnished most of the banking facilities.

A word should be said about this anomaly of banking services furnished by institutions not technically qualified as banks. For 20 years, 1837 to 1857, Missouri had but the one bank authorized by her Constitution. Outside this restriction, however, various institutions performed services of a banking nature. For example, they provided exchange, accepted deposits, received savings, made loans and issued evidences of debt. Their issued obligations, sometimes made out to individuals and sometimes to bearer, circulated more or less freely, depending upon their individual reputations. A few of the institutions carried on their banking activity under broad legislative authorization; others chartered to do a specific kind of business, such as to write insurance, readily branched into the performance of banking services by lending their surplus funds; then there were the private bankers who simply set up shop and did everything from acting as middle-men for traders to issuing their own notes.

There were two or three private bankers in Missouri from the beginning of State-hood. During the whole period of presumed bank-lessness in Missouri, institutions such as these played an important part in the commercial life of the State. The house of Page and Bacon, established

in St. Louis in 1848, and the firm of Lucas and Simonds, both of which had branch offices in San Francisco, had substantial resources which they made available to businessmen. The respected Boatmen's National Bank had its beginning in 1847 as the Boatmen's Savings Bank, and other so-called savings institutions, some of which have survived to the present day under different names, came into existence shortly thereafter. The operation of these bank-like institutions moderated the restrictive policies of the State Bank.

The unpopularity of the State Bank in commercial circles and the feeling that it had not adequately performed its job was reflected by distrust in rural areas. Although the Bank had branches in five towns scattered throughout the State, the alleged concentration of money power in St. Louis was a source of jealous suspicion. Moreover, the cautious policies of the State Bank, and its parsimony in providing the official circulating medium, over which it had a monopoly, made Missouri an inviting field for the notes issued so profusely by banks in neighboring States, with the result that Missourians, for all their caution, continued to be victims of a varied and unreliable currency. These joint dissatisfactions and deficiencies brought support for changes which culminated in the General Banking Law of 1857.

The Act of 1857 deprived the State Bank of its monopoly of note issue and provided for an expansion of banking facilities in the State. Ten independent banks were authorized, each of which was required to have at least two branches. Circulation was generally limited to \$3 of notes for every \$1 of specie. Seven banks were promptly organized under the new law, again at an inauspicious time, since the crisis of 1857 was impending; but the new banks stood the strain well. Gradually the issues of the new banks and their branches displaced the wildcat currency of other States, but the last of the latter did not disappear until the National Banking Act placed a prohibitive tax upon all notes issued by State-chartered banks.

What are we to learn from this chronology of banking events of over a century ago? It is true that our banking structure has changed, that loans are made today for purposes which would surprise our ancestors, that our techniques of supervision are different. The agency which I represent, the Federal Deposit Insurance Corporation, had no counterpart in Missouri, though its organization was foreshadowed in certain other States during that formative banking period. Yet many of the basic problems which require our attention today were familiar ones to your Missouri forebears.

Without attempting to squeeze all the lessons out of their experience, we can nevertheless pay our respects to a few of them. First and foremost, the pioneering Missouri bankers resisted the then current tide of speculative fever by giving precedence to practices which have become the hallmark of sound banking. By steering a little to the right, they helped to bring that balance which is the secret of

the American achievement in so many fields. The element of soundness which we seek in our banks today is a tradition which they did much to establish, and is one to which the Federal Deposit Insurance Corporation owes a special tribute.

A corollary of the conservative practices of the early Missouri banks was their ability to bear up during periods of crisis. This achievement is all the more notable because each of the three early stages of Missouri banking began during or on the eve of bank panics. The first bank was opened only shortly before the monetary collapse of 1819, and was itself forced to suspend shortly thereafter. But the State Bank which opened in the midst of the disastrous panic of 1837, and the system of banks which began during the crisis of 1857, each weathered the storms in fine shape. These experiences suggest that individual banks have it within their power, by building and conserving their strength, to reduce substantially their vulnerability to adverse economic conditions, and so contribute to soundness of the whole banking system. We of the Federal Deposit Insurance Corporation have some responsibility in this area, but it would be futile for us to try to compensate for an inherently weak banking system.

Conservative practices naturally entail certain temporary sacrifices. We have seen how in Missouri other institutions grew up to supply certain needs which were inadequately furnished by the banks. All of you know of parallels in our own day, and many of you have been concerned as to whether you should embark upon paths which competing institutions have pioneered both to their profit and to the benefit of those served. Unfortunately there is no formula for determining the proper balance between what we might call conservatism on the one side, and progressivism on the other. But pursuit of that golden mean is an objective to which we can all give our ready assent.

Another situation deserving our recognition is the popular attitude toward banks. It is almost inconceivable that we could get along without banks today, as Missourians did for a number of years. The suspicion which once attached to banks, however, has not entirely disappeared. Neither the constructive role which they play in our economy nor the community spirit evidenced by many bankers has been able to dispel that reserve and doubt which some people feel toward banks. In our literature, which reflects the mores of our culture, how many sympathetic portrayals of a banker can you recall? There is, of course, the exception of Norby, now on television. But usually the banker is the villain about to throw the struggling family out of its home, or the speculator who dissipates the widow's lifetime savings, or the Shylock who requires so much collateral that only those who have no use for a loan need apply. We know these to be the caricatures that they are; but the very existence of the exaggeration indicates a grain of truth which we would do well to recognize. We must face the fact that banks as institutions, and bankers as a professional group, are not always the most popular elements in our communities. This fact

makes it doubly important that we always comport ourselves in such a way as to be above suspicion; and that we be unremitting in our efforts to cultivate a better understanding of the services which we provide in fulfilling our important economic functions.

Other lessons implicit in the record of Missouri banking have perhaps a more direct application. You may recall how business experience and political distinction together were unable to secure the success of a bank whose policies were too speculative. Or how appeasement of local pride was poor justification for establishing a bank. Or how over-strict regulation is sometimes circumvented by measures which often make the situation worse than if there were no regulation at all. We could go on and list other elementary truths with validity limited by neither time nor place, whose demonstration a century ago in Missouri is relevant yet today.

There is one other point worthy of mention and that is the part Federal Deposit Insurance Corporation has played in your banking history. During the period beginning June 1, 1935 through November 18, 1942, the Corporation was called upon to lend its aid to 45 distressed banks here in your State. In performance of our statutory obligations, we granted eleven loans to failing banks and paid off all insured deposits in thirty-four bank receiverships. Essentially this occurred during the first decade of Federal Deposit Insurance. It was necessary for us to render such aid in only one case during our second decade -- that being early in 1951, when we effected a purchase of assets to facilitate the assumption of one bank's deposit liabilities by another insured bank.

I make this reference only to point out the advantage of mutual cooperation: that is, improved bank supervision and better banking practices which go hand in hand.

As we sift out the details and look at the fundamentals which have motivated bankers of every era, we can take much counsel from the experience of our predecessors. The archives of the Ozarks are a treasure-house of the truths which illustrate and inspire sound banking. As we resist the many temptations made fashionable by short memories, the experience of Missouri banks can be a continuing source of inspiration and reassurance.
