Mr. Platt

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ABSTRACT OF
ADDRESS AT WHARTON SCHOOL OF FINANCE
Tuesday, December 3, 1929,
by Edmund Platt

Speaking informally before the banking classes of the Wharton School of Finance, under the auspices of Professor Harr, Tuesday afternoon, December 3rd, on the subject "Banking Legislation Past and Prospective," with some reference to the causes of bank failures 1920 to '29 inclusive, Mr. Edmund Platt, Vice Governor of the Federal Reserve Board, said that the banking legislation of this country, state and national, might be treated by a satirist or humorist in such a way as to show that we as a nation have manifested rather less financial common sense than the people of other great commercial nations. Our largest state once had firmly imbedded in its constitution, where it was doubtless regarded as sacredly fixed for all time, a prohibitory amendment forbidding the organization of banks. In those days the good people of the State of Texas regarded banks as rather worse than saloons, and it must be admitted that some of the banks of the old days of wildcat state banking were pretty bad. We made a good early start under the able leadership of Alexander Hamilton towards a national central banking system, and it is interesting to note that the First Bank of the United States had to be wound up and liquidated in 1811 largely because of opposition from the city which is today the financial center of the United States and perhaps of the world. The recharter bill failed in the United States Senate in 1811 because of the opposition and vote of George Clinton of New York, and Clinton was backed by some of the leading bankers and financiers of New York City, including John Jacob Astor. During the years that followed we had a second Bank of the United States 1816 - 1836, but until the Civil War brought the National Banking Act business most of the time was under the tremendous handicap of a fluctuating local state bank note currency, with the notes issued in one state or even in one city almost always at a discount if presented elsewhere. In New England, New York and Pennsylvania the state banks were generally pretty strong and reliable and were organized under reasonably sound general acts, while in the older southern states banks continued to be specially chartered by the legislatures and were, therefore, usually large, strong institutions. In the newly formed western states the "free banking" idea, which started in New York, ran wild and resulted in every sort of banking experiment, most of them disastrous. In Indiana for some years there was both the best banking system and the worst almost side by side at the same time.

A good deal of our banking legislation has been restrictive rather than constructive, and the great constructive measures that have been passed by the Congress of the United States, such as the National Banking Act and the Federal Reserve Act, were passed for the purpose of correcting the most glaring defects of an individual, local, unit banking system without recognition of the fact that much of the trouble was due to the local unit system itself. What we need now is to remove some of the restrictions in the present laws so as to allow some development towards a better system. The

McFadden Act of February 1927 went a little way toward removing unnecessary restrictions but the changes were of benefit mostly to city banks. The McFadden Act prevents country banks even if located in adjoining towns from pooling their resources. Of the 4513 bank failures reported to the Federal Reserve Board from 1921 to 1927 inclusive, 63 per cent were banks with a capital of $25,000 or less and 61 per cent were of banks located in towns of less than 1,000 inhabitants, which may be taken, said Mr. Platt, "as conclusive evidence that the American effort to provide banking facilities in very small places by means of very small unit banks is a failure and cannot be made to succeed except when all surrounding economic conditions are favorable. Too often economic conditions have been unfavorable - crop failures, local industrial failures or merely the failure of the neighborhood itself to grow." Mr. Platt quoted with approval from the address of Mr. Clyde Hendrix of the Tennessee Valley Bank of Decatur, Alabama, at the meeting of the American Bankers' Association in San Francisco, the following:

> "Every banker is acquainted with the appalling mortality record of the small unit banks located in purely agricultural territory. No doubt, the lack of proper management and dishonesty account for a small percentage of such failures, but in the main the wholesale, colossal number of small bank failures can properly be charged to the system itself."

This, said Mr. Platt, is substantially the belief of the present Comptroller of the Currency, "who is recommending as a cure not more severe restrictions, or more elaborate supervision, but a relaxation of some of the present restrictions upon banking so that a gradual change of the system itself can take place - a change by which some of the small unit banks may be merged with banks in other places so as to provide larger banks, with funds sufficient to provide good management, and covering a territory wide enough to insure a diversification of loans and investments." "Just what form the Comptroller's recommendations to Congress may take, just what limits he may propose - for he is not in favor of unlimited or nation-wide branch banking - will not be made known until his annual report goes to the Speaker of the House of Representatives about the middle of the present month. He has arrived at his conclusions not only as the result of long experience as a bank examiner and as the head of the supervisory forces of the United States Government, but as the result of careful study. In my opinion he is on the right track and deserves full support not only from economists and students of banking, but from business men and bankers."

Mr. Platt made no reference during the course of his address to the recent stock market panic except to remark that while the year 1929 up to the close of October has recorded 521 bank suspensions as compared with only 375 during the same period of 1928, no suspensions or failures have been attributed to the recent stock market panic up to date. Practically all suspensions have been in the West and South, and the banks are mostly so small as to have little or no effect upon the general financial condition of the country.

He digressed from his main subject long enough to refer to

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the development of the bill market, or market for bankers' acceptances during the present year. "For the first time since the Federal Reserve System was established," he said, "the bill market has during this year been standing on its own feet without any nursing by the Federal reserve banks. Early in the year the rate at which Federal reserve banks purchased bills from member banks or from dealers was placed above the Federal reserve rediscount rate, with the result that investors, including banks, institutions and individuals began to purchase bills because of the attractiveness of the rate. More recently, investors have been outbidding the Federal reserve banks and have been taking the new bills in spite of very low rates. This may be due to the fact that some of the corporations and individuals who had been loaning money on call in the stock market are now buying bills."