Mark D. Flood

Mark D. Flood is an economist at the Federal Reserve Bank of St. Louis. *James P. Kelley provided research assistance. The author would like to thank Bob Eisenbeis, Mark Flannery, Carter Golembe, and George Kaufman for many helpful comments. All remaining errors are the author's.*

The Great Deposit Insurance Debate

In the stress of the recent banking crisis ... there was a very definite appeal from bankers for the United States Government itself to insure all bank deposits so that no depositor anywhere in the country need have any fear as to the loss of his account. Such a guarantee as that would indeed have put a premium on bad banking. Such a guarantee as that would have made the Government pay substantially all losses which had been accumulated, whether by misfortune, by unwise judgment, or by sheer recklessness, and it might well have brought an intolerable burden upon the Federal Treasury.

—Sen. Robert Bulkley (D-OH),
Address to the U. S. Chamber of Commerce, May 4, 1933.[1]

The only danger is that having learned the lesson, we may forget it. Human nature is such a funny thing. We learn something today, it is impressed upon us, and in a few short years we seem to forget all about it and go along and make the same mistakes over again.

—Francis M. Law (1934), p. 41.

THE ONGOING PROLIFERATION of bank and thrift failures is the foremost current issue for financial regulators. Failures of federally insured banks and thrifts numbered in the thousands during the 1980s. The problem is especially important for public policy, because of the potential liability of the federal taxpayer. For example, by 1989, the Federal Savings and Loan Insurance Corporation (FSLIC) was so deeply overextended—on the order of $200 billion—that only the U. S. Treasury could fund its shortfall. The significance of insurance is seen elsewhere as well: economists are quick to point to flat-rate deposit insurance as a factor in causing the high failure rates. Flat-rate deposit insurance is said to create a moral hazard: if no one charges

[1]Quoted by Sen. Murphy (D-IA) in *Congressional Record* (1933), p. 3008.

bankers a higher rate for assuming risk, then bankers will exploit the risk-return trade-off to invest in a riskier portfolio.

Why, then, do we have taxpayer-backed, flat-rate deposit insurance?[2] A simple answer would be that the legislators who adopted federal deposit insurance in 1933 did not understand the economic incentives involved. This simple answer seems wrong, however. It has been pointed out that certain observers articulated the problems with deposit insurance quite clearly in 1933. In this view, the fault lies with the policymakers of 1933, who failed to heed those warnings.

This fails to answer why policymakers would ignore these arguments. Moreover, it does not explain why it should have taken almost 50 years for the flaws in deposit insurance to take effect. This paper examines the deposit insurance debate of 1933, first to see precisely what the issues and arguments were at the time and, secondarily, to see how those issues were treated in the legislation. Briefly, I conclude that the legislators of 1933 both understood the difficulties with deposit insurance and incorporated in the legislation numerous provisions designed to mitigate those problems.

The Banking Act of 1933 separated commercial and investment banking, limited bank securities activities, expanded the branching privileges of Federal Reserve member banks, authorized federal regulators to remove the officers and directors of member banks, regulated the payment of interest on deposits, and increased minimum capital requirements for new national banks, among numerous lesser provisions. It also established a temporary deposit insurance plan lasting from January 1 to July 1, 1934, and a permanent plan that was to have started on July 1, 1934.[3] Although this paper focuses on deposit insurance, it is important to bear in mind that both the deposit insurance provisions of the bill and the debate that surrounded them each had a larger context. The various provisions of the Banking Act of 1933 constituted an interdependent package.

The deposit guaranty provisions of the bill were initially opposed by President Roosevelt, Carter Glass (Senate sponsor of the bill and Congress's elder statesman on banking issues), Treasury Secretary Woodin, the American Bankers Association (ABA), and the Association of Reserve City Bankers, among others.[4] Despite this opposition, on June 13, 1933, the bill passed virtually unanimously in the Senate, with six dissents in the House, and was signed into law by the President on June 16.[5] Not surprisingly then, the public debate preceding and surrounding the adoption of federal deposit insurance was active and far-reaching.

This paper is organized around the major themes of the debate: the actuarial questions concerning the effects of deposit insurance, the philosophical and practical questions of fairness to depositors and of depositor protection as an expedient means to financial stability, and the political and legal questions surrounding bank chartering and supervision. Much of the debate

[2]The Federal Deposit Insurance Corporation (FDIC) has recently announced a move toward risk-adjustment of its insurance premia.

[3]The Act is often called the Glass-Steagall Act. It is referred to here as the Banking Act of 1933 to avoid confusion with the separate Glass-Steagall Act of 1932. Significantly, it also has the longer official title: "An Act to provide for the safer and more effective use of the assets of banks, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes."

The temporary plan was later extended, and the permanent plan delayed, for one year (to July 1, 1935) by the Act of June 16, 1934. The Banking Act of 1935 substantially emended the permanent plan to resemble closely the temporary plan. See the shaded insert on page 72 for further details of the various plans.

[4]The Federal Reserve did not adopt an official position, although there is some evidence of opposition: "Deposit guaranty by mutual insurance is not part of the Presidential program, nor is it favored by Federal Reserve authorities," "Permanent Bank Reform" (1933); see also Kennedy (1973), pp. 217-18. Comptroller O'Connor favored deposit insurance; former Comptroller Pole opposed it.

[5]The Senate did not record a vote, although even Sen. Huey Long (D-LA), who had been a flamboyant detractor, rose to speak in favor of the bill. Cummings (1933) claims that the Senate vote was unanimous. The House dissenters included Reps. McFadden (R-PA), McGugin (R-KS), Beck (R-PA) and Kvale (Farmer/Labor-MN). See "Congress Passes and President Roosevelt Signs Glass-Steagall Bank Bill as Agreed on in Conference" (1933), p. 4192. Rep. McGugin's request for a division revealed 191 ayes and 6 noes; a quorum of 237 was reported present; *Congressional Record* (1933), p. 5898.

was motivated by economic and political self-interest and was structured rhetorically in terms of morality and justice. Considerable attention is paid here to rhetorical detail.[6] As much as possible, I have attempted to report the debate in its own terms—liberal use is made of quotations and epigraphs—rather than risk misconstruing the meaning through inaccurate paraphrase.

BACKGROUND TO THE DEBATE

The banking debate in 1933 covered not only deposit insurance and the separation of commercial and investment banking, but the full catalogue of financial matters: the gold standard, inflation, monetary policy and the contraction of bank credit, interstate branching, the relative merits of federal and state charters, holding company regulation, etc. By 1933, nearly anything to do with banks or banking was an important political issue.

The Great Contraction

> *The people know that the Federal Reserve octopus loaned ... to the gamblers of this Nation in 1928 some sixty billion dollars of credit money—bank money—hot air ... and then when the crisis came in the last 3 months of 1929, cut that credit money—bank money—hot air—down to thirteen billion.*
>
> *No nation, no industry, can survive such an expansion and contraction of money and credit. Give to me the power to double the money at will, and then give me the power to cut it square in two at will, and I can keep you in bondage.*[7]

It is reasonable to begin a recollection of the debate over deposit insurance with the price collapse on the New York Stock Exchange of October 29, 1929. The stock market crash was popularly recognized as the start of the Great Depression. The remainder of the Hoover administration's tenure witnessed historic declines in national economic activity. By the beginning of 1933, industrial production and nominal GNP had both been cut in half; unemployment had topped 24 percent. Bank failure rates, which had already been high throughout the 1920s, had increased fourfold, while both money supply and velocity had plummeted. The price level fell accordingly.

For contemporary economic commentators, the stock market crash was more than a marker between historical eras. For many, there was a causal relationship between the stock market's collapse and subsequent real economic activity. In most cases, this causality was more elaborate than *post hoc ergo propter hoc.* A prescient Paul Warburg, for example, warned in March 1929:

> If orgies of unrestrained speculation are permitted to spread too far, however, the ultimate collapse is certain not only to affect the speculators themselves, but also to bring about a general depression involving the entire country.[8]

The logic was that stock market speculation "absorbs so much of the nation's credit supply that it threatens to cripple the country's regular business."[9] A more radical theory was advanced by the "liquidationists," who held sway in influential circles of government and the academy.[10] For them, the cyclical contraction was a good thing: it reflected the liquidation of unsuccessful investments that crept in during the boom years, thus freeing economic resources for a more efficient redeployment elsewhere.

---

[6]Most of what remains of the debate is formalized oratory: prepared speeches, Congressional debate, letters to the editor, etc. Because the debate was a cacophony of voices, rather than an orderly dialogue, no attempt has been made to present the arguments in chronological order. A time line of the significant events of 1933 is provided in the shaded insert on page 55.

In terms of the written record, academic economists entered the debate late, for the most part after the Banking Act of 1933 had already been signed into law. See H. Preston (1933), Westerfield (1933), Willis (1934), Willis and Chapman (1934), Taggart and Jennings (1934), Fox (1936) and Jones (1938). Phillips (1992) reports that Frank Knight and several colleagues at the University of Chicago advocated federal guaranty of deposits as part of comprehensive bank reforms proposed during the banking crisis in March 1933. Willis had been an advisor to Carter Glass since the debate over the Federal Reserve Act in 1912. Guy Emerson, who published in the *Quarterly Journal of Economics*, was not an academician, but an officer at Bankers Trust Co. and the 1930 president of the Association of Reserve City Bankers; Emerson (1934) is largely a paraphrase of Association of Reserve City Bankers (1933), which he co-authored.

[7]Rep. Lemke (R-ND), *Congressional Record* (1933), p. 3908.

[8]Warburg (1929), p. 569.

[9]Ibid., p. 571.

[10]De Long (1990) provides a valuable review of the liquidationist perspective. The liquidationists included Secretary of the Treasury Andrew Mellon, as well as the economists Friedrich von Hayek, Lionel Robbins, Seymour Harris and Joseph Schumpeter. More recent economic analyses have discounted the role of the crash in causing the Depression, emphasizing instead other forces, both monetary and non-monetary; see Wheelock (1992a) and the references therein.

Crisis and Unlimited Possibility

> *We are confused. We grasp, as at straws, for the significance of events and of proposed government action. Never before in our lives have we had such great need for someone to interpret underlying movements for our guidance.*[11]

By 1933, the correlation between economic activity and bank credit was lost on no one. During the interregnum between Hoover's electoral loss in November 1932 and Roosevelt's inauguration in March 1933, what had been a debilitating banking malaise became a desperate crisis. Starting with Michigan, on Valentine's Day, whole states began to declare official bank holidays; elsewhere, individual banks in scores were suspending withdrawals. By inauguration day, March 4, most states had declared a holiday.[12] Even much earlier, bank failures had left whole towns without normal payment services, relegating them to barter.[13]

Theories of the connection between bank failures, monetary contraction and the more general macroeconomic torpidity were widespread and varied. Roosevelt, in his inaugural address, suggested that the set of people who correctly understood the nation's economic problems did not overlap with the set of people who had held the reins:

> Their efforts have been cast in the pattern of an outworn tradition. Faced by failure of credit they have proposed only the lending of more money. Stripped of the lure of profit by which to induce our people to follow their false leadership, they have resorted to exhortations, pleading tearfully for restored confidence. They know only the rules of a generation of self-seekers. They have no vision, and when there is no vision the people perish.[14]

To some extent, such a suggestion was accurate; Treasury Secretary Mellon and the liquidationists had initially refused even to admit that there was a problem.

Some proposed that complex intrigues were at work to sap the nation's wealth. Rep. Lemke (see the quote referenced in footnote 7), for example, advanced a monetarist thesis that both the boom of 1929 and the Depression were the intentional result of Federal Reserve policy. More conspiratorial still was Rep. McFadden's belief, advanced on the House floor, that "money Jews" lay behind the banking crisis.[15] Rep. Weideman, offering the metaphor that "the most dangerous beasts in the jungle make the softest approach," claimed that "international money lenders" had duped the Congress into creating a system for skimming bank gold reserves into a central pool "to feed the maw of international speculation."[16]

Alarm generated by the crisis and frustration at the lack of a remedy combined to expand the political horizons. Radical solutions were suggested. Informed by the political experiments under way elsewhere, relatively sober proposals were submitted to scrap the inefficient bureaucracies of representative democracy in favor of a fascist dictatorship or state socialism.[17] More

---

[11]Love (1932), p. 25.

[12]Before deposit insurance, banks in financial trouble were generally treated like any other business. Closure might be declared by supervisors or the directors of the bank. One option was then to seek protection from depositors and other creditors by declaring bankruptcy and accepting a court-appointed receivership. In the case of a temporary liquidity problem, a bank might instead suspend withdrawals or close to the public until the problem could be resolved. In practice, the terms "failure" and "suspension" were often used interchangeably. In the period 1921-32, roughly 85 percent of failed banks—holding 76 percent of the deposits in failed banks—were state banks (including mutual savings banks and private banks). See Bremer (1935), especially footnote 1 and pp. 41-49.

See Federal Reserve Board (1934a), Colt and Keith (1933) or Friedman and Schwartz (1963) for a chronology of the banking crisis and the bank holidays. In a sense, Roosevelt had stage-managed the crisis. By refusing to participate with the outgoing administration over the banking situation, he projected the image of making a clean break with the past. At the same time, however, the resulting uncertainty surrounding his policy toward banking and the gold standard helped to provoke the crisis. See Kennedy (1973), pp. 135-55, or Burns (1974), pp. 31-51.

[13]See "What'll We Use for Money?" (1933).

[14]Roosevelt (1938), p. 12.

[15]McFadden lost his House seat over the incident. Scandalized by his comments, the Republican and Democratic parties, both of which had endorsed him in 1932, repudiated him in the 1934 elections. See Martin (1990), p. 249, and Rep. McFadden (R-PA), *Congressional Record* (1933), pp. 6225-27.

[16]Rep. Weideman (D-MI), *Congressional Record* (1933), pp. 3921-22. Weideman, in a conspiracy theory shared by the radio priest, Fr. Coughlin [see Chernow (1990), pp. 381-82], also claimed that the Great War had been orchestrated by international financiers, noting: "Six months after the Federal Reserve Act was passed the war began."

[17]See, for example, Ogg (1932), Calverton (1933) and Schlesinger (1960). Indeed, for many, the New Deal was state socialism. One must bear in mind that 1933 predated most of the failures and atrocities of the various European dictatorships. Although the collectivization of Soviet agriculture was largely complete, Stalin's great political purges did not begin until the mid-1930s. Mussolini was still widely respected as the man who had brought order and unity to Italy; the invasion of Abyssinia was not until 1935. In Germany, Hitler was only beginning to wrest control from the notoriously ineffectual Weimar republic; he became Chancellor in late January 1933, and the Nazis burned the Reichstag four weeks later.

A Chronology

1/10/33	Sen. Huey Long's filibuster of the Glass legislation begins.
1/21/33	Senate filibuster ends.
1/30/33	Hitler becomes Chancellor of Germany.
2/20/33	Prohibition repealed.
3/4/33	Franklin D. Roosevelt is inaugurated. 72nd Congress 2nd session ends. Senate of the 73rd Congress convenes in special session.
3/6/33	President Roosevelt declares a nation-wide bank holiday, lasting nine days.
3/9/33	Congress convenes in extraordinary session (first session of the 73rd Congress). The Emergency Banking Act is introduced, passed and signed into law.
5/15/33	Carter Glass introduces S. 1631.
5/17/33	Henry Steagall introduces H. R. 5661.
5/19/33	Arthur Vandenberg introduces an amendment to the Glass bill.
5/23/33	House passes Steagall bill.
5/26/33	Senate passes Glass-Vandenberg bill.
5/27/33	The Securities Act of 1933 signed.
6/12/33	World Monetary and Economic Conference opens in London.
6/13/33	Conference committee submits a conference report on the Banking Act to Congress. Banking Act of 1933 is approved by Congress.
6/16/33	President Roosevelt signs the Banking Act of 1933. First session of the 73rd Congress adjourns.
9/4/33	ABA Convention begins in Chicago (ends 9/7/33).
9/17/33	ABA President Frank Sisson dies.
1/1/34	Federal Deposit Insurance Corporation is chartered. Temporary deposit insurance begins.

popular was a flirtation with government by "technocracy," a small panel or cabinet of experts to replace the congressional and executive branches. Relative to alternatives such as these, federal deposit insurance—which had failed in Congress more than 150 times in the preceding 50 years—was a remarkably moderate option.[18]

Moral Overtones to the Debate

The money changers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit.[19]

Both proponents and opponents of the deposit guaranty features of the Banking Act took the rhetorical high ground in arguing their point. Indeed, recourse to morality in public debate was widespread. The "noble experiment" with the prohibition of liquor was still an issue in the 1932 election.[20] Oratory was laden with biblical imagery. Sen. Vandenberg (R-MI) referred to

[18]See FDIC (1951) and Paton (1932); Paton also cites H. R. 7806, introduced by Rep. Cable (R-OH) on January 15, 1932, and later revised as H. R. 10201. H. R. 7806 is omitted from the FDIC (1951) digest.

[19]Roosevelt (1938), p. 12.

[20]Prohibition was widely recognized as having failed by this time; see Kent (1932), p. 261. The Eighteenth Amendment was repealed in 1933.

"B. C. days—which is to say, Before the Crash. ..."[21] A. C. Robinson saw fit to lecture subscribers to the *ABA Journal* on the "Moral Values of Thrift," advising bankers of the need for "an unshakeable conviction of these ideals [truth and morality] and their ultimate triumph. 'If thou faint in the day of adversity, thy strength is small.' "[22]

For many, the Depression represented an atonement for the excesses of the bull market. By all accounts, 1929 was characterized by stock market speculation.[23] As the extent of the avarice became clear with hindsight, the notion of economic depression as punishment for economic transgression took hold:

> We are passing through chastening experiences, as severe for the banker as for anyone else, many of the illusions have disappeared and the trappings of a meretricious prosperity have been stripped from most persons.[24]

The notion of recession as a necessary purgative unfortunately extended to policymakers as well. Mellon's advice to Hoover exposes the pious foundations to the liquidationist view of the Depression:

> It will purge the rottenness out of the system. High costs of living and high living will come down. People will work harder, live a more moral life. Values will be adjusted, and enterprising people will pick up the wrecks from less competent people.[25]

This fluency with righteousness revealed itself on all sides of the deposit insurance debate. Both proponents and detractors of the deposit guaranty provisions of the Banking Act argued that their position was ultimately a matter of simple justice, which dare not be denied. The bankers declared that well-managed banks should not be forced to subsidize poorly run banks. Supporters of the legislation maintained that depositors should not have to bear the losses accruing to their bankers' mistakes. Those who felt that deposit insurance was a ploy to destroy the dual banking system painted a picture of the unit bank as the pillar of the national economy, untainted by corruption. The remainder of the paper is organized around these three loosely defined constituencies.

ACTUARIAL DIFFICULTIES

Opposition to deposit insurance can be roughly organized into two classes: objections on technical actuarial grounds, and objections to its anticipated impact on bank structure. The core constituency in the former category consisted of the money-center banks, with ABA President Francis Sisson, himself a Wall Street banker, taking the lead.[26] The economic motivation for their opposition was the belief that insurance meant a net transfer from big banks, where the bulk of deposits lay, to state-chartered unit banks, where they expected the bulk of the losses.

Insurance and Guaranties

> *In the law as written the guaranty plan is referred to not as a guaranty of bank deposits, but as an insurance plan. There is nothing in this plan that entitles it to be classed as insurance.*[27]
>
> *I think you gentlemen are all wrong to call this a guarantee of deposits. There is not a thing in the bill that talks about guarantee. It is an insurance of deposits.*[28]

The actuarial correctness of the term "deposit insurance" as a description of the proposed legislation was a point of contention. The alternative label, offered by opponents, was "deposit guaranty." One's choice of terms usually revealed where

[21]Vandenberg (1933), p. 39.

[22]Robinson (1931), p. 209.

[23]"Orgy of speculation" was the catch phrase that captured the popular sentiment. For example, "Our Orgy of Speculation" (1929), p. 907, quotes Chancellor of the Exchequer Philip Snowden: "There has been a perfect orgy of speculation in New York during the last twelve months."

[24]Robinson (1931), p. 209.

[25]Hoover, quoted in De Long (1990), p. 5. *Bankers Magazine* offered it as a modern paradox, "that depressions are sent by heaven for the chastening of mankind." See "Modern Paradoxes" (1933). The liquidationists drew a sardonic retort from Keynes, who identified it as sanctimony masquerading as economics: "It would, they feel, be a victory for the mammon of unrighteousness if so much prosperity was not subsequently balanced by universal bankruptcy." See Keynes (1973), p. 349. Mellon's advice also offers an example of a common tendency to anthropomorphize the economy, in this case as a system to be purged. For a more extreme example, see Taussig (1932), who draws an elaborate analogy between physicians and economists.

[26]The ABA (1933a) dissected the failure of the various state insurance schemes. The Association of Reserve City Bankers (1933) published a monograph late in the debate outlining the actuarial objections to deposit insurance.

[27]Association of Reserve City Bankers (1933), p. 27.

[28]C. F. Dabelstein, in ABA (1933b), p. 58. For similar remarks, see Rep. Beedy (R-ME), *Congressional Record* (1933), p. 3911; Sen. Glass (D-VA), ibid., p. 3726-27; and Donald Despain, quoted by Sen. Schall (R-MN), ibid., p. 4632.

one stood on the issue, and the semantic controversy became a microcosm of the actuarial issues involved.[29] By labeling the various schemes as plans to "guaranty" deposits, opponents were able to associate the plans immediately with the infelicitous recent experience with state deposit guaranty schemes (discussed in the next subsection). The natural response for supporters was to insist on a different label.

Both proponents and opponents devoted energy to identifying the desirable "insurance principle," which then either accurately described or failed to describe the proposed legislation.[30] Like blind men describing an elephant, however, few agreed on a definition for the insurance principle. This was so, despite Rep. Steagall's claim that the principle of insurance was "the most universally accepted principle known to the business life of the world."[31]

Deposit insurance was clearly similar in many respects to other types of insurance, which had been in widespread use in the United States for decades. Even the most ardent detractor recognized some resemblance:

> The general argument employed to promote the guaranty plan began with the premises that property can be insured and bank deposits are property. It travelled to the broad assumptions that the principle of the distribution of risk through insurance could be applied to bank deposits.[32]

The salient principles here, espoused repeatedly by supporters of the legislation, were the diversification of risk and the diffusion of losses. In this respect, a national plan would differ from the state plans, which had "violated the primary insurance tenet that risks must be decentralized and sufficiently spread so as to avoid concentrated losses."[33]

For others, the distinction between government and private backing defined the difference between insurance and guaranty. Both Sen. Glass and Rep. Steagall were adamant that coverage be provided privately, not by the government:

> This is not a Government guaranty of deposits. ... The Government is only involved in an initial subscription to the capital of a corporation that we think will pay a dividend to the Government on its investment. It is not a Government guaranty.[34]

> I do not mean to be understood as favoring Government guaranty of bank deposits. I do not. I have never favored such a plan. ... Bankers should insure their own deposits.[35]

The argument against government backing was outlined by Sen. Bulkley.[36]

An insurance feature included in both the Steagall and Glass bills and in Sen. Vandenberg's temporary insurance amendment to the Glass bill was a provision for depositor co-insurance.[37] The Glass and Steagall bills called for a progressive depositor copayment schedule: the first $10,000 would be covered in full, the next $40,000 would be covered at 75 percent, and only 50 percent of amounts over $50,000 would be covered; the Vandenberg amendment set a single coverage ceiling at $2,500. Some propo-

[29]The FDIC (1951), p. 69, provides a clear distinction between insurance and guaranty. By their definition, a guaranty is a promise from the U. S. government to pay off depositors in a failed bank; insurance is paid from an independent private fund. There was no agreed definition for insurance or guaranty in 1933, however, although the explicit acknowledgement that "no clear distinction [between the terms 'guaranty' and 'insurance'] has been made," was rare; see Rep. Bacon (R-NY), *Congressional Record* (1933), p. 3959. W. B. Hughes also attempted to extricate the "inexcusable mixture of the two terms ... Guarantee is where you make the good bank pay for the poor one. Insurance is where you make those who get the benefit pay for it." See ABA (1933b) p. 59. I use the two terms interchangeably in this article.

[30]In fact there were numerous conflicting legislative proposals afoot. That of Henry Steagall, who chaired the House Banking Committee, was taken most seriously; it eventually became law. See FDIC (1951) and Paton (1932).

[31]*Congressional Record* (1933), p. 3836.

[32]ABA (1933a), p. 7.

[33]Sen. Vandenberg, *Congressional Record* (1933), p. 4239.

[34]Sen. Glass, *Congressional Record* (1933), p. 3729. See also footnote 28.

[35]Rep. Steagall, *Congressional Record* (1933), p. 3838.

[36]See the quote referenced by footnote 1. Similar concerns were voiced by Jamison (1933), p. 451: "The great urgency for balancing the national budget precludes even the thought of piling another subsidy on the shoulders of the already overburdened taxpayers."

These sentiments are especially noteworthy in light of recent attempts to paint the insurance schemes as having taxpayer backing from the start. For example, Title IX of the Competitive Equality Banking Act of 1987 states that Congress "should *reaffirm* that deposits up to the statutorily prescribed amount in federally insured depository institutions are backed by the full faith and credit of the United States;" (emphasis added).

[37]Co-insurance is the insurance practice of involving the insured party in some portion of the risk. Common techniques of co-insurance are coverage ceilings, deductibles and copayment percentages. The aim of such provisions is to mitigate the problem of moral hazard or the tendency of people to behave more riskily when insured.

nents saw no need for such mitigating features. Rep. Dingell (D-MI), for example, offered bankers no quarter; his idea was "to guarantee every dollar put in by the depositor from now on and to make the banker and the borrower pay the cost."[38] For Sen. Vandenberg, on the other hand, co-insurance was crucial; he complained angrily when Treasury Secretary Woodin proposed "not a limited insurance such as is included in the amendment which the Senate adopted, but a complete 100% guarantee."[39]

Opponents in the banking industry were unimpressed by such arguments. Although all of the proposals achieved a spreading of losses and many had other familiar features of insurance, such as co-insurance or provision for a large reserve fund, they still were not "insurance."[40] Francis Sisson was obstinate: "Detailed and technical differences in this bill as compared with former guaranty schemes do not differentiate it in essential principle from them."[41] For all their trouble, crafters of the legislation had failed to meet the bankers' standard for insurance, the principle of selected risks:

> Insurance involves an old and tried principle. The essence of insurance is the payment *by the insured* of premiums in *actuarial relation to the risk involved.* Under the terms of the permanent plan, however, the costs or premiums are not charged according to the risk.[42]

Roosevelt made a similar connection. In his first presidential press conference, he asserted:

> I can tell you as to guaranteeing bank deposits my own views, and I think those of the old Administration. The general underlying thought behind the use of the word 'guarantee' with respect to bank deposits is that you guarantee bad banks as well as good banks. The minute the Government starts to do that the Government runs into a probable loss.[43]

Although he associates the "guaranty" terminology with government backing, its defining characteristic is clearly the absence of selected risks.

Despite the attention given to selected risks in the debate, no significant attempt appears to have been made to include a risk-based premium in legislation. Emerson, for one, thought such an arrangement could work.[44] The ABA, on the other hand, thought it impossible:

> The apparently unsurmountable actuarial difficulty in the guaranty plan appears to be the impossibility of placing it on the basis of selected risks;

the risks involved were "wholly unpredictable," and banks were subject to "internal deterioration" when their deposits were guaranteed.[45]

History and Geography

> *As to the history of the guaranty plan, a wave of guaranty of state bank deposits laws swept over the seven contiguous western states of Oklahoma, Kansas, Texas, Nebraska, Mississippi, South Dakota and North Dakota and the Pacific Coast state of Washington in the period 1908-17. ... The laws establishing it were repealed or allowed*

[38] *Congressional Record* (1933), p. 489. More thoughtful commentators realized that the incidence of the cost could not be contained. Rep. Kloeb (D-OH), ibid., p. 489, challenged Rep. Dingell immediately: "Assuming that an assessment is made upon the bankers, how are we going to prevent that from sifting down to the depositors?" Similarly, Jamison (1933), p. 454, explained that, "while the banks would remit the premiums," they would also adjust their interest rates, so that, "in the end the banks' customers would pay the premiums."

[39] Quoted in "Congress Passes and President Roosevelt Signs Glass-Steagall Bank Bill as Agreed on in Conference" (1933), p. 4193. The proposal itself is surprising, given Woodin's strong objections to deposit insurance. Many others shared Vandenberg's view; see, for example, Sen. Glass, *Congressional Record* (1933), p. 3728; Sen. Bulkley (quoted by Sen. Murphy), ibid., p. 3007.

[40] There was disagreement about the reserve fund even after the legislation had been signed. The Association of Reserve City Bankers (1933), p. 28, asserted baldly that "no provision is made for building up a reserve fund as would be the case under a true insurance plan," while Sen. Vandenberg (1933), p. 39, contended that the plan was "capitalized with truly prodigal reserves" (any irony in his use of the adjective "prodigal" is doubtless unintended). The discrepancy lies in the fact that, unlike Vandenberg, the Association of Reserve City Bankers did not treat the FDIC's capital as an insurance reserve fund.

[41] Sisson (1933b), p. 31.

[42] Association of Reserve City Bankers (1933), p. 27, (emphasis in the original). "Selecting risks" refers to the practice of differentiating insured parties according to risk and charging insurance premia according to those risk classes. For example, 17-year-old men on average pose a greater risk to auto insurers than do 30-year-old men; therefore, 17-year-olds usually pay higher auto insurance premia.

[43] Roosevelt (1938), p. 37.

[44] Emerson (1934), p. 244, states, "To put such a provision [assessments levied according to risk] into effect would require the classification of the banks of the country according to various standards: geographical location, size, type, and character of banking policy. The last would present administrative difficulties, but these would not be insuperable." *Bankers Magazine* had also thought it feasible: "Presumably, an insurance company could be formed ..., which by carefully selecting its risks, might operate successfully." See "Protecting Bank Depositors" (1931), p. 435.

[45] ABA (1933a), pp. 42-43. Similarly, Jamison (1933), p. 454, argued that selection of risks in this context would present "complications that can not be easily overcome."

to become inoperative as one after another of the plans became financially insolvent and was recognized as serving to make banking matters worse.[46]

As in the case of branch banking, Nation-wide diversification of insurance risks would secure banking against any eventuality except such a national calamity as would destroy the Government itself.[47]

The "guaranty" terminology connoted the defunct state deposit guaranty plans, a specter that terrorized the bankers. The mere mention of deposit guaranties could induce a banker to show "every sign of incipient apoplexy."[48] At the same time, the unvarying failure of the state plans provided a trove of evidence for foes of the federal scheme.[49] Release of the ABA report coincided with the introduction of the Glass and Steagall bills in Congress. It found perverse delight in the failure of all eight of the state plans:

> Eight large scale tests, by practical working experience, of the guaranty of bank deposits plan as a means for strengthening banking conditions and safeguarding the public interest are a matter of record. Each one of these attempts failed of its purpose.
>
> Taken separately, special circumstances such as technical defects in the plan or faulty administration might be held accountable for the breakdown in any given instance, leaving it an open question as to whether the idea might not be successful under different circumstances. Taken as a composite whole, however, the failures of the various plans not only confirm one another in their defects, but each one also supplies added special features that were tested and found wanting.[50]

This unbroken string of failures demanded an explanation from supporters of federal legislation. Proponents chose to distinguish clearly the new plan from the state schemes: "there is no logical relationship between these old *State* Guarantees and this new *Federal* Insurance; no analogy; no parallel; and no reason to confuse the mortality of the former with the vitality of the latter."[51]

To make this case, supporters emphasized foremost the much broader geographic—and therefore industrial—diversification of a federal insurance fund. "The fact that bank-deposit-guaranty projects have failed in local, restricted areas only proves one of the fundamental principles of insurance, that is, that there must exist wide and general distribution and diversification."[52] In particular, the old plans were said to have suffered from a "one-crop" problem, that is, their application in states overwhelmingly dependent upon agriculture:

> There is a vast difference between what can be accomplished by a small number of banks in one State dependent upon a single crop and what can be successfully accomplished by the banking system of this great Nation that holds the financial leadership of the world in its hands.[53]

On this point, at least, the bankers were forced to concede.[54]

The bankers revealed the geographic breadth of the federal plan to be a two-edged sword,

---

[46]ABA (1933a), p. 7. The seven states listed are not, in fact, contiguous.

[47]Rep. Bacon, *Congressional Record* (1933), p. 3959.

[48]Stephenson (1934), p. 35. There is a hint of truth in Stephenson's hyperbole. Francis Sisson died of heart failure within a fortnight of the ABA convention of September 1933 — which had included excoriating harangues [see Bell (1934)] delivered by Jesse Jones of the Reconstruction Finance Corporation and soon-to-be FDIC board member J. F. T. O'Connor; see "Death of Francis H. Sisson, Vice-President Guaranty Trust Co. of New York and Former President American Bankers Association" (1933), and O'Connor (1933). In a tribute at the next convention, Sisson's ABA colleagues offered that his death was "a tragic demonstration of devotion to duty even to the extent of exceeding the physical power of endurance ... He was a martyr to his work in your behalf." Nahm (1934), p. 30.

[49]Several groups dissected the state plans in the course of the debate; see American Savings, Building and Loan Institute (1933), ABA (1933a), Blocker (1929), Boeckel (1932), and the Association of Reserve City Bankers (1933). Reference was also made to an earlier essay by Robb (1921). There are also numerous retrospective accounts of the state guaranty plans, including Calomiris (1989 and 1990), Wheelock (1992b and 1992c), and Wheelock and Kumbhaker (1991); the most comprehensive, however, is Warburton (1959), parts of which appear in FDIC (1953 and 1957). The original legislation is collected in Federal Reserve Board (1925a and 1925b).

[50]ABA (1933a), p. 7.

[51]Vandenberg (1933), p. 39, (emphasis in the original).

[52]Donald Despain, quoted by Sen. Schall, *Congressional Record* (1933), pp. 4631-32. Virtually identical arguments are offered by Vandenberg (1933), p. 39, and Rep. Bacon, *Congressional Record* (1933), p. 3959.

[53]Rep. Steagall, *Congressional Record* (1933), p. 3838.

[54]For example, the Association of Reserve City Bankers (1933), pp. 31-32, acknowledged that, "It is suggested ... that a single crop failure could shake the stability of all the banks in a State. On a national scale the plan would operate upon a broader base. This is true."

Table 1
Estimated Assessments and Losses by Geographic Division

Geographic division	Percent of assessments in each division to total assessment	Percent of losses in each division during 1921-1931 to total losses
New England	7.6%	3.7%
Middle Atlantic	44.0	20.0
North Central	18.6	21.9
Southern Mountain	3.5	5.8
Southeastern	2.8	13.7
Southwestern	4.3	7.0
Western Grain	8.0	20.7
Rocky Mountain	1.8	4.5
Pacific Coast	9.4	2.7
United States	100.0%	100.0%

however, and used it to fight back. They exploited the well-known fact that bank failures throughout the 1920s had occurred disproportionately among small, rural banks (see table 1).[55] This information was used to argue that, with insurance premia assessed against deposits, the burden of funding federal deposit insurance—had it existed during the 1920s—would have been borne in large measure by the money center banks of the Northeast, where much of the industry's deposit base lay. The benefits of insurance, however—the payments to cover losses in failed banks—would have gone south and west.

Subsidy and Discipline

For it is to be remembered that the weak banks get the same insurance as the strong ones, and, unlike the situation in other kinds of insurance, the bad risk pays no more for its insurance than the good one. This means competition among banks in slackness in the granting of loans. The bank with the loose credit policy gets the business and the bank with the careful, cautious credit policy loses it. The slack banker dances and the conservative banker pays the fiddler. If the conservative banker protests, the slack one invites him to go to a warmer climate. Soon all are dancing and the fiddler, if paid at all, must collect from the depositors or from the taxpayers.[56]

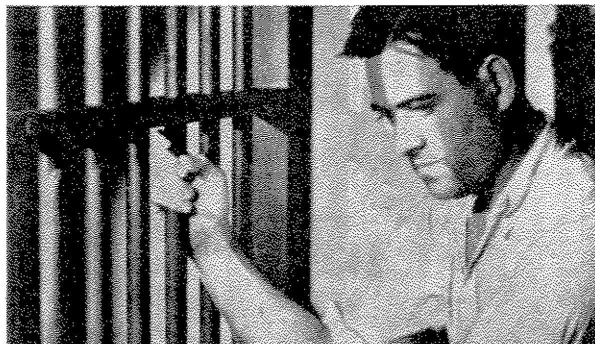
For those who opposed deposit insurance on actuarial grounds, such technicalities were merely manifestations of a more fundamental issue. As a matter of principle, deposit insurance was held to be unjust. It involved the forced subsidization of poorly managed banks by well managed institutions; it subsidized the "bad" banker at the expense of the "good." This moral point provided substantial emotional force. Opponents concluded that only good bank management could ultimately assure safe and sound banking.

Their argument, founded in actuarial theory and the experience of the state plans, proceeded in two steps. First, by protecting depositors against loss, a deposit guaranty would destroy discipline; insured depositors would take no interest in the quality of their bank's management. Recalling the state plans, the guaranty had created "a sense of false security and lack of discrimination as between good and bad

[55]The table is reproduced from Association of Reserve City Bankers (1933), p. 26. See Bremer (1935) and Upham and Lamke (1934) for analyses of failures in the 1920s.

[56]E. W. Kemmerer of Princeton University, speaking to the Savings Bank Association of Massachusetts on September 14, 1933, and quoted in Association of Reserve City Bankers (1933), pp. 40-41. Kemmerer was the economic advisor to the comission that produced the latter. Similar thoughts were offered by Jamison (1933), p. 451: "Government guaranty of bank deposits can be but one of two things — an outright subsidy ... or a plan of insurance." Bradford (1933), p. 538, added: "Such subsidization of weak banks by the Government, however, carried out on the basis of taxpayers' money, is so monstrous as to be almost unthinkable."

HERE RESTS $493,000 WORTH OF REGRETS



IT happened this way. He was the comptroller of a large corporation in New York City—a director of his local suburban bank—a fond father—he had the esteem of friends and business associates alike. To-day he is serving from three and a half to ten years for defrauding five banks and three brokerage houses of $493,000.00.

Wall Street proved his Waterloo. Naturally interested in market movements, his interest led him gradually into heavy speculation. As the market went down so did he—deeper and deeper. Finally, desperate, he forged stock certificates of his own company which he used as collateral to bolster his personal brokerage accounts.

Then, one day the axe fell. A check-up revealed that he had defrauded five banks and three brokerage houses out of $493,000. With the money swallowed up in the greatest bear market of all times, the banks lost every penny.

* * * *

The stark reality of these facts demand eternal vigilance in granting every loan. Particularly in granting commercial loans, make sure that your borrowers are adequately covered by Fidelity Bonds. You always insist that your borrowers carry fire insurance to safeguard their physical assets. Ask for the same protection against the possible peculations of their employees. Insist that your loans be protected against the frailties of *human nature*. For an employee, as well as a fire, can wreck a firm.

FIDELITY & DEPOSIT
COMPANY OF MARYLAND

Home Office: Baltimore
Representatives Everywhere

Fidelity and Surety Bonds
Burglary and Plate Glass Insurance

banking."[57] In many minds, this dichotomy between good and bad bankers was the central issue.[58] *Bankers Magazine* editorialized that "the surest reliance of good banking is to be found in the men who manage the banks rather than in the laws governing their operations."[59] In 1931, ABA President Rome Stephenson contended

> that, a large element in the internal conditions of the banks that failed was bad management and that a predominant element in the internal conditions of the bank that remained sound in the face of the same external conditions was good management.[60]

What was needed was to teach "the conception of scientific banking."[61]

The second step in the logic of opposition was an objection to the subsidy implicit in a guaranty. In the tones of a prudish parent, the ABA complained that the beneficiaries of state systems had been the "bankers with easier standards," who gained competitive advantages over those with "sounder but less attractive methods."[62] The subsidy was especially problematic among those banks "which have little chance of ultimate success."[63]

> A bank which does not earn a fair average rate of return over a period of years not only is unable to build up reserves against bad times, but, in order to improve profits, is under constant temptation to take risks which in the end are likely to lead to failure.
>
> The tendency of a guaranty plan will be to nurture these unprofitable units and keep them going temporarily in the knowledge that upon failure the losses can be shifted to other banks.[64]

Thus, the subsidy was seen to extend beyond the simple protection of unsound institutions from the competitive pressures of vigilant depositors. Given their contention that, "no provision is made for building up a reserve fund," losses charged to the insurer by failing banks would have to be recouped after the fact from the survivors.[65] Such a system would necessarily entail transfers of wealth from surviving to failed banks.

There was no consensus in Congress on the importance of discipline; some members pointed out that life insurance was no incentive for suicide.[66] The framers of the Glass and Steagall bills, however, recognized the validity of the bankers' objections and addressed the issue directly. Both bills, as well as the temporary in-

[57]ABA (1933a), p. 13.

[58]The advertisement above depicts an insurer's characterization of the bad banker. Coincidentally, President Roosevelt had been a vice-president for the Fidelity and Deposit Co. of Maryland after his unsuccessful Vice-Presidential bid in the 1920 election.

[59]"Federal Guaranty of Bank Deposits" (1932), p. 381.

[60]Stephenson (1931), p. 592.

[61]Ibid., p. 592.

[62]ABA (1933a), p. 25. More specifically, "greater numbers than ever of undercapitalized, ill-situated banks, as well as of persons wholly unfitted as to training, character or methods to be allowed to conduct banks, were able to command public trust and patronage and to attract large deposits to their institutions through high interest rates and trading on faith in the guaranty plan." ABA (1933a), p. 17.

[63]Association of Reserve City Bankers (1933), p. 29.

[64]Ibid., pp. 19-20.

[65]Ibid., p. 28.

[66]See, for example, Rep. Luce (R-MA), *Congressional Record* (1933), p. 3918. Sens. King (D-UT) and Glass briefly debated the role of immortality in the context of this analogy; *Congressional Record* (1933), p. 3728.

surance amendment in the Senate, were careful to limit coverage. Sen. Vandenberg stated explicitly the rationale for coverage ceilings:

> the *State* Guarantees involved complete protection for *all* banking resources. ... *Federal* Insurance, on the other hand, leaves the individual bank and banker so seriously responsible for such a preponderance of their resources that there is no appreciable immunity at all.[67]

Sen. Glass noted a second source of discipline inherent in the plan. Because the banks insured each other, deposit insurance would "lead to the severest espionage upon the rotten banks of this country that we have ever had."[68]

Under both the temporary and permanent plans, the small depositor was to be covered in full, in recognition of his inability to monitor bank management adequately:

> At present the depositor is at the mercy of his fellow depositors, over whom he has no control, and of the management of the bank, about which he is not usually in a position to be well informed. The depositor takes the risks, and the banks take the profits.[69]

A survey conducted by the Comptroller of the Currency and the Federal Reserve in May 1933 revealed that the ceiling of $2,500 under the temporary plan would fully cover 96.5 percent of depositors and 23.7 percent of total deposits in member banks.[70]

PROTECTING DEPOSITS

While most industry opponents fought the deposit insurance plan on actuarial grounds, supporters argued that deposits *per se* required protection, to stabilize the medium of exchange and promote a renewed expansion of bank credit. More significantly, proponents responded with an argument of powerful simplicity: the losses to innocent depositors in a bank failure were a plain injustice. Given the status of banks in the political climate of 1933, this was a charge that the bankers ultimately could not counter.

The Agglomeration of Deposits for Speculation

> *The use of banking funds for speculation became a stench in the nostrils of the people.*[71]

There was a strong sense that the banking industry in the 1920s had functioned as an elaborate network to collect savings at the local level and funnel them into lending on securities speculation:

> Another cause for many banking collapses was the domination of smaller banks by their large metropolitan correspondents, which drained funds from the country districts for speculative purposes and loaded up the small bank with worthless securities.[72]

Indeed, this was a primary motivation for those sections of the Banking Act requiring a separation of commercial and investment banking. Similar arguments were brought against proposals for nationwide branch, chain and group banking.[73]

A sensitivity to such a possibility was doubtless nurtured by the popularity of Ponzi schemes in the 1920s, including the infamous Florida land swindles.[74] With such analogies in mind, banks came to be seen as

> merely fueling departments in enterprises run not by bankers concerned with operating banks but by promoters whose object was to exploit the credit resources of the bank. ...

---

[67]Vandenberg (1933), p. 39, (emphasis in the original).

[68]Sen. Glass, *Congressional Record* (1933), p. 3728.

[69]Rep. Bacon, *Congressional Record* (1933), p. 3959.

[70]See Federal Reserve Board (1933c), p. 414. The point to be made was that even the temporary plan succeeded in fully covering the vast majority of depositors. The survey, of course, took place before depositors had an incentive to split larger deposits into multiple accounts to achieve full deposit insurance coverage.

[71]Rep. Luce, *Congressional Record* (1933), p. 3914.

[72]Rep. Bacon, *Congressional Record* (1933), p. 3952. Comptroller Pole was instrumental in dichotomizing the industry into "two definite types of banking, namely, that carried on by the small country bank and that of the large city bank." See "Comptroller Pole's Views on Rural Unit Banking," (1930), p. 468.

[73]Group banking and chain banking are essentially variants of the modern bank holding company form of organization. Group banking presumed some degree of standardization among the subsidiary banks in the holding company, while chain banks were operated as largely independent franchises within the holding company.

[74]A Ponzi scheme is a fraudulent investment plan, such as a chain letter, in which returns to existing investors are paid directly from the deposits of new investors, with the director of the scheme skimming the difference. Some of the Ponzi schemes had been run by Charles Ponzi himself. After several jail terms and a stint on the lam, Ponzi was finally deported to his native Italy in 1934. This was not his first one-way ticket. In 1903, his family had bought him a one-way ticket to Boston on the *S. S. Vancouver* in a successful bid to get rid of him. See Grodsky (1990).

> The primary evil in our banks for many years has been the incessant efforts of promoters to get control of the funds which flow into the banks. The bank is the depository of the community's funds and as such is the basis of the available credit of the community. The promoter-banker needs nothing so much as access to these credit pools.[75]

Such accusations were inevitably tinged with at least a hint of the conspiratorial.[76]

In keeping with this theme, the issues were framed for popular consumption as a morality play in which the naive depositor is pitted against the sophisticated banker. The depositor tucks away the hard-earned wages of his honest labor, only to be systematically duped by the cunning intrigues of the banker. At the extreme, some politicians played the religious card face up: "We discovered that what we believed to be a bank system was in fact a respectable racket and so many connected with it only cheap, petty loan sharks and Shylocks."[77] In the end, a providential government was seen to intercede on behalf of the depositor, and deposit insurance was trumpeted as "the shadow of a great rock in a weary land."[78]

Reprinted by permission: Tribune Media Services.

The notion of the small depositor as an innocent victim had immense popular appeal. McCutcheon's 1931 political cartoon celebrating the blamelessness of the depositor in a failed bank won the Pulitzer Prize (above right). Such popularity, of course, was plainly evident to politicians, who responded by introducing deposit insurance legislation in Congress. Rep. Steagall is reported to have told House Speaker Garner in April 1932, "You know, this fellow Hoover is going to wake up one day soon and come in here with a message recommending guarantee of bank deposits, and as sure as he does, he'll be re-elected."[79]

For obvious reasons, bank failures concentrated the attention of large numbers of voters, and Congressmen were anxious to associate themselves with the legislation. Sen. Vandenberg, up for re-election in 1934, was always careful to call his temporary insurance amendment to the Banking Act of 1933 "The Vandenberg Amendment." Rep. Dingell announced: "guaranty of bank deposits is my baby in Michigan."[80] A petition circulated in the House in June 1933 to postpone adjournment indefinitely until a deposit insurance bill was made law.[81] Figure 1

[75]Flynn (1934), pp. 394-96.

[76]Rep. Steagall, for example, avowed that a "campaign was turned on urging bankers everywhere to ... employ their facilities in investment banking, in speculation, in stock gambling, and in aid of wild and reckless international high finance." *Congressional Record* (1933), p. 3835. The Seventy-first Congress had formed a Senate Banking and Currency Subcommittee to investigate the extent to which the Federal Reserve and National Banking systems had been co-opted to "finance the carrying of speculative securities." Sen. Bulkley, quoted by Sen. Murphy, *Congressional Record* (1933), p. 3006. See also footnotes 15 and 16 an the related text.

[77]Rep. Dingell, *Congressional Record* (1933), p. 3906.

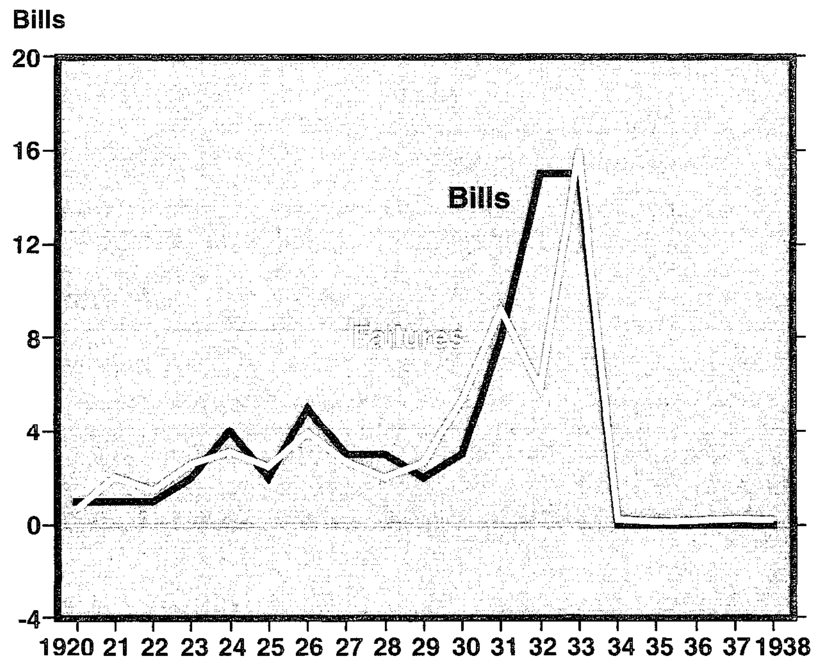
[78]Rep. Hill (D-AL), *Congressional Record* (1933), p. 5899. Hill's pronouncement was met with a round of applause in the House.

[79]Timmons (1948), p. 179. Garner responded, "You're right as rain, Henry, so get to work in a hurry. Report out a deposit insurance bill and we'll shove it through." The result was H. R. 11362, which passed the House on May 27, 1932.

[80]Rep. Dingell, *Congressional Record* (1933), p. 3906. It is noteworthy that both Sen. Vandenberg and Rep. Dingell were from Michigan, where, on February 14, 1933, William A. Comstock had become the first governor to declare a state banking holiday during the crisis; see Colt and Keith (1933), pp. 6-8. In light of the temporary insurance amendment, any dispassionate observer would have to regard deposit insurance as Vandenberg's baby in Michigan.

[81]See H. Preston (1933), p. 589, and Rep. McLeod (R-MI), *Congressional Record* (1933), p. 5825.

Figure 1
The Cause of Deposit Insurance



reveals that the number of guaranty bills introduced in Congress correlated neatly with the number of bank failures.

Theatrics aside, the central point for proponents of the legislation remained, and it was difficult to refute: "The main point is always this—*the depositor owns the money*. If he puts it in for safe-keeping it should be safely kept."[82]

Indeed, opponents conceded directly that depositor losses in bank failure were unjust.[83] Instead, they tried to redirect the debate to the question of "whether the guaranty plan will in fact cure the defects in our banking system and give depositors the safety which they seek and to which they are entitled."[84] On this latter question, the bankers remained obstinately negative; they favored "reform methods for banking that really strengthen banking," and therefore opposed deposit guaranties.[85]

> *We think of the busy bee and the ant as tireless, but they are loafers compared with the activity of a busy dollar.*[86]
>
> *We got the guarantee of bank notes after having had wildcat banking in connection with State bank notes and after having had people injured who held notes of the State banks. ...*

[82]Ford (1933), p. 9, (emphasis in the original). Similarly, Sen. Vandenberg stated: "The savings of America must be made safe." *Congressional Record* (1933), p. 4428. The question of legal title to deposited funds was somewhat more subtle than Ford's quote suggests; see, for example, Amberg (1935), pp. 49-51.

[83]Amberg (1935), p. 51, felt that the struggle and fear of a bank run *per se* were bad, and that "a great social purpose would be served if the occasion of such fear could be removed."

[84]Association of Reserve City Bankers (1933), p. 2.

[85]Sisson (1933a), p. 563. He added: "There can be no question that the people of the United States should have a banking structure based on conditions rendering the banks immune from failure."

[86]Donald Despain, quoted by Rep. Schall, *Congressional Record* (1933), p. 4631.

It is much more important in principle to guarantee bank deposits, because the real circulating medium of the country is bank deposits.[87]

Although, as a strictly political matter, depositor protection was the central motivation responsible for the progress of deposit insurance in Congress, other forces were at issue. Chief among these was the role of banking in the real economy. Regarding bank failures, it was recognized that causality ran two ways: just as the general drop in real incomes had caused loan defaults and thus widespread bank failures, bank failures and the concomitant restriction of bank services had caused real incomes to fall. The latter effect was seen to operate both directly and indirectly.

Bank suspensions and failures could trap depositors' wealth for a period of months or even years until the bank either reopened or its bankruptcy was resolved. The direct result was reduced consumption and investment spending by the affected depositors. In the extreme case, when a town's lone bank failed, even the simplest forms of exchange could be hopelessly encumbered:

[The unacceptability of failure] would perhaps not be so if they were grocery stores or butcher shops, where failure would be disastrous to only a few people at most; but bank failures paralyze the economic life of whole communities, not only through the loss of money accumulations but by the destruction of the deposit currency which is the principal medium of exchange in all business activity.[88]

Under such circumstances, some affected regions instituted scrip currencies, wooden coinage or systematic barter arrangements, the most elaborate of which was the Emergency Exchange Association in New York, headed by Leland Olds.[89]

A depositor's natural response to these possibilities was to withdraw his funds before failure occurred. Both bank runs and the hoarding of currency received considerable attention.[90] Withdrawals for the purpose of safeguarding one's wealth were deemed unpatriotic; legislation was even proposed to outlaw the practice. Banks had a natural response to the threat of runs: "Credit was tightened in the desire to remain as liquid as possible to meet the emergencies of runs."[91] Bankers maintained large cash reserves rather than lend:

It is estimated that banks now have available billions of dollars of collateral for use in extending loans, but the plain fact is that for more than 3 years bankers have given little thought to anything except to keep their banks in liquid condition. ... The fear that grips the minds and hearts of bankers, keeping ever before them the nightmare of bank runs, makes it impossible for them to extend the credits that are indispensable to trade and commerce.[92]

This analysis is confirmed by the facts. The aggregate excess reserves of Federal Reserve member banks, for example, had ballooned from $42 million in October 1929 to a peak of $584 million in January 1933, even though the number of member banks had fallen from 8,616 to 6,816 over roughly the same period.[93] Thus, bank failures were seen to have an indirect effect on output, as both depositors and bankers in solvent institutions prepared for the possibility of runs and failures.

In the final analysis, depositor protection and stabilization of the medium of exchange were recognized as opposite sides of the same coin:

We may talk about percentage of gold back of our currency, we may discuss technical provisions of legislation ... The public does not understand these technical discussions, but from one end of this land to the other the people understand what we mean by guaranty of bank deposits; and they demand of you and me that we provide a banking system worthy of this great Nation and banks in which citizens may place the fruits of their toil and know that a

[87]Fisher (1932), p. 143.

[88]Greer (1933b), p. 538.

[89]See "What'll We Use for Money?" (1933).

[90]See Ives (1931) for colorful accounts of depositor runs and the various responses of bankers. Rep. Bacon, *Congressional Record* (1933), p. 3959, estimated hoarding at $1.5 billion in January 1933. The extent of hoarding was also roughly gauged by tracking deposits in the U. S. Postal Savings system. Such deposits roughly quadrupled in the two years ending June 30, 1933 [see O'Connor (1933), p. 23]. Friedman and Schwartz (1963), p. 173, state that such deposits remained a "minor factor" in spite of their growth. The system was established by the Postal Savings Bill of 1910 and was intended primarily for the savings of new immigrants. Deposits were guarantied in full. Vice-President-elect Garner reportedly told Roosevelt, "You'll have to have it [deposit insurance], Cap'n, or get more clerks in the Postal Savings banks." See Timmons (1948), p. 179.

[91]Rep. Bacon, *Congressional Record* (1933), p. 3959.

[92]Rep. Steagall, *Congressional Record* (1933), p. 3840.

[93]Federal Reserve Board (1943), pp. 72-74, 371.

> deposit slip in return for their hard earnings will be as safe as a Government bond. [Applause.]
>
> They know that banks cannot serve the public until confidence is restored, until the public is willing to take money now in hiding and return it to the banks as a basis for the expansion of bank credit. This is indispensable to the support of business and the successful financing of the Treasury. It will bring increased earnings, higher incomes, and make it possible to balance the Government's Budget without resort to vicious and vexatious methods of taxation.[94]

As such, they should be considered inseparable; it is clear that supporters of the legislation intended it to achieve both ends. Attempts to rank the two issues according to their relative importance are likely to be inconclusive.[95]

The Chastening of Wall Street

> *One banker in my state attempted to marry a white woman and they lynched him.*[96]

The opposition to federal deposit guaranties emanated largely from the nation's bankers. This fact was a crushing liability to their cause in the political climate of 1933. The introduction of the Glass and Steagall bills came on the heels of the banking panic and, not entirely coincidentally, amid the daily revelations of self-dealing and other cupidities from the Pecora hearings.[97] The banker had become a pariah.

Roosevelt fired the opening volley for his administration in his inaugural address:

> Plenty is at our doorstep, but a generous use of it languishes in the very sight of the supply. Primarily this is because the rulers of the exchange of mankind's goods have failed, through their own stubbornness and their own incompetence, have admitted their failure, and abdicated. Practices of the unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men.[98]

He went on to demand safeguards against the "evils of the old order": strict supervision of banking, an end to speculation with "other people's money," and provision for an adequate but sound currency.[99]

Others were happy to follow this lead. It was commonplace to hold the bankers, and particularly their "speculative orgy" of 1929, responsible for the nation's woes:

> You brought this country to the greatest panic in human history! ... There never was such an economic failure in the history of mankind as your outfit has brought upon us at this time, and it is due to this same speculation that you are defending here more than any other one thing.[100]

> But these affiliates, I repeat, were the most unscrupulous contributors, next to the debauch of the New York Stock Exchange, to the financial catastrophe which visited this country and was

[94]Rep. Steagall, *Congressional Record* (1933), p. 3840.

[95]Golembe (1960) has argued that, among the motives for deposit insurance, depositor protection was secondary to protection of the circulating medium. Others have gone further, arguing that protection of depositors was a rationalization created after the fact. The issue raised by Golembe is certainly plausible; Rep. Bacon, for example, appears to have ranked them this way [*Congressional Record* (1933), p. 3959]. On the other hand, it is noteworthy that Sen. Glass in 1933 abandoned his earlier plan for a liquidation fund, which would have prevented the freezing of funds in suspended banks while still not protecting depositors from loss. The latter notion of depositor protection as an ex-post or revisionist justification is clearly false, however.

[96]This was a popular quip that made the rounds in 1933. In this instance, it is attributed to Carter Glass; see Kennedy (1973), p. 133; Bell (1934), pp. 262-63, also cites it. The joke is startling in its insensitivity. Examples of bankers of the day indulging in overtly racist humor are also available; see, for example, Dyer (1933), pp. 91 and 94, and Amberg (1935), p. 49.

[97]The hearings were organized in January 1933 by the Senate Committee on Banking and Currency, and were run by the Committee's counsel, Ferdinand Pecora; see Pecora (1939). The dust jacket relates that, in one instance, a journalist "begged Mr. Pecora not to break so many front-page stories daily because it was physically impossible to cover them all." See Benston (1990) for a thorough, revisionist view of the hearings.

[98]Roosevelt (1938), pp. 11-12.

[99]Roosevelt (1938), p. 13. His reference to "other people's money" was a nod to Justice Brandeis's book of the same title, a reprint of his articles on the money trust that appeared in *Harper's Weekly* in 1913-14. Those who hold that all the great thoughts have long since been had will be pleased to learn that Kane's (1991) reference to the "Sorcerer's Apprentice" segment of Walt Disney's *Fantasia* as a metaphor for bank regulation was anticipated by Brandeis. Lacking Mickey Mouse's rendition, however, Brandeis was forced to use the German original, Goethe's *Der Zauberlehrling;* see Brandeis (1933), p. vii.

[100]Sen. Brookhart (R-IA) speaking to a New York Stock Exchange official at a Senate committee hearing in 1932; quoted by Danielian (1933), p. 496.

> mainly responsible for the depression under which we have been suffering since.[101]

In the previous year, Huey Long had announced his intent to campaign for Roosevelt under the slogan: "Rid the country of the millionaires."[102] A popular ditty mocked:

> Mellon pulled the whistle,
> Hoover rang the bell,
> Wall Street gave the signal,
> And the country went to hell.[103]

In short, the bankers were vilified.

Although some felt such indiscriminate abuse was slanderous, they fought against the tide.[104] One of the casualties of the anti-banker sentiment was the bankers' battle against deposit insurance. Some in Congress announced that the bankers' opinions should be openly ignored:

> I believe that the myopic banker as an adviser should receive about as much consideration at the hands of the House as a braying jackass on the prairies of Missouri. They proved by their inability to maintain their own business that they have absolutely no right to advise the House as to what course we should follow.[105]

The bankers, while they acknowledged the merit of individual aspects of the deposit insurance proposals, obstinately refused to countenance any of the schemes as a realistic reform. Even as the legislation was signed into law, Francis Sisson called a crusade, rallying ABA members to fight "to the last ditch against the guaranty provisions" of the bill.[106] That the bankers' concerns were not ignored entirely resulted largely from the presence in government of opponents of deposit guaranties who were more politically astute than the bankers themselves. Sen. Glass, for example, compromised his principles in a bid for some control over the legislation, explaining that it was "better to deal with the problem in a cautious and a conservative way than to have ourselves run over in a stampede."[107] Roosevelt held out until the very end, thus forcing Congress to concede in delaying implementation of the temporary plan until January 1934.

BANK MARKET STRUCTURE

The ramifications of deposit insurance were recognized as far-reaching. In many ways, the central and most contentious battle concerned neither actuarial feasibility nor the desirability of protecting deposits, but the regulatory issues of bank chartering and supervision. Because of the fundamental legal issues involved, it was here that the economic and political aspects of the debate became most fully intertwined. This was a fight with the weight of a long tradition behind it, and arguments were often self-consciously historical.

Regulatory Competition and Lax Supervision

> *Bank examinations to be effective must be made by experienced men, free from political influence. ... We will never have proper banking supervision, national or state, until it is taken entirely away from political influence.*[108]

Much of the blame for high rates of bank failure throughout the 1920s was placed upon competition between state and federal authorities. Because banks could choose the less costly of federal and state charters—and the associated regulations—state and federal regulators were forced into a "competition in laxity" if they were to sustain the realm of their bureaucratic influence.[109] For example, as a prelude to recommending broader powers for national banks, Comptroller Pole emphasized that:

> If Congress therefore would protect itself from the loss of its present banking instrumentality, it must make it to the advantage of capital to seek the national rather than a [state] trust company charter. ...

[101]Sen. Glass, *Congressional Record* (1933), p. 3726. Glass is referring to the proposed separation of investment affiliates from Federal Reserve member banks.

[102]Kent (1932), p. 260.

[103]Kennedy (1973), p. 26.

[104]See, for example, Bell (1934). Sisson (1933b), p. 30, offered that the treatment of bankers as "demons of darkness" and as an "unseen mythical power for evil which spreads its baneful influence over [human beings]" merely satisfied an emotional need for a scapegoat.

[105]Rep. Dingell, *Congressional Record* (1933), p. 3906.

[106]Sisson's telegram is quoted in Pecora (1939), pp. 294-95.

[107]Sen. Glass, *Congressional Record* (1933), p. 5862.

[108]Andrew (1934b), p. 93.

[109]Daiger (1933), p. 563, attributes coinage of the phrase "competition in laxity" to Eugene Meyer in 1923 testimony to the House Banking and Currency Committee. The phrase attained some popularity; it was also used, for example, by Wyatt (1933), p. 186, and Awalt (1933), p. 4.

> It is within the power of Congress to turn the advantage in favor of the national banks and thereby make it to the interest of all banks to operate under the national charter[110]

In the eyes of opponents of deposit insurance, an especially important manifestation of the competition in laxity was the "promiscuous granting of bank charters."[111] The immediate result of loose chartering was a condition called "over-banking," or

> a host of weak, unreliable banks that crowd one another out of existence by being too numerously organized in places where there is no support for the multifarious institutions that have been established there.[112]

This "indiscreet indulgence of charter applicants" was held responsible for the vast numbers of bank failures throughout the previous decade:[113]

> There are too many banks in the United States. The areas of greatest density of banks per capita coincide with the areas where failures are proportionately highest.[114]

The function of a deposit guaranty under such circumstances would be to exacerbate the problem by mitigating one source of public scrutiny: inspection by depositors. Opponents confirmed their contention by reference to the ill-fated state guaranty schemes:

> In practice the guaranty of deposits plan generally tended to induce an unsound expansion in the number of banks ... This was clearly connected with the indiscriminate popular confidence created toward the banks under the guaranty.[115]

> It is to be feared that the adoption of deposit guaranty laws may have somewhat retarded the inevitably slow and unsensational process of strengthening the banking system by strict regulation, vigilant public opinion and strict requirements.[116]

The Association of Reserve City Bankers went further, predicting that managers of the insurance fund would be slow to close troubled institutions.[117] In addition to regulatory competition, some saw political influence as a secondary force debilitating the supervisory process:

> We never will have such supervision under political regulation and examination; we will never have any supervision worthy of the name that does not have real authority and heavy responsibility tied to it.[118]

Only a few supporters of insurance addressed directly the plan's implications for the regulatory process, which they presented as a counterweight to incentives for bad banking under a guaranty. Rome Stephenson felt that the additional regulatory powers in the Banking Act differentiated the FDIC markedly from the state plans:

> Right there is the crux of the debate: Will banks under the federal plan be permitted the abuses which were tolerated in every one of the states where guaranty was tried? If so, then failure is inevitable. If not, success is practically certain. ... Let me assert unequivocally that the men who drew up the federal plan profited by the mistakes of the state guaranty failures and avoided them. ... None of the state laws had teeth in them. The federal law has teeth like a man-eating shark, and already has done some highly effective biting.[119]

Carter Glass, railing that "the Comptroller's office has not done its duty—its sworn duty—

---

[110]Pole (1929), p. 23.

[111]Association of Reserve City Bankers (1933), p. 30.

[112]H. Parker Willis, quoted in Lawrence (1930), p. 105.

[113]Lawrence (1930), p. 104. Lawrence took this priggish tone one step further, admonishing that "A little birth control of banks on the part of the states which now suffer most from bank failures might have had a wholesome effect on the rate of mortality;" ibid., p. 84.

[114]Westerfield (1931), p. 17; the "multiplicity of banks" was first on his list of the six causes of bank failures since 1920. Andrew (1934b), p. 93, concurred that "Everyone agrees that one of the main causes of our banking trouble was too many banks." See also Bremer (1935). Awalt (1933), p. 4, attributes the boom in charters to "lax State laws" and the 1900 reduction in the minimum capitalization for national banks from $50,000 to $25,000.

[115]ABA (1933a), p. 42. Mississippi was held up as the exception that proved the rule: "The banking authorities in Mississippi had full discretion in the matter of granting new charters and used it liberally in refusing permission for unneeded banks or to unqualified promoters to open new institutions;" ibid., p. 22. The result was seen to be less over-banking and fewer failures relative to Oklahoma and Nebraska.

[116]A *Saturday Evening Post* editorial of August 9, 1924, quoted in Association of Reserve City Bankers (1933), p. 42.

[117]See the quote referenced by footnote 64.

[118]Donald Despain, quoted by Sen. Schall, *Congressional Record* (1933), p. 4632.

[119]Stephenson (1934), p. 46. In addition to authorizing the supervisory power of the FDIC, the Banking Act of 1933: increased the punitive authority of the Federal Reserve for member banks financing securities "speculation," prohibited insider lending for member banks, authorized federal regulators to remove the officers and directors of member banks for illegality or unsound banking practice, and required deposit-taking private banks to submit to supervision by the Comptroller's office.

and has permitted this great number of banks to engage in irregular and illicit practices," argued that mutual responsibility inherent in the insurance plan implied mutual supervision: if the strong banker "knows that he has got to bear a part of the burden of my irregular banking, he is going to report me to the Comptroller of the Currency and is going to insist that his examiners come there and do their duty."[120]

The Dual Banking Question

The fact is, of course, that the deposit insurance scheme would not have been permitted by the conservative leaders in Congress if its organization could not have been so shaped as to further their idea of a unified system of banking in the country under the Reserve System. On the other hand, the more radical elements, in response to popular demand for some sort of protection for bank depositors, could not have built a nationwide guaranty system upon any other foundation than the Reserve organization.[121]

Questions about the effect of insurance on the quality of chartering and supervision were sideshows to the main event, however. At the heart of the debate lay a decades-old controversy over the dual banking system. Given its far-reaching nature, the proposed legislation was universally regarded as a prime opportunity for fundamental changes in banking policy.

Comptroller Pole had campaigned vigorously throughout his four-year tenure for some form of interstate branching for national banks. He drew a strong distinction between the small, state-chartered, rural unit bank—the "country" bank—and the large, nationally chartered institution. While he pretended to maintain great respect for the small unit bank as the "single type of institution which has contributed the most to ... the foundation of our national development," he was fighting to have them replaced by branch networks of national banks.[122] He justified this split sentiment by arguing that irreversible social changes—telephone, radio, and especially the automobile—had forever obviated the rural isolation that had made the unit bank competitively viable. Accompanied by a long parade of statistics, he emphasized the high failure rate of small, state-chartered banks during the 1920s.[123] The country bank, he said, could not survive in competition with large metropolitan institutions, which had more professional management and were inevitably better diversified.

Comptroller Pole was not alone in this crusade. The McFadden Act had already broadened the branching powers of national banks; in 1930, the House Banking Committee arranged new hearings into the possibility of national or regional branch banking.[124] The unsuccessful Glass bill of 1932 included limited provisions for statewide branching by national banks. *Business Week* staked out the extreme position, announcing that "what we really need is just one big bank with 20,000 branches."[125] Supporters of branch banking took heart in the Canadian experience:

> Canada has branch banking, and Canada has not had any bank failures during the depression. Is this a matter of cause and effect?
> 'It is,' declare the advocates of branch banking in the United States.[126]

Such highly concentrated branch networks were offered as an alternative to deposit insurance as a means of geographic diffusion of loan losses and the diversification of credit risks.[127]

Comptroller Pole, of course, felt branching to be the better option:

> Any attempt to maintain the present country bank system by force of legislation in the nature of guaranty of deposits or the like, would be economically unsound and would not accomplish the purpose intended.[128]

Deposit guaranties had long been advocated as a way of diversifying risk for the unit bank without a fundamental change in the ownership

---

[120]Sen. Glass, *Congressional Record* (1933), p. 3728.

[121]Anderson (1933c), p. 17.

[122]Pole (1929), p. 24.

[123]See Pole (1930a, 1931, 1932a and 1932b), "The Need of a New Banking Policy" (1929) and "Comptroller Pole's Views on Rural Unit Banking" (1930).

[124]U. S. Congress, House of Representatives, Committee on Banking and Currency (1930).

[125]"The Ideal Bank" (1933), p. 16.

[126]Greer (1933a), p. 722. See also Lawrence (1930), and Rep. Bacon, *Congressional Record* (1933), pp. 3949-50.

[127]For example, Rep. Bacon, *Congressional Record* (1933), p. 3961, noted that "deposit guaranty is undoubtedly a guaranty of reckless banking. ... Safety for the depositor can best be achieved by a unified branch banking system."

[128]Pole (1930b), p. 5. This same sentence appears in Pole (1930a), p. 4.

structure of the banking industry.[129] The various histories of Populism, "Bryanism," the Panic of 1907 and the Pujo hearings all contained elements of a deep popular mistrust of money center banks. The publicity of the Pecora hearings in 1933 clearly did not assuage this mistrust. It was not pure coincidence that the western agricultural states—the heart of the Grange and Populist movements—had been the ones to enact state deposit guaranties. In this context, then, it is ironic that, in 1933, federal deposit insurance should most often have been viewed as a lethal threat to the country bank. That it was such a threat testifies to the influence and legislative skill of Carter Glass.

Sen. Glass, who had shepherded the Federal Reserve Act through the House in 1913, was protective of his handiwork:

> I took occasion to tell the Secretary of the Treasury the other day that if they pursue present policies much longer they will literally wreck the Federal Reserve System; that Woodrow Wilson in history will enjoy the distinction of having set up a banking system that fought the war for us and saved the Nation in the post-war period, and if they keep on making a doormat of it this Congress will enjoy the distinction of having wrecked it.[130]

His primary concern in the banking legislation of 1933 was to buttress that system. Thus, the Glass bill required all FDIC member banks to join the Federal Reserve System, ostensibly to give the Fed the legal right to examine FDIC members (the Fed was to be a prominent shareholder in the FDIC).[131] Because an uninsured country bank facing insured competitors was not considered viable, and because Fed membership would require at least $25,000 minimum capital, deposit insurance represented the end for the small, state non-member banks.[132] Deposit insurance would force a consolidation of banking within the Federal Reserve System.

It is instructive to note that Glass had abandoned an earlier scheme that would have forced the same consolidation within the Fed: unification of banking in the National Banking System. Comptroller Pole had sought to accomplish the same thing indirectly, by providing national banks with an undeniable competitive advantage in the form of interstate branching privileges. In 1932, Glass had requested of Gov. Meyer of the Federal Reserve a constitutional method of unifying banking:

> Meyer: "Do you want to bring about unified banking?"
> Glass: "Why, undoubtedly, yes."
> Meyer: "I shall be glad to help you."
> Glass: "I think the curse of the banking business in this country is the dual system."
> Meyer: "Then the Board is entirely in sympathy with the Committee on the subject."[133]

The result was a legal opinion prepared by the General Counsel of the Federal Reserve Board on the constitutionality of such unification in the absence of a constitutional amendment.[134] While Board Counsel confirmed that such a constitutional means existed, Sen. Gore introduced a constitutional amendment.[135] Constitutionality was crucial, because champions of the rural unit bank were certain to raise the powerful specter of states' rights in opposition:

> The fight regarding the American Dual System of Banking is a clear-cut issue between those who believe in the sovereignty of our states and home rule, and those who are in favor of a 'unification of our banking system' into one Washington bureau.[136]

Indeed, the political sensitivity of the states' rights issue was sufficient to force Sen. Glass to abandon such a direct assault on the state banks before it could earnestly begin.[137]

---

[129]White (1982, 1983, 1984) reviews the historical connections between deposit insurance and bank chartering.

[130]Sen. Glass, *Congressional Record* (1933), p. 3728.

[131]See the interchange between Sens. Glass and Couzens (R-MI), *Congressional Record* (1933), p. 3727.

[132]Section 17 of the Glass bill "provides for the amount of capital of national banks depending upon the population of the places where they are to be located and also *prohibits the admission of a bank into the Federal Reserve System unless it possesses a paid-up unimpaired capital sufficient to entitle it to become a national bank.*" See Glass (1933b), p. 16, (emphasis added). The population schedule for minimum capital was: $25,000 for areas under 3000 persons; $50,000 for 3000 to 6000 persons; $100,000 for 6000 to 50,000 persons; $200,000 for areas over 50,000 persons; see Steagall (1933a), pp. 18-19.

[133]Quoted by Anderson (1932b), p. 678.

[134]The opinion was published as Wyatt (1933). The Attorney General had felt it was not possible, and had told Glass that; see Anderson (1932b), p. 678.

[135]Joint resolution S. J. Res. 18 was introduced by Sen. Gore (D-OK), *Congressional Record* (1933), p. 249.

[136]Andrew (1934b), p. 95.

[137]See Burns (1974), pp. 11-12.

Arrayed against Sen. Glass in the battle for unification within the Fed was a coalition led by Henry Steagall in the House and Huey Long in the Senate.[138] Sen. Long had crippled Glass's banking bill in the previous Congress with a ten-day filibuster; as champion of the common man, he had objected to an envisioned concentration of power implicit in the bill's branching provisions.[139] This coalition indeed viewed deposit insurance as a means of survival for the small bank:

> If there is one purpose more than another which is inherent in the amendment which is now at stake in this conference, it is the purpose to protect the smaller banking institutions, and to make the reopening of closed banks possible as speedily and as safely as it can be done.[140]

The final legislation was a two-stage compromise between Sen. Glass's push for unification and the Steagall-Long coalition's desire to preserve the dual banking system. In the first stage, Glass agreed to support a deposit guaranty in exchange for provisions for significantly expanded Federal Reserve authority:

> With these provisions, dependent upon them in fact, the Senate bill drafters were willing to accept the new Steagall bill for the insurance or guaranty of bank deposits in Federal Reserve member banks—but in member banks only.[141]

In the second stage, the dual banking supporters obtained several concessions, most notably: immediate insurance coverage for non-member banks under the temporary plan, and grandfathering of small state banks under the new minimum capital standards for Fed membership. Non-member banks would still have to apply for Federal Reserve membership by July 1, 1936, at the latest. With these changes, Sen. Long supported the bill, which then passed the Senate without objection.[142]

CONCLUSIONS

> *Prophesying the future of Federal Deposit Insurance is at the same time both difficult and simple. It is difficult because the subject cannot be treated independently, that is, without relation to banking structure, banking practice, political and economic trends and human emotions. It is easy, on the other hand, because ... any man's guess is as good as that of another.*[143]

It is obvious from an examination of the record that the debate surrounding the adoption of federal deposit insurance was both wide-ranging and well informed. The banking crisis in March 1933, coming at the depths of the Great Depression and breaking on inauguration day, had focused attention with unique intensity on all aspects of public policy toward banks. While some contended that the urgency accompanying the crisis injected haste into the proceedings, it also ensured that all major interests were roused to offer their views and argue their cases.

---

[138]See Anderson (1933a), p. 17. They were joined by Sen. Vandenberg, whose temporary plan extended insurance to state non-member banks upon certification of soundness by the relevant state banking authority.

[139]There was little fondness connecting the two Southern Democrats. Smith and Beasley (1939), pp. 346-47, relate that, in the heat of the banking debate and in response to a series of Long's *ad hominems*, Glass unleashed a string of invective that literally chased the Kingfish — his hands clamped over his ears — off the Senate floor. This version of events is apocryphal, however.

[140]Sen. Vandenberg, referring to the temporary insurance amendment, *Congressional Record* (1933), p. 5256. See also Vandenberg (1933), p. 43.

[141]Anderson (1933a), p. 63.

[142]Rep. Luce reported that bank structure issues predominated in the conference committee reconciling the Glass and Steagall bills: "There were but two points of serious controversy in the discussions of the conferees — those to which I have just referred, branch banking, the membership requirement together with other details of insurance of bank deposits," *Congressional Record* (1933), p. 5896. Much of the force of Glass's requirements for Fed membership was lost when deposit insurance was revamped by the Banking Act of 1935; see, for example, Woosley (1936), pp. 24-26. See also the shaded insert on the following page. The membership requirement was dropped entirely in 1939; see Golembe (1967), pp. 1098-1100.

Opinions varied on the significance of the consolidation of bank regulation implicit in the final act. *Bankers Magazine* editorialized that, "while this development will bring the state banks under a considerable degree of Federal control, it will not — for a time at least — result in that unification of banking regarded by many as desirable. The state banks, by coming into the deposit-guaranty scheme have escaped with their lives." "State Banks Qualifying for Insurance of Deposits" (1933), p. 490. Anderson (1933c), p. 17, warned that, "with all this variation, this glorification of the unit bank principle, however, comes the hard fact that these institutions, for the first time in their history, will be under one direct control whose authority is such as practically to set aside all the principle privileges for which state banks have fought so long."

[143]Amberg (1935), p. 49.

The Four That Passed

Law	Banking Act of 1933 (temporary plan)	Banking Act of 1933 (permanent plan) — Never operational —	Act of 1934 Extending Temporary Deposit Insurance	Banking Act of 1935
Period of operation	From Jan. 1, 1934, to July 1, 1934, or earlier if the President so proclaims.	From July 1, 1934 (or earlier if the President so proclaims).	From July 1, 1934, to July 1, 1935 (extended to Aug. 31, 1935, in June of 1935).	From August 23, 1935, onward.
Coverage	All deposits covered in full up to $2,500	100% coverage up to $10,000, 75% on the next $40,000, 50% of all over $50,000	All deposits covered in full up to $5,000.	All deposits covered in full up to $5,000.
Membership	All Fed member banks required to join. Nonmembers allowed in with state certification and approval of the corporation.	All Fed member banks required to join. Nonmembers allowed in from 7/1/34 to 7/1/36 (with state and FDIC approval); Fed membership required by 7/1/36.	All Fed member banks required to join. Nonmembers allowed in until 7/1/37 (with state and FDIC approval); Fed membership required by 7/1/37.	All Fed member banks required to join. Nonmembers allowed in with FDIC approval. Nonmembers with 1941 average deposits over $1 million must join by 7/1/42.
Assessments on insured banks	0.5% of insured deposits, one half paid in cash, the other half subject to call. One more such assessment as needed. Surplus as of 7/1/34 to be refunded.	0.5% of total deposits, half in cash, half subject to call. Extra assessments of 0.25% of total deposits, as needed and without upper limit.	Same as under the temporary plan of the Banking Act of 1933, except the surplus is to be measured and refunded as of 7/1/35.	Annual assessment of 1/12 of 1% of average total deposits, payable in two installments.
FDIC's capital	Provided according to the assessment schedule.	$150 million on call from Treasury (to pay 6% div.) *plus* one-half the surplus of Federal Reserve banks (ca. $139 million) for $100-par, no-div., nonvoting stock *plus* 0.5% of deposits of FDIC banks ($150-200 million) for $100-par, 6% div., nonvoting stock.	Provided according to the assessment schedule.	Same as under the permanent plan of 1933, except: all stock is no-par, no-div., non-voting; insured banks do not buy FDIC stock; and Federal Reserve bank surpluses are measured as of 1/1/35, rather than 1/1/33.
Control	Board of three: the Comptroller and two Presidential appointees.	Same.	Same.	Same.

It has been suggested that the framers of the Banking Act of 1933 failed to consider the warnings about the potential dangers of government-sponsored deposit insurance.[144] It is significant, then, that an examination of the historical record clearly shows that bill's chief patrons were aware of the failure of the state schemes, the actuarial arguments against deposit guaranties, and the various chartering issues involved. Moreover, they took these issues into account when crafting the bill. In the end, even the Association of Reserve City Bankers was able to recommend the temporary insurance plan:

> It appears to this Commission that if guaranty is retained after July 1, 1934 [the date for implementation of the permanent plan], this temporary plan, in some modified form, would meet every emergency need, and eliminate many of the dangers in the permanent plan.[145]

Under the temporary plan, coverage ceilings were conservative, the insurance corporation was emphatically segregated from the federal taxpayer, chartering standards for national banks were raised, and supervisory authority was broadly increased. These characteristics were retained under the permanent plan of the Banking Act of 1935. As such, deposit insurance, as construed in the Banking Acts of 1933 and 1935, succeeded in simultaneously protecting the small depositor and leaving the banker answerable to both supervisors and large depositors for the quality of his management.

At the same time, the deposit insurance provisions of the Banking Act of 1933 were used as leverage to consolidate the industry within the Federal Reserve, although the Banking Act of 1935 significantly weakened the requirements for Fed membership of insured banks. A piecemeal dismantling of other provisions of the original legislation has also occurred in the intervening decades: coverage ceilings have risen steadily, even after accounting for inflation and before considering brokered deposits or too-big-to-fail policies; the full taxing authority of the U. S. Treasury has, *de facto,* been inserted behind the deposit insurance corporations; and deregulation has subjected both banks and thrifts to increasingly harsher competition—and, in some cases, relaxed regulatory scrutiny—without simultaneously making bankers responsible to depositors for the riskiness of bank assets.[146] It is perhaps with this more recent negation of individual elements of a complex and interdependent package of bank reforms that we should seek the proximate cause of our recent deposit insurance troubles, rather than with policy flaws in the Banking Act of 1933 itself.

REFERENCES

This list of references contains several sources that are relevant to the debate, but which are not cited directly in the text. These additional references are included to provide others interested in the topic with a more comprehensive listing of the primary source materials.

"A Good Start," *Business Week* (March 22, 1933), p. 32.

Amberg, Harold V. "The Future of Deposit Insurance," *Association of Reserve City Bankers: Proceedings, Twenty-fourth Annual Convention* (1935), pp. 49-61.

American Bankers Association (ABA). "The Guaranty of Bank Deposits," (Economic Policy Commission: American Bankers Association, New York, 1933a).

_______. "Forum Discussion—Uniform Banking Law—Guarantee of Deposits," *Commercial and Financial Chronicle* (American Bankers Convention Supplement, September 23, 1933b), pp. 58-59.

[144]Kaufman, for example, claims that the opinions of Emerson (1934) — and, by association, those of the banking community as a whole — regarding flaws in the actuarial basis for the plan were unheeded at the time.

In particular, Kaufman (1990) states, pp. 1-2: "Some of the problems are new, however many have been around for many years and were even clearly foreseen at the time they were forming or, worse yet, even earlier, at the time their underlying causes were put in place in the form of legislation or regulation. This is the case with the extant structure of federal deposit insurance. Among those forecasting the problems that this innovation would come to cause was Guy Emerson, a long-time economist for the Bankers Trust Company (New York). His warnings are evident in his article "Guaranty of Deposits Under the Banking Act of 1933" published in the February 1934 *Quarterly Journal of Economics* and reprinted in this volume. Much of this book is necessitated because policy makers did not listen to Emerson and others more than half a century ago." Related remarks appear on pp. xi-xii of the preface to the same volume.

[145]Association of Reserve City Bankers (1933), p. 7. They were, however, at pains not to appear eager in their praise: "*What we are recommending, therefore, is co-operation in an emergency measure of the sort that has been deemed necessary in almost all branches of our economic life, but we are not, directly or indirectly, endorsing the principle of deposit guaranty,*" ibid., p. 7, (emphasis in the original). The permanent plan was never operational; it was in fact ultimately superseded by a modified form of the temporary plan.

[146]The technical legal question of the *de jure* liability of the United States government for deposit insurance is surprisingly complex, and the answer is not entirely clear. As a practical matter, however, the question is neither complex nor unclear. See FDIC (1990), pp. 4438-39.

________. "Report of Resolutions Committee—Insurance of Deposits Declared Unsound," *Commercial and Financial Chronicle* (American Bankers Convention Supplement, September 23, 1933c), p. 59.

American Savings, Building and Loan Institute. *Guarantee of Bank Deposits and Building and Loan* (American Savings, Building and Loan Institute, Chicago, 1933).

Anderson, George E. "The Glass Bill is a Medley," *American Bankers Association Journal* (February 1932a), pp. 498, 532-35.

________. "Washington Looks at the State Banks," *American Bankers Association Journal* (May 1932b), pp. 677-78, 718.

________. "Bank Law Making," *American Bankers Association Journal* (May 1933a), pp. 17, 63.

________. "The Price of Deposit Insurance," *American Bankers Association Journal* (October 1933b), pp. 17-19, 51.

________. "Washington Epic: II. Prospectus—National Financial Control," *American Bankers Association Journal* (November 1933c), pp. 16-17, 48.

________. "Deposit Insurance, First Phase," *American Bankers Association Journal* (January 1934a), pp. 20-21.

________. "Bank Owners," *Banking* (November 1934b), pp. 11-12.

Andrew, L. A. "Reconstruction: Individual Initiative," *American Bankers Association Journal* (January 1934a), pp. 15-16, 53, 69.

________. "The Future of the Unit Bank," *Proceedings of the Forty-fourth Annual Convention of the Missouri Bankers Association* (1934b), pp. 91-101.

"Are State Banks to be Suppressed?," *Bankers Magazine* (November 1929), pp. 663-64.

Association of Reserve City Bankers, Commission on Banking Law and Practice. "The Guaranty of Bank Deposits," Bulletin No. 3, (Chicago, November 1933).

Awalt, F. G. *Annual Report of the Comptroller of the Currency, 1932* (U. S. Government Printing Office, Washington, D.C., 1933).

"Bank Bill," *Business Week* (June 10, 1933), p. 8.

"Bank Reform," *Business Week* (January 4, 1933), pp. 3-4.

"Banking Issues in the Campaign," *American Bankers Association Journal* (August 1932), pp. 22, 65.

"Banking Reform," *Business Week* (March 8, 1933), p. 32.

"The Banks Reopen," *Business Week* (March 22, 1933), pp. 3-4.

Beebe, M. Plin. "A National View of State Banks," *American Bankers Association Journal* (October 1931), pp. 217-18, 287.

Bell, Elliott V. "The Bankers Sign a Truce," *Current History* (December 1934), pp. 257-63.

________. "Who Shall Rule the Money Market?," *Current History* (July 1935), pp. 353-59.

Bennett, Frank P., Jr. "A Word to National Banks," *American Bankers Association Journal* (October 1931), pp. 232-33, 272.

Benson, Philip A. "Government Guaranty of Bank Deposits," *American Bankers Association Journal* (December 1932), pp. 14-15, 69.

Benston, George J. *The Separation of Commercial and Investment Banking: The Glass-Steagall Act Revisited and Reconsidered* (Oxford University Press, New York, 1990).

Berle, A. A., Jr. "Reconstruction: Central Control," *American Bankers Association Journal* (January 1934), pp. 13-14, 52, 68-69.

Blocker, John G. "The Guaranty of State Bank Deposits," Bureau of Business Research of the University of Kansas, Kansas Studies in Business No. 11, (Department of Journalism Press, Lawrence, 1929).

Boeckel, Richard M. *The Guaranty of Bank Deposits* (Editorial Research Reports, Washington, D. C., 1932).

Bogen, Jules I., and Marcus Nadler. *The Banking Crisis* (Dodd, Mead and Company, New York, 1933).

Bradford, Frederick A. "Futility of Deposit Guaranty Laws," *Bankers Magazine* (June 1933), pp. 537-39.

Brandeis, Louis D. *Other People's Money and How the Bankers Use It* (National Home Library Foundation, Washington, 1933).

Bremer, C. D. *American Bank Failures* (Columbia University Press, New York, 1935).

Burns, Helen M. *The American Banking Community and New Deal Banking Reforms 1933-1935* (Greenwood Press, Westport, 1974).

Calomiris, Charles W. "Deposit insurance: Lessons from the record," Federal Reserve Bank of Chicago *Economic Perspectives* (May/June 1989), pp. 10-30.

________. "Is Deposit Insurance Necessary? A Historical Perspective," *Journal of Economic History* (June 1990), pp. 283-95.

Calverton, V. F. "Is America Ripe for Fascism?," *Current History* (September 1933), pp. 701-04.

Carter, W. E. "Annual Address of the President," *Proceedings of the Forty-fourth Annual Convention of the Missouri Bankers Association* (1934), pp. 21-27.

Chernow, Ron. *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (Atlantic Monthly Press, New York, 1990).

Collins, Charles W. *Rural Banking Reform* (MacMillan, New York, 1931).

Colt, Charles C., and N. S. Keith. *28 Days: A History of the Banking Crisis* (Greenberg, New York, 1933).

"Comptroller Pole's Views on Rural Unit Banking," *Bankers Magazine* (April 1930), pp. 463-69.

"Congress Passes and President Roosevelt Signs Glass-Steagall Bank Bill as Agreed on in Conference," *Commercial and Financial Chronicle* (June 17, 1933), pp. 4192-93.

Congressional Record (daily edition), 73d Congress, 1st Session, (1933).

Crowley, Leo T. "The Benefits of Deposit Insurance," *Proceedings of the Forty-fourth Annual Convention of the Missouri Bankers Association* (1934), pp. 101-10.

________. "The Necessity of Cooperation Between State Supervising Authorities and the F.D.I.C." (with discussion), *Proceedings of the Thirty-fourth Annual Convention of the National Association of Supervisors of State Banks* (Brandao Printing, New Orleans, 1935), pp. 65-68.

Cummings, Walter J. "The Federal Deposit Insurance Corporation," *Bankers Magazine* (November 1933), pp. 577-78.

Daiger, J. M. "Toward Safer and Stronger Banks," *Current History* (February 1933), pp. 558-564.

Danielian, N. R. "The Stock Market and the Public," *Atlantic Monthly* (October 1933), pp. 496-508.

"Death of Francis H. Sisson, Vice-President Guaranty Trust Co. of New York and Former President American Bankers Association," *Commercial and Financial Chronicle* (September 23, 1933), p. 2195.

De Long, J. Bradford. "'Liquidation' Cycles: Old-Fashioned Real Business Cycle Theory and the Great Depression," NBER Working Paper (October 1990).

"Deposit Insurance," *Business Week* (April 12, 1933a), p. 3.

"Deposit Insurance," *Business Week* (May 31, 1933b), p. 20.

"Deposit Insurance Draws Near," *Review of Reviews and World's Work* (December 1933), pp. 50-51.

"Depositors Want Insurance," *Business Week* (June 7, 1933), p. 12.

Dyer, Gus W. "Federal Control of Business," *Proceedings of the Forty-third Annual Convention of the Missouri Bankers Association* (1933), pp. 91-98.

Elliott, W. S. "State Banks and the Future Thereof" (with discussion), *Proceedings of the Thirty-fourth Annual Convention of the National Association of Supervisors of State Banks* (Brandao Printing, New Orleans, 1935), pp. 80-85.

Emerson, Guy. "Guaranty of Deposits Under the Banking Act of 1933," *Quarterly Journal of Economics* (February 1934), pp. 229-244.

"Extension of Branch Banking," *Bankers Magazine* (November 1929), pp. 661-63.

Federal Deposit Insurance Corporation (FDIC). "History of Legislation for the Guaranty or Insurance of Bank Deposits," *Annual Report of the Federal Deposit Insurance Corporation, 1950* (FDIC, Washington, D.C., 1951), pp. 61-101.

________. "Insurance of Bank Obligations Prior to Federal Deposit Insurance," *Annual Report of the Federal Deposit Insurance Corporation, 1952* (FDIC, Washington, D.C., 1953), pp. 57-72.

________. "State Deposit Insurance Systems, 1908-1930," *Annual Report of the Federal Deposit Insurance Corporation, 1956* (FDIC, Washington, D.C., 1957), pp. 45-73.

________. *Federal Deposit Insurance Corporation: The First Fifty Years* (FDIC, Washington, D.C., 1984).

________. "Are Deposits in Financial Institutions Guaranteed Directly by the Federal Government or by the FDIC and its Resources," FDIC Advisory Opinion FDIC-90-6, in: *Federal Deposit Insurance Corporation: Law, Regulations and Related Acts, Volume 1* (Prentice-Hall, 1990), pp. 4438-39.

"Federal Guaranty of Bank Deposits," *Bankers Magazine* (April 1932), pp. 380-82.

Federal Reserve Board. "Guaranty of Bank Deposits," *Federal Reserve Bulletin*, (September 1925a), pp. 626-40.

________. "State laws relating to guaranty of bank deposits," Federal Reserve Bulletin, (September 1925b), pp. 641-68.

________. "Recent amendments to the Federal reserve act (Glass-Steagall bill)," *Federal Reserve Bulletin*, (March, 1932), pp. 180-81.

________. "Review of the Month," *Federal Reserve Bulletin*, (March 1933a), pp. 113-33.

________. "Banking Act of 1933," *Federal Reserve Bulletin*, (June 1933b), pp. 385-401.

________. "Review of the Month," *Federal Reserve Bulletin*, (July 1933c), pp. 413-18.

________. *Twentieth Annual Report of the Federal Reserve Board, Covering Operations for the Year 1933* (U. S. Government Printing Office, Washington, 1934a).

________. "Act of June 16, 1934, extending for 1 year the temporary plan for deposit insurance, etc.," *Federal Reserve Bulletin*, (July 1934b), pp. 486-88.

________. "Banking Act of 1935," *Federal Reserve Bulletin*, (September 1935), pp. 602-22.

________. *Banking and Monetary Statistics, 1914-1941* (U. S. Government Printing Office, Washington, 1943).

"Final Chapter in the History of Bank Deposit Guaranty," *Bankers Magazine* (April 1930), p. 472.

Fisher, Irving. "Statement of Prof. Irving Fisher, Professor of Economics, Yale University, New Haven, Conn.," in *To Provide a Guaranty Fund for Depositors in Banks*, U. S. Congress, House of Representatives, Committee on Banking and Currency. Hearings, 72d Congress, 1st Session (U. S. Government Printing Office, Washington, D. C., 1932), pp. 143-54.

Flynn, John T. "The Wall Street Water Pump," *Harper's Monthly Magazine* (September 1933), pp. 404-13.

________. "Wanted: Real Banking Reform," *Current History* (January 1934), pp. 394-401.

"For Better Banks," *Business Week* (May 17, 1933), p. 5.

Ford, Henry. "Essentials of Sound Banking," *Rotarian* (April 1933), pp. 6-9, 56-57.

Fox, Mortimer J. "Deposit Insurance as an Influence for Stabilizing the Banking Structure," *Journal of the American Statistical Association* (March 1936), pp. 103-12.

Friedman, Milton, and Anna Jacobson Schwartz. *A Monetary History of the United States 1867-1960* (Princeton University Press, Princeton, 1963).

Galbraith, John K. *The Great Crash, 1929* (Houghton Mifflin, Boston, 1961).

Gayer, A. D. "The Banking Act of 1935," *Quarterly Journal of Economics* (November 1935), pp. 97-116.

Glass, Carter. "Carter Glass urges the Need of Banking Reform," *Review of Reviews and World's Work* (January 1933a), pp. 20-22.

________. "Operation of the National and Federal Reserve Banking Systems: Report to accompany S. 1631," 73d Congress, 1st Session, Senate, Report No. 77 (May 15, 1933b).

"The Glass and Steagall Bills," *American Bankers Association Journal* (June 1933), pp. 22-23.

"The Glass Bill," *Business Week* (May 24, 1933), p. 32.

Golembe, Carter. "The Deposit Insurance Legislation of 1933: An Examination of its Antecedents and its Purposes," *Political Science Quarterly* (June 1960), pp. 181-200.

________. "Our Remarkable Banking System," *Virginia Law Review* (June 1967), pp. 1091-1114.

Greer, Guy. "Why Canadian Banks Don't Fail," *Harper's Monthly Magazine* (May 1933a), pp. 722-34.

________. "Wanted: Real Banking Reform," *Harper's Monthly Magazine* (October 1933b), pp. 533-46.

Grodsky, Marcia. "Charles Ponzi," in Larry Schweikart, ed., *Encyclopedia of American Business History and Biography, Banking and Finance, 1913-1989* (Facts On File, New York, 1990), pp. 355-59.

"Guaranty of Deposits: How Can This Threat To Sound Banking Be Met?," *American Bankers Association Journal* (September 1933), p. 96.

Hapgood, Norman. "Protect the Depositor," *Nation* (March 15, 1933), p. 283.

Harris, S. E. "Banking and Currency Legislation, 1932," *Quarterly Journal of Economics* (May 1932), pp. 546-57.

Hecht, Rudolf S. "The Banking Outlook" (with discussion), *Proceedings of the Thirty-fourth Annual Convention of the National Association of Supervisors of State Banks* (Brandao Printing, New Orleans, 1935), pp. 42-49.

"The Ideal Bank," *Business Week* (April 19, 1933), p. 16.

Ives, Mitchell. "How Banks Have Been Saved," *American Bankers Association Journal* (August 1931), pp. 71-74, 112-13.

Jamison, C. L. "Bank Deposit Guaranties: The Insurance Aspects of the Problem," *Bankers Magazine* (May 1933), pp. 451-55.

Jones, Homer. "Insurance of Bank Deposits in the United States of America," *Economic Journal* (December 1938), pp. 695-706.

Kane, Edward J. "The S&L Insurance Mess," Center for the Study of American Business, Contemporary Issues Series, No. 41 (February 1991).

Kaufman, George G. "Purpose and Operation of the Shadow Financial Regulatory Committee," in George G. Kaufman, ed., *Restructuring the American Financial System* (Kluwer Academic Publishers, Boston, 1990).

Kelly, Edward J., III. "Legislative History of the Glass-Steagall Act," in Ingo Walter, ed., *Deregulating Wall Street* (John Wiley, New York, 1985), pp. 41-65.

Kennedy, Susan Estabrook. *The Banking Crisis of 1933* (University Press of Kentucky, Lexington, 1973).

Kent, Frank R. "The Next President," *Scribner's Magazine* (November 1932), pp. 257-261.

Keynes, John M., in Donald Moggridge, ed., *The General Theory and After: Part 1 Preparation* (Macmillan Press, 1973).

Kiplinger, Willard M. "The Reconstruction Workshop," *American Bankers Association Journal* (April 1932), pp. 619, 634, 644.

Landon, Alf. M. "The Necessity of a Strong State Banking System Without a Deposit Guaranty," *Commercial and Financial Chronicle* (American Bankers Convention Supplement, September 23, 1933), pp. 50-53.

Law, Francis M. "Banking and the Country," *Proceedings of the Forty-fourth Annual Convention of the Missouri Bankers Association* (1934), pp. 37-44.

Lawrence, Joseph Stagg. *Banking Concentration in the United States: A Critical Analysis* (Bankers Publishing Company, New York, 1930).

________. "Are Big Banks More Profitable?" *Bankers Magazine* (January 1931), pp. 9-13.

________. "Burying the Banker," *Review of Reviews and World's Work* (June 1934), pp. 19-23.

Love, J. S. "President's Address," *Proceedings of the Thirty-first Annual Convention of the National Association of Supervisors of State Banks* (Brandao Printing, New Orleans, 1932), pp. 25-31.

Martin, Tiarr. "Louis Thomas McFadden," in Larry Schweikart, ed., *Encyclopedia of American Business History and Biography, Banking and Finance, 1913-1989* (Facts On File, New York, 1990), pp. 248-50.

McLaughlin, George V. "The Need for Revision of the Glass-Steagall Act and a Sane Legislative Program for Banking," *Commercial and Financial Chronicle* (American Bankers Convention Supplement, September 23, 1933), pp. 16-19.

McWhirter, Felix M. "The Unit Bank Accepts the Challenge," *American Bankers Association Journal* (July 1932), pp. 11-13, 61-62.

"Modern Paradoxes," *Bankers Magazine* (August 1933), p. 119.

Nahm, Max B. "Report of Resolutions Committee —Tributes in Memory of Francis H. Sisson, Peter W. Goebel and Melvin A. Traylor," *Commercial and Financial Chronicle* (American Bankers Convention Supplement, November 17, 1934), p. 30.

National Industrial Conference Board. *The Banking Situation in the United States* (National Industrial Conference Board, New York, 1932).

"The Need of a New Banking Policy," *Bankers Magazine* (November 1929), pp. 659-61.

"New Bank Bills," *Business Week* (May 24, 1933), pp. 5-6.

"The New Banking Picture," *American Bankers Association Journal* (April 1933), pp. 11-13, 37.

"New Banks — Model T," *Business Week* (March 8, 1933), pp. 5-6.

"The 'New Deal in Banking'," *Business Week* (June 24, 1933), pp. 22-23.

"New Deal, New Money, New Banks," *Business Week* (March 15, 1933), pp. 3-4.

O'Connor, James F. T. "Defense of Banking Act of 1933 — Deposit Insurance Provision," *Commercial and Financial Chronicle* (American Bankers Convention Supplement, September 23, 1933), pp. 23-27.

________. "Temporary Deposit Insurance," *American Bankers Association Journal* (January 1934), p. 21.

________. "Address by J. F. O'Connor, Comptroller of the Currency" (with discussion), *Proceedings of the Thirty-fourth Annual Convention of the National Association of Supervisors of State Banks* (Brandao Printing, New Orleans, 1935), pp. 95-105.

Ogg, Frederic A. "Does America Need a Dictator?" *Current History* (September 1932), pp. 641-48.

"Opinions on the New Banking Act, Charted from West to East," *American Bankers Association Journal* (September 1933), pp. 22-23, 50, 52, 58.

"Other People's Money," *Business Week* (April 5, 1933), p. 9.

"Our Orgy of Speculation," *Bankers Magazine* (December 1929), pp. 907-08.

Paton, Thomas B. "16 Deposit Guaranty Bills in Congress," *American Bankers Association Journal* (April 1932), pp. 621, 652.

Pecora, Ferdinand. *Wall Street Under Oath* (Simon and Schuster, New York, 1939).

"Permanent Bank Reform," *Business Week* (March 29, 1933), p. 3.

Phillips, Ronnie J. "The 'Chicago Plan' and New Deal Banking Reform," Jerome Levy Economics Institute, Working Paper No. 76 (June 1992).

Platt, Edmund. "Branch Banking: A Reply," *American Bankers Association Journal* (August 1932), pp. 13-15, 62-65.

Pole, John W. "Plight of National Banking System," *Bankers Magazine* (July 1929), pp. 23-26.

________. *Report of the Comptroller of the Currency, 1929* (U. S. Government Printing Office, Washington, D.C., 1930a).

________. "Statement of Hon. John W. Pole, Comptroller of the Currency," in *Branch, Chain, and Group Banking* U. S. Congress, House of Representatives, Committee on Banking and Currency, Hearings, 71st Congress, 2d Session, Volume 1 (U. S. Government Printing Office, Washington, D. C., 1930b), pp. 3-419.

________. *Report of the Comptroller of the Currency, 1930* (U. S. Government Printing Office, Washington, D.C., 1931).

________. *Report of the Comptroller of the Currency, 1931* (U. S. Government Printing Office, Washington, D.C., 1932a).

________. "Statement of Hon. John W. Pole, Comptroller of the Currency," in *To Provide a Guaranty Fund for Depositors in Banks*, U. S. Congress, House of Representatives, Com-

mittee on Banking and Currency. Hearings, 72d Congress, 1st Session (U. S. Government Printing Office, Washington, D. C., 1932b), pp. 6-56.

Preston, Howard H. "The Banking Act of 1933," *American Economic Review* (December 1933), pp. 585-607.

Preston, Thomas R. "As a Southern Banker Views the Situation," *American Bankers Association Journal* (August 1932), p. 15.

"Protecting Bank Depositors," *Bankers Magazine* (April 1931), pp. 433-35.

Robb, Thomas B. *The Guaranty of Bank Deposits* (Houghton Mifflin, Boston, 1921).

Robinson, A. C. "The Moral Values of Thrift," *American Bankers Association Journal* (October 1931), pp. 209-11, 285-86.

Roosevelt, Franklin D. *The Public Papers and Addresses of Franklin D. Roosevelt: Volume Two, The Year of Crisis, 1933* (Random House, 1938).

Salter, Sir Arthur. "A New Economic Morality," *Harper's Monthly Magazine* (May 1933), pp. 641-49.

Schlesinger, Arthur M. *The Age of Roosevelt: The Politics of Upheaval* (Houghton Mifflin, 1960).

Sisson, Francis H. "The Strength of Our Banking System," *Review of Reviews and World's Work* (December 1932), pp. 30-32, 71.

________. "How We May Have Safer Banks: The Solution Does Not Lie in the Government Guaranty of Deposits," *Bankers Magazine* (June 1933a), pp. 563-65.

________. "Annual Address of the President," *Commercial and Financial Chronicle* (American Bankers Convention Supplement, September 23, 1933b), pp. 30-33.

Smith, Rixey, and Norman Beasley. *Carter Glass: A Biography* (Longmans, Green and Co., 1939).

"Start," *American Bankers Association Journal* (January 1934), p. 80.

"State Banks Qualifying for Insurance of Deposits," *Bankers Magazine* (November 1933), pp. 489-90.

Steagall, Henry B. "Banking Act of 1933: Report to accompany H.R. 5661," 73d Congress, 1st Session, House of Representatives, Report No. 150 (May 19, 1933a).

________. "Banking Act of 1933: Conference Report to accompany H.R. 5661," 73d Congress, 1st Session, House of Representatives, Report No. 251 (June 12, 1933b).

Stephenson, Rome C. "Providing Safety for Future Banking," *Bankers Magazine* (May 1931), pp. 591-94.

________. "Making Banks Safe," *Rotarian* (September 1934), pp. 34-35, 46-48.

Taggart, J. H., and L. D. Jennings. "The Insurance of Bank Deposits," *Journal of Political Economy* (August, 1934), pp. 508-16.

Taussig, F. W. "Doctors, Economists, and the Depression," *Harper's Monthly Magazine* (August 1932), pp. 355-65.

Timmons, Bascom N. *Garner of Texas: A Personal History* (Harper & Brothers, 1948).

"Unit Banking Not So Bad After All," *Bankers Magazine* (April 1930), p. 470.

U. S. Congress, House of Representatives, Committee on Banking and Currency. *Branch, Chain, and Group Banking,* Hearings, 71st Congress, 2d Session (U. S. Government Printing Office, 1930).

Upham, Cyril B., and Edwin Lamke. *Closed and Distressed Banks: A Study in Public Administration* (The Brookings Institution, 1934).

Vandenberg, Arthur H. "A Defense of the Bank Deposit Insurance Law and an Answer to the American Bankers Association" (with discussion), *Proceedings of the Thirty-second Annual Convention of the National Association of Supervisors of State Banks* (Brandao Printing, 1933), pp. 38-67.

Warburg, Paul M. "A Banking System Adrift at Sea," *Bankers Magazine* (March 1929), pp. 569-73.

Warburton, Clark. *Deposit Insurance in Eight States During the Period 1908-1930*, unpublished manuscript, (FDIC 1959).

________. "Origin, Development, and Problems of Deposit Insurance," *Lectures in Monetary Economics*, mimeo, University of California at Davis (1967).

"Washington and the Banks," *Business Week* (March 8, 1933), pp. 3-4.

"Washington Reads the Signs," *Business Week* (March 15, 1933), pp. 4-5.

Watkins, Myron W. "The Literature of the Crisis," *Quarterly Journal of Economics* (May 1933), pp. 504-32.

Westerfield, Ray B. "Defects in American Banking," *Current History* (April 1931), pp. 17-23.

________. "The Banking Act of 1933," *Journal of Political Economy* (December 1933), pp. 721-49.

"What'll We Use For Money?" *Business Week* (January 11, 1933), pp. 10-11.

Wheelock, David C. "Monetary Policy in the Great Depression: What the Fed Did, and Why," this *Review* (March/April 1992a), pp. 3-28.

________. "Deposit Insurance and Bank Failures: New Evidence from the 1920s," *Economic Inquiry* (July 1992b), pp. 530-43.

________. "Regulation and Bank Failures: New Evidence from the Agricultural Collapse of the 1920s," *Journal of Economic History* (forthcoming 1992c).

Wheelock, David C., and Subal C. Kumbhaker. "Which Banks Choose Deposit Insurance? Evidence of Adverse Selection and Moral Hazard in a Voluntary Insurance System," Federal Reserve Bank of St. Louis Working Paper 91-005A (September 1991).

White, Eugene Nelson. "The Political Economy of Banking Regulation, 1864-1933," *Journal of Economic History* (March 1982), pp. 33-40.

________. *The Regulation and Reform of the American Banking System, 1900-1929* (Princeton University Press,1983).

________. "A Reinterpretation of the Banking Crisis of 1930," *Journal of Economic History* (March 1984), pp. 119-138.

Willis, H. Parker. "What Shall We Do with Our Banks?" *Nation* (April 13, 1932), pp. 422-425.

________. "The Banking Act of 1933 — An Appraisal," *American Economic Association: Papers and Proceedings* (March 1934), pp. 101-110.

Willis, H. Parker, and John M. Chapman. *The Banking Situation* (Columbia University Press, New York, 1934).

Woollen, Evans. "The Insurance of Bank Deposits," *Atlantic Monthly* (November 1933), pp. 609-611.

Woosley, John B. "The Permanent Plan for the Insurance of Bank Deposits," *Southern Economic Journal* (April 1936), pp. 20-44.

Wyatt, Walter. "Constitutionality of Legislation Providing a Unified Commercial Banking System for the United States," *Federal Reserve Bulletin* (March 1933), pp. 166-86.