Cover Page

Universiteit Leiden

The handle http://hdl.handle.net/1887/20013 holds various files of this Leiden University dissertation.

Author: Frederic Delano Grant, Jr
Title: The Chinese cornerstone of modern banking : the Canton guaranty system and the origins of bank deposit insurance 1780-1933
Date: 2012-10-24

CHAPTER 8: FROM SAFETY FUND TO BANK DEPOSIT INSURANCE

The Safety Fund statute of the State of New York, the first bank deposit insurance law ever enacted,[1] was conceived and drafted late in the year 1828 by Joshua Forman. He initially circulated the proposal to several leading bankers in New York City and Albany, and seemingly received their approval in principle before he presented the plan to Martin Van Buren,[2] newly elected as Governor in November. The unlimited guaranty program he proposed had no precedent. As David A. Moss explains, "Forman recommended a radical plan for mandatory bank liability insurance, the first of its kind in America and probably the world. . . . Forman's scheme was extraordinary because it aimed to manage money risk through an unprecedented combination of compulsory *risk spreading* (bank insurance) and *risk reduction* (ongoing bank supervision), a surprisingly modern approach for the 1820's."[3]

As Joshua Forman explained, the Safety Fund had been inspired by Chinese government regulation of the hong merchant monopoly of Canton.

> "The propriety of making the banks liable for each other was suggested by the regulation of the Hong merchants in Canton, where a number of men, each acting separately, have by the grant of the government the exclusive right of trading with foreigners, and are all made liable for the debts of each in case of failure. The case of our banks is very similar; they enjoy in common the exclusive right of making a paper currency for the people of the state, and by the same rule should in common be answerable for that paper. This abstractly just principle, which has stood the test of experience for seventy years, and under which the bond of a Hong merchant has acquired a credit over the whole world, not exceeded by that of any other security, modified and adapted to the milder features of our republican institutions, constitutes the basis of the system."[4]

In the foregoing passage, Joshua Forman does not simply look to Canton as the source of the idea of a guaranty fund. The business community of the State of New York was already familiar with the concept of guaranty or insurance in various forms. The collective guaranty enforced among the hong merchants of Canton was a prominent example. Forman instead directly linked the requirement that such a fund must be maintained to the enjoyment of rights or privileges granted by government. At Canton, the hong merchants were licensed by the Chinese government and were granted monopoly rights. As a condition of this exercise of sovereignty in their favor, the hong merchants were required to guarantee the debts of other merchants within the monopoly. The case of the New York banks, in Forman's view, was "very similar." The banks existed by virtue of a charter granted by the New York legislature, and had been granted "in common the exclusive right of making a paper currency for the people of the state," itself an exercise of the sovereign power of issuing money. It was just that this exercise of sovereignty in favor of the banks should be conditioned on the maintenance of a fund to assure that all of this currency was sound. In Forman's words, "by the same rule [the banks] should in common be answerable for that paper." This connection between monopoly privileges granted by government and the conditioning of such grants on

advantages to the state or to society has roots in the mercantilistic system of colonial America.[5] Since all banks profited from the use by the public of banknotes they issued pursuant to governmental authority, the banks should guarantee that the public would suffer no loss from the use of these notes.[6]

The preceding four chapters reviewed the experience of unlimited collective responsibly for debt among the hong merchants of China during the years 1780 to 1842. This chapter considers the experience of this transplant in the United States of America, taking the idea from its introduction in 1829 through to the 1933 adoption of national bank deposit insurance. The reception by a society that was already recognized as strongly individualistic of a Chinese practice that imposed liability on a collective basis is itself notable.[7] The history begins with Joshua Forman, proponent of the Safety Fund, the person who recognized and transplanted the Chinese idea in 1829. The New York State legislature enacted a bank guaranty fund law that year, but it did not adopt the Canton Guaranty System. While the Chinese example was understood to have been a success, it was nonetheless "modified and adapted to the milder features of our republican institutions." The New York Safety Fund was thus established as a separate institution, unlike the example at Canton. It had distinct employees and officers and maintained its own accounts. New York also provided for ongoing scrutiny of the insured banks by the commissioners of the fund, another important difference. The Safety Fund offered unlimited coverage, as did the Chinese model, but did not mandate participation by all of the New York banks. It ended up paying all of the claims that were made against the fund, but needed considerable time to pay these claims, as had typically happened at Canton. Although the Safety Fund failed, the idea of a guaranty fund remained attractive, and a series of states enacted their own bank guaranty statutes in the course of the following century. Each offered unlimited coverage, each tended to require all banks to participate, and each failed in its turn. Proponents began to press for the adoption of national bank deposit insurance, especially in the wake of the Panic of 1907, to be structured so as to avoid the problems experienced by the state guaranty funds. It was believed that the idea required only certain further modifications and national implementation to make it entirely successful. After years of effort, national deposit insurance found its moment in the banking crisis of 1933 and was enacted into law. Deposit insurance has remained in effect in the United States since then, and has inspired bank deposit insurance in many other countries, a complicated history that is outlined in the following Chapter Nine.

8A. Joshua Forman.

Energetic and curious, Joshua Forman (1777-1848) is a solid example of the type of entrepreneur who pursued land development in the United States in the early 1800s. Tall, friendly and well-connected, a skilled orator and a conversationalist, Forman was an effective proponent both of projects to improve the State of New York and of his own development efforts. He impressed others with the depth of his applied knowledge, and repeatedly reached out to gather information from far away. This willingness to gather helpful information from disparate and distant sources is evident in Forman's interests in canals, salt production and banking.[8]

Born in Dutchess County in 1777, Joshua Forman graduated from Union College in 1798, studied law in Poughkeepsie and New York City, and moved with his wife in 1800 to Onondaga County, then almost a wilderness. In the course of his life he

Figure 11. Joshua Forman, 1777-1848.
Oil portrait. (Collection of the Onondaga Historical Association Museum and Research Center, Syracuse, New York. Photograph by permission.)

wore many hats -- variously lawyer, judge (Court of Common Pleas of Onondaga County from 1813 to 1823), member of the New York Assembly (elected in 1806 for one term), and a merchant -- but his core occupation was always in real estate development. In 1808, as a newly elected member of the New York Assembly, Forman introduced and carried a resolution to develop a canal between the tidewaters of the Hudson River and Lake Erie. In framing the proposal and pressing for construction of the Erie Canal, Forman drew on direct knowledge of the region and his research into canal development in Europe. Although he is not known to have worked directly in banking, Forman's real estate and trade experiences seem to have contributed to a practical understanding of the need for sound currency in areas in the process of development.[9]

In 1819 Forman moved to the site of the City of Syracuse, of which he is recognized as a founder, and began to develop some 250 acres at the heart of the present city which he then controlled. Forman was active in commerce, but always in ways that supported or benefited from his development efforts. He variously owned a tavern, an inn, and grist mills, and organized a plaster company and saltworks to utilize gypsum deposits and salt resources near Syracuse. Forman was a pioneer in the production of salt by solar evaporation in America, and sought out and engaged technical assistance from New Bedford, Massachusetts.[10]

Shortly before he advanced the proposal for Safety Fund legislation, in about 1826, Forman suffered serious reverses in his real estate investments. These stresses, in the context of the international economic crisis of the years 1825-26, seem to have focused his active mind on issues of banking stability and credit. Forman was under so much strain that he applied for a public job for the income he needed to pay his bills and stay in Syracuse, but was turned down. The disappointed, perchance embittered, founder of Syracuse moved of necessity to New Brunswick, New Jersey where he had an interest in a copper mine. The banking crisis thus deepened in the State of New York while Joshua Forman was in the State of New Jersey trying to rebuild his fortune. The guidance he provided on banking reform came on visits from New Jersey to New York, with Forman said to have spent most of the Winter of 1828-29 in Albany at the request of Governor Van Buren, working with legislators and others on plan issues. Forman's wife Margaret died in New Jersey in 1828. His fortunes had recovered sufficiently by the Safety Fund year of 1829 that he was able to purchase about 300,000 acres of land in Rutherfordston, North Carolina to which he moved. Forman supported himself developing and selling that tract, remarried, and became a leading member of his new community, among other things serving as vice president of the temperance society. Joshua Forman suffered a stroke in about 1844 and died in North Carolina in 1848.[11]

While the origin of Forman's specific knowledge of regulatory practice at Canton, China is unknown, New York State was then the center of American knowledge about commercial practices at Canton. As of the late 1820s, the port of New York had established a position of clear dominance over the trade from the United States, with large numbers of voyages coming and going from China. Hundreds of New Yorkers invested in these voyages, and many New York firms were leaders in the trade. One well known example is the merchant John Jacob Astor.[12] It is possible that the very scale and complexity of the early China trade from New York has thwarted scholarship. In his 1997 study of American trade with

China, Jacques Downs observed that "New York City, oddly enough, needs more exploring."[13] In 1829, Joshua Forman treated hong merchant practices as common knowledge. He states that "the bond of a Hong merchant has acquired a credit over the whole world, not exceeded by that of any other security." (Emphasis added.) There was no need to identify sources, because his audience already understood the topic. The commercial context suggests that this is true, and the litigation experience of the hong merchant Conseequa in American courts, including courts in the State of New York (see pages 141-146, above),[14] conforms broad knowledge of hong merchant practices. A review of articles in the Albany Argus newspaper in the early months of 1829, as it covered the debate on the Safety Fund legislation, conforms with this reading. No mention appears in this coverage of the hong merchants or of the Chinese inspiration for the reform proposal. Forman's portrayal of the condition of the hong merchants seems to have been accepted by his audience as entirely correct. The Safety Fund was intensely debated by the public and by the New York legislature, on its merits, but no reference is known to have been made in that debate to the Chinese experience that inspired the proposal.

8B. The Banking Crisis in the State of New York.

The banking crisis experienced in the State of New York in the years leading up to 1829 had its roots in a currency shortage. There was simply not enough coined United States currency to meet demand. Americans of the era relied on a hodgepodge of foreign coins which were accepted as legal tender. Nor was there enough silver coin to meet the demands of commerce. Paper banknotes made due. Printed in large numbers, banknotes represented the bulk of the money supply in the early United States. Banknotes are estimated to have constituted between seventy and eighty percent of circulating currency in the 1820s and 1830s. Hard coin may have represented as little as eleven percent of the money supply by 1835.[15]

This flood of banknotes was entirely generated by private banks. There was no paper United States currency, and the United States Constitution prohibited the states from producing money.[16] The depreciated state and federal paper of the revolutionary era -- still remembered in the expression "not worth a Continental" -- had left a bitter aftertaste. Paper currency was produced by banks, which were individually chartered in various states. Colonial era reservations about the chartering of banking corporations had been overcome,[17] and the number of private banks had increased rapidly. There were three chartered commercial banks in 1790. That number was up to 28 as of 1800, had climbed to 212 by 1815, stood at 328 in 1820, and had reached a total of 584 chartered commercial banks in the United States as of 1835 -- "and that despite a war, an embargo, and a deep recession in the late 1810s and early 1820s."[18]

"Bank currency," as Howard Bodenhorn explains, "was the lifeblood of commerce in early America and nowhere was its animating influence more profound than in areas of recent settlement."[19] Paper currency served economic development in at least two ways. First, it facilitated investment, in all forms and places. Second, off in the countryside, it fostered commerce by minimizing the inefficiencies and constraints of barter transactions.[20] This lifeblood -- paper currency -- was badly needed, and it was generally accepted. While there was wariness about paper of distant or questionable origin, which was discounted accordingly, the rapid growth of the medium stands as evidence of popular

confidence in the issuing private banks. Americans can be trusting people. The promise to pay embodied in all early banknotes was supported by the handwritten ink signatures of two bank officers.[21] There was an expectation that specie or other good collateral sat in the vaults to back up the paper notes, and that the promises to pay of most bankers -- typically leading citizens -- were good and reliable.

The year 1809 saw the first failure of a private bank in the independent United States, together with the first string of bank failures. This debacle, vividly described by Jane Kamensky in The Exchange Artist, was set in motion in Boston, Massachusetts in 1806. An ambitious young man, Andrew Dexter, Jr., used connections and financial legerdemain to build up a network of interconnected banks, in places such as Pittsfield (Massachusetts), Gloucester (Rhode Island), Keene (New Hampshire), Bucksport (Maine) and Detroit (in the pre-statehood Michigan Territory). Dexter's banks were invariably sited in inconvenient or distant locales, as part of a calculated effort to retard the redemption of their paper for silver.[22] The coterie of Dexter banks issued and circulated among themselves a vast number of banknotes with minimal backing throughout 1807 and 1808.[23] The first to fail, the Farmers' Exchange Bank of Gloucester, Rhode Island, had issued over $600,000 in banknotes in the prior year but held only $86.48 in specie on its closing in 1809.[24] Dexter used much of the paper his banks produced to construct a seven-story building in Boston, Massachusetts, the Exchange Coffee House. Unfortunately, the Embargo imposed by President Jefferson in December 1807 stalled the coastal economy into early 1809 and Boston real estate was blighted. The project failed and large numbers of common workers and merchants ended up ruined, the embarrassed final holders of bad paper generated by the Dexter banks.[25] This complex and costly banking fraud became national news when it was exposed in 1809.[26] As Jane Kamensky relates, the wave of failures of Dexter banks in 1809 gave rise to "an acute loss of confidence not just in banknotes, but in confidence itself."[27]

As private banks grew in number, the use of the paper currency they printed became ever more complicated. Even on the best of days, every user had to cope with a web of uncertainties and discounts relating to the financial condition, distance from source, and even forgery of the various banknotes issued by many bank suppliers.[28] Not every day was the best. Private banknotes were supposed be redeemable in coin, but redemption could be, and was, suspended during periods of crisis,[29] or might be frustrated by fraud of the Dexter type. On the worst of days, one or more issuing banks failed. Bank failure meant currency failure. As bank failures often occurred in the context of a panic or an economic downturn, the timing of the loss of use of paper money tended to be horrific. Good tender and acceptable one day, the paper of a failed bank became useless the moment that bank stopped payment of its obligations. This risk was profoundly frightening. The chance that a now useless banknote might be partially paid, years later, from the proceeds of liquidation of assets of a failed issuing bank provided little solace to the public.

The State of New York had been experiencing banking strain for over a decade when Martin Van Buren was sworn into office as Governor on 1 January 1829. Several banks had failed during the Panic of 1819, which affected the availability of all forms of currency, specie and banknotes.[30] Conditions remained difficult through the turbulent 1820s, which brought more bank failures. Corruption became

an urgent public concern, as the state directly (and individual legislators covertly) were believed to have been using the licensing of financial institutions as an opportunity to exact fees that affected their supervisory judgment.[31] As David A. Moss relates, "[t]he sensational 'conspiracy trials' of 1826 (in which several well known and highly regarded New York City residents were tried for financial fraud), along with a new round of bank and insurance company failures in 1827, reignited public hostility against the 'moneyed institutions' and set the stage for major new reforms of New York's banking system."[32] Alarmed about the condition of the banks, the legislature denied all applications for new or renewed bank charters in 1827 and again in 1828. As of 1829, the charters of the majority of the state's banks were up for renewal within the next two or three years, and there was deep concern that some banks were in an unsafe and unsound condition.[33] The public was anxious about the currency they issued.[34] Banking matters were a prime concern of the legislature and reform became a top priority of the new Governor.

8C. The 1829 New York Safety Fund Statute.

The Safety Fund proposal would seem to have been presented to Martin Van Buren by Joshua Forman in December of 1828. On Tuesday, 6 January 1829, five days after being sworn in as Governor, Van Buren delivered a message on the banking crisis to the New York Senate and Assembly. He had received a reform plan, which would soon be submitted to them for consideration. In the view of the Governor, currency stability was vitally important.

> "we should keep constantly in view the important consideration, that the solvency of the banks, and the consequent stability of their paper, is the principal and almost the only point, in which the public has much interest. . . . Our chief duty in this respect, is, to see that the farmer, when he exchanges his produce or estate -- the mechanic his wares -- the merchant his goods -- and all other classes of the community their property or services for bank paper, -- may rest contented as to its value."

"The idea" upon which the reform plan was based, the Governor stated, while novel, "is not entirely new to the commercial world, although it has not heretofore been applied in this form." The Governor believed that the currency of the New York banks ("our paper") would derive a competitive advantage from the proposed reform. New York banknotes would achieve new power at home and in the nation -- "the consequent high character and correspondent circulation it would give to our paper -- the expulsion from circulation of the doubtful paper which now engrosses it, and the substitution in its place of that issued by banks in full credit."[35] The 1829 "Safety Plan" program to strengthen the New York banks and their currency was thus strategic, implemented as part of an ongoing contest for economic primacy between the adjacent states of New York and Pennsylvania.[36] The stronger New York could make its banks and currency, the stronger the state's development prospects and future were apt to be.

On 24 January 1829, Joshua Forman presented the Governor with a letter, his reform plan, and a detailed list of objections and answers. The package was provided to the legislature two days later, with a message of support from the Governor. In this final formal presentation, which was printed in the newspapers and reprinted as a forty-two page pamphlet,[37] the competitive advantages of the

proposed system for the state were emphasized. According to Forman, the Safety Fund, if enacted, "would at once give to our state as high a credit and respectability in her monied concerns, as she stands pre-eminent in commercial rank among the states of the Union."[38]

Despite the prior outreach to bankers that had been made by Joshua Forman and Martin Van Buren, legislation calling for a tax on and ongoing supervision of the state's banks proved highly controversial. The city banks, in particular, objected that the tax would fall too heavily on them and that such problems as existed largely concerned the smaller country banks. An anonymous pamphlet, which came out after the Act had become law, doubted that adequate supervision could be accomplished and challenged the justice of holding only banking corporations responsible for each others' debts.

> "The author of this novel system, Mr. J. Forman, has told us, in his expose to the governor, that "the propriety of making the banks liable for each other, was suggested to him by the regulation of the Hong merchants of Canton, where a number of men, each acting separately, have, by the grant of government, the exclusive right of trading with foreigners, and are all made liable for the debt of each, in case of failure." Now, upon this principle, all the other corporations of this state ought to be made liable for the debts of each other in case of failure, as well as the banks. The fire and marine insurance companies; the turnpike, rail road, and canal companies, and particularly the manufacturing companies. They all enjoy exclusive privileges, as well as the Hong merchants or the New-York banks; and it would be just as reasonable to pass an act, compelling each of these corporations, transacting a like business, to pay an annual per centage on their capital, as a fund to indemnify their creditors from loss, in the event of their failure, as it is to compel the banks to do it. Would such a proposition be sustained by the legislature? We think not."[39]

After much debate, key concessions, and political wrangling, all within the short time period of six weeks, the Safety Fund Act was passed by the New York Assembly with a large margin on 18 March 1829, and by the New York Senate two weeks later. As with the adoption of deposit insurance at the federal level a century later, bank reform legislation that imposed liability on a collective basis enjoyed strong popular support and moved rapidly. As Martin Van Buren had in the meantime resigned as Governor to become Secretary of State under President Andrew Jackson, the Safety Fund bill was signed into law by the state's new Governor, Enos T. Throop, on 2 April 1829.[40]

Under the enacted statute, the Safety Fund was funded through the contribution by each participating bank of a total of three percent of its paid-in capital. Payments were to be made in six annual installments of one-half of one percent. If the fund was depleted, banks were made subject to emergency assessments not to exceed one-half of one percent of paid-in capital per year, until the fund was replenished. All newly chartered banks, and all banks renewing old charters, were required to participate in the fund. All creditors, banknote holders and depositors alike, were entitled to be paid in full from the fund to the extent the proceeds of liquidation of a failed bank proved inadequate. Administration was placed in the hands of three commissioners who were charged with conducting a quarterly inspection and audit

of each bank, and given powers to seek court injunctions if any violation of statutory standards was detected.[41] Its provisions for a common fund, for mandatory supervision, and even its name, were all new in American law.[42]

Passage of the Safety Fund Act brought the former charter issuance backlog to an end, and the New York legislature eagerly licensed many new banks. While criticism of the statute continued,[43] the city banks, which had initially been reluctant, decided that they would -- or must -- participate. The Safety Fund operated smoothly for about a decade, but experienced a profound shock with the Panic of 1837. Many of its member banks had made loans to western land speculators, and the three (3) commissioners who were supposed to supervise these ninety (90) banks had variously missed or failed to confront numerous problems.[44] Regulatory forbearance was exposed in the Panic of 1837 to have created a class of "zombie banks." These banks had been allowed to trudge slowly along and to do business although they were deeply insolvent -- "avoid[ing] the finality of death through the black magic of blanket liability guarantees."[45] As Howard Bodenhorn relates:

> "As promising an idea as the Safety Fund was, it failed to bring any real stability to new York's banking system. Its first (and only) test came during the panic of 1837 when the failure of just eleven members effectively bankrupted the system. Reimbursements to creditors of failed banks exceeded $2.5 million, while the fund realized only about $150,000 on assets forfeited by those banks. More importantly, creditor claims were disbursed so slowly that many frustrated creditors, mostly banknote holders, sold their claims at cents on the dollar. Despite its promise, the Safety Fund failed to protect the payments system or bank creditors individually."[46]

When New York adopted free banking as an alternative in 1838 and permitted licensed free banks to leave the Safety Fund, many did. Free banks were required to back their total issue of circulating banknotes with bonds and mortgages to an equal value on deposit with state officials.[47] An amendment to the Safety Fund statute in 1842 which restricted coverage to banknotes (it was claimed that there was uncertainty whether deposit liabilities were covered under the original banknote-focused law)[48] provided internal relief by reducing liabilities chargeable to the fund.[49] The fund struggled on until its last member bank charters expired in 1866, and ultimately paid all of its liabilities, albeit after extended delay.[50] Banking historian Howard Bodenhorn provides its epitaph: "Adverse selection and moral hazard ultimately undid the Safety Fund, but they were assisted by ineffectual supervision, ineffective to nonexistent portfolio restrictions, everything from marginally legal activities to outright fraud, and some politically motivated regulatory forbearance. The mixture was combustible, and it led to the Safety Fund's failure."[51]

8D. <u>Early State Bank Guaranty Programs.</u>

The safety fund concept -- the idea that a guaranty fund could ease the pain of failure for noteholder or depositor members of the public -- has had a lasting influence in American banking thought. The New York model was copied, with some revisions and adaptations, by other states in the nineteenth century and again by other states and then by the United States government in the twentieth century. Of the contemporary guaranty programs, several had periods of success, but all

ultimately failed. In addition to the New York program (1829-1866), safety funds were employed in the states of Vermont (1831-1866), Indiana (1834-1866), Michigan (1836-1842), Ohio (1845-1866) and Iowa (1858-1865).[52] The Vermont and Michigan statutes were fairly direct copies of the New York Safety Fund, with only minor changes having been made.[53] The other statutes varied in details from but took their inspiration from the New York model.[54] The primary objective of these early statutes was the protection of the value of banknotes issued by state-chartered banks. This need was reduced by the rise of free banking, which provided another means of protecting banknotes. The need was then effectively eliminated by the introduction of national banknotes during the Civil War. Under the National Banking Act of 1863, federal banknotes were protected both by the deposit of United States government bonds to equal value with the U.S. Treasury and by an explicit federal government guarantee. The imposition in 1865 of a heavy national tax on the banknotes of state banks brought the colorful and chaotic era of their use to a close.[55] In the years that followed, deposits with American banks grew rapidly and soon far exceeded banknotes in their significance. As of the year 1870, the amount of deposits stood at about twice, and by the end of the 1800s exceeded by seven times, the amount of banknotes in circulation.[56]

The shock of the Panic of 1907, at the outset of the twentieth century, had a number of effects on American banking.[57] At the national level, Congress responded in 1913 by establishing the Federal Reserve System. The twelve Federal Reserve banks, operating under the supervision of the Federal Reserve Board in Washington, D.C., became the first American central bank since the demise of the Second Bank of the United States in the 1830s.[58]

Interest in bank deposit insurance at the federal level was renewed in the wake of the Panic of 1907. It repeatedly came before Congress in draft legislation that then stalled. Starting in 1886, and continuing through adoption of the National Banking Act of 1933, some 150 bills were introduced in Congress to implement a national program of deposit insurance.[59] As summarized by Carter Golembe:

> "During the first decade of the new century forty-five additional bills were introduced in Congress, most of them in the 60th Congress in 1907-9. Deposit insurance was included in the original Federal Reserve Act as passed by the Senate, but was omitted from the bill passed by the House and eliminated in the Conference report. From two to eight proposals for deposit insurance or guaranty were submitted in each Congress from the 61st in 1909-11 to the 71st in 1929-31. In the 72nd Congress twenty-one separate bills were introduced, reflecting the impact of the depression, and one of these was passed by the House of Representatives in 1932. In the first ten weeks of the 73rd Congress in 1933, fifteen more such bills were submitted."[60]

Among the states, the losses and dislocations of the Panic of 1907 impelled action. Over the following ten years, eight states adopted deposit insurance programs which were generally compulsory for state-chartered banks. The state programs were funded by assessments on bank deposits, and the interests of depositors were protected without a maximum coverage limit per depositor.[61] These programs built on the legacy of the nineteenth century safety fund laws, which also generally provided unlimited coverage. In 1911, the United States Supreme Court rejected a Constitutional challenge to the first of the eight programs,

the Oklahoma statute of 17 December 1907 (enacted one month after the State of Oklahoma was admitted to the Union). Justice Oliver Wendell Holmes, writing for the Court, stated that "the device [of bank deposit insurance] is a familiar one. It was adopted by some states the better part of a century ago, and seems never to have been questioned until now."[62] The early twentieth century state deposit insurance programs suffered large losses during the 1920s. All had ended up insolvent or inoperative as of 1933, their failures being variously ascribed to the cyclical hazards of agricultural finance, excessive risk taking by bank lenders, or neglect by officials charged with supervising the insured banks.[63]

8E. Implementation of National Deposit Insurance in the United States.

The year 1933 found the United States in the midst of the Great Depression, gripped by a banking panic that reached its peak early in March. Just four months earlier, on 8 November 1932, Franklin Delano Roosevelt had been elected President by a landslide, carrying forty-two states as against the six that favored Herbert Hoover. His election was spurred by popular suffering and demands for reform in the wake of the stock market crash of October 1929. Banking reform was urgently demanded. Some 4,000 banks had ceased operations by March 1933. The number of closures soared to 9,000 by year end, resulting in depositor losses of about $1.3 billion. Notices that checks drawn on out of town banks could not be honored greeted inaugural guests on arrival at hotels in Washington, D.C. As of 4 March 1933, Inauguration Day, every state in the Union had declared a bank holiday.[64]

Urgent consideration of bank issues and banking reforms occupied the early days of the Franklin Roosevelt administration. Two days after his inauguration, the President declared a national bank holiday, ordering the nations' banks closed as a first step to breaking the panic. A series of reforms and measures to restore financial order were then brought through Congress, and some -- but not all -- of the shuttered banks were gradually permitted to reopen. Among proposed reforms that were considered but rejected in these early hours was bank deposit insurance. The idea had many strong opponents including the President himself. Yet on 16 June 1933 Roosevelt directed the nationwide implementation of deposit insurance by signing the Banking Act of 1933, which he called "the second most important banking legislation enacted in the history of the country." Writing in 1960, Carter Golembe rightly called the Act "the only important piece of legislation during the New Deal's famous 'one hundred days' which was neither requested nor supported by the new administration." In 2009, Charles Calomiris described deposit insurance as "the main surviving legacy of the banking legislation of the New Deal – a stark reminder of the power of crises to change the course of banking regulation."[65] Just as in New York State in 1829, public outrage over banking conditions had reached the point at which fundamental changes to the banking system had become politically possible.[66]

While deposit insurance had popular support, the drive to see it made law came from members of the United States Congress. By the 1930s, the introduction of deposit insurance legislation had become something of an annual tradition in Washington, D.C., much like watching the cherry trees blossom. Momentum for deposit insurance built with the banking crisis. In April of 1932, before the election, Representative Henry Steagall of Alabama -- a leading proponent -- is said to have told House Speaker John Nance Garner: "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." Garner is said to have replied: "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 Steagall bill, H.R. 11362, was passed by the House of Representatives on 25 May 1932 but went no further. Henry Steagall found himself unable to convince Senator Carter Glass to include deposit insurance in banking reform legislation then pending before the Senate.[67] During the Presidential campaign of 1932, Franklin Roosevelt showed no enthusiasm for deposit insurance. In correspondence, he called the guaranty plan "quite dangerous." "It would lead to laxity in bank management and carelessness on the part of both banker and depositor. I believe that it would be an impossible drain on the Federal Treasury to make good any such guaranty."[68]

John Nance Garner was carried by the Democratic Party election victory from the position of Speaker of the House to Vice President of the United States. Garner pushed for deposit insurance in conversations with Roosevelt before their inauguration, but got nowhere. "It won't work, Jack," the President-elect replied. "The weak banks will pull down the strong."[69] In office, Garner's first disagreement with Franklin Roosevelt was on this subject. "You'll have to have it, Cap'n," said Garner, "or get more clerks in the Postal Savings banks. The people who have taken their money out of the banks are not going to put it back without some guarantee."[70] Roosevelt remained firm in opposition.

The President's aversion to deposit insurance was neither ideological nor the product of interest group pressure. He was familiar with the policy debate and the arguments pro and con and doubted the proposed reform due to the high risk of loss indicated by a historical record of failure.[71] Roosevelt had direct experience with the subject matter. He had been employed from 1921 to 1928 as a Vice President with the Fidelity and Deposit Company of Maryland, the fourth largest surety bonding company in the nation.[72] He had a working knowledge of guaranty risk which had been developed over his years of employment with the F&D (as he called the company). That facility is evident in the President's response to a question posed at his first press conference on 8 March 1933, four days after he was sworn into office.

"Q: Can you tell us anything about guaranteeing of bank deposits?

THE PRESIDENT: I can tell you as to guaranteeing bank deposits my own view, and I think that 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. I will give you an example. Suppose there are three banks in town: one is 100 percent capable of working out, one 50 percent and another 10 percent. Now, if the Government assumes a 100 percent guarantee, it will lose 50 percent on one and 90 percent on the other. If it takes on a 50 percent guarantee, it will lose nothing on the first and second, but will lose a lot on the 10 percent solvent bank. Any form of general guarantee means a definite loss to the Government. The objective in the plan we are working on can be best stated this way: There are undoubtedly some banks that are going to pay one hundred cents on the dollar. We all know it is better to have that loss

taken than to jeopardize the credit of the United States Government or to put the United States Government further in debt. Therefore, the one objective is going to be to keep the loss in the individual banks down to a minimum, endeavoring to get 100 percent on them. We do not wish to make the United States Government liable for the mistakes and errors of individual banks, and put a premium on unsound banking in the future.

Q: That is off the record?

THE PRESIDENT: Yes."[73]

In the early months of 1933 an intense debate raged among supporters and opponents of bank deposit insurance. Opponents included the President, his Treasury Secretary, the Federal Reserve, and the larger banks and banking organizations.[74] Rome C. Stephenson, President of the American Bankers Association, said that the very mention of the topic could induce "every sign of incipient apoplexy" in a banker. The bankers fought the proposal to the last ditch.[75] All of the arguments and historical evidence on the subject of deposit insurance, which had been accumulating since 1829, were advanced. Leading proponents included Representative Henry Steagall of Alabama (a Democrat), who was associated with unit bankers, and Senator Arthur H. Vandenberg of Michigan (a Republican), also a champion of the small banks. The proponents were buoyed, and ultimately carried the day, by mounting support from a populace outraged by the banking crisis and news headlines of disclosures of bank abuses revealed in investigatory hearings conducted by the U.S. Senate Committee on Banking and Currency.[76] As Mark Flood concludes in his examination of the 1933 debate about deposit insurance, "[o]ne of the casualties of the [prevailing] anti-banker sentiment was the bankers' battle against deposit insurance."[77]

Proponents of the proposed legislation emphasized the existence of coverage ceilings in the bill, as opposed to the unlimited guarantees which had contributed to the failure of the state systems.[78] Proponents rejected the applicability of historical examples of guaranty fund failure,[79] arguing that these had involved only narrow risk pools, such as excessive agricultural loan exposure. They insisted that the proposed reform would comply with the fundamental principle of insurance that there must exist wide and general distribution and diversification. Opponents, for their part, denied that the "deposit insurance" proposal was "insurance" at all.

"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."[80]

Missing from the proposed legislation was the principle of "selected risk," i.e., that insured parties are differentiated by risk and charged different premia in accordance with their risk classification. One opponent accordingly warned that an "inexcusable" scrambling of terminology was involved. "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."[81] Professor Edwin W. Kemmerer of Princeton University, speaking to the Savings Bank Association of Massachusetts in September 1933 after the bill had become law, summarized this argument and drew it to a moral hazard conclusion.

> "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."[82]

On 1 May 1933 Senator Glass introduced a new bill, proposing the creation of the Federal Deposit Insurance Corporation, which came before the Senate for debate two weeks later. Senator Vandenberg proposed an amendment to immediately insure deposits of up to $2,500, and the bill, thus amended, was passed with only six votes in opposition on 25 May 1933. Legislation proposed by Representative Steagall had been passed by the House of Representatives on 23 May by a vote of 262 to 19, and both bills now went to conference committee. There they sat stalled in the face of Presidential opposition, notably to the prospect of a 100 percent guarantee. At a cabinet meeting on 23 May 1933, Franklin Roosevelt said he would veto the entire banking bill if deposit insurance was not removed. Such a veto would have come at a heavy political cost, for the bill had strong Congressional support, and Huey Long claimed that if the bill was vetoed there were enough votes to override. Senator Glass told Roosevelt that, if insurance was not put into the administration bill, Congress would include it anyway. Glass had now yielded to public opinion because "Washington does not remember any issue on which the sentiment of the country has been so undivided or so emphatically expressed as upon this." In correspondence dated in early June 1933, FDR stated that he was trying to make the draft bill "as sound as possible" and that he was "doing everything possible to correct it." Roosevelt had decided that the time had come to reach a deal. On 12 June he agreed to accept a capped and delayed program, under which deposit insurance would not become operative until 1934. The bill was reported out of the committee and on 13 June, after brief debate, both the House and the Senate voted to accept the conference report and approve the bill. Three days later, on 16 June 1933, Franklin Roosevelt signed the Banking Act of 1933 into law.[83]

The new law provided for the implementation of deposit insurance in two stages. The first stage was a temporary program of six months only, effective 1 January 1934, under which deposits were insured for up to $2,500 for any one depositor. The second stage was a distinct permanent plan, slated to take effect by 1 July 1934. The temporary plan was then extended, and the permanent plan delayed, by the Banking Act of 16 June 1934. The Banking Act of 1935 then revised the permanent plan, so that it resembled the temporary plan, and it became effective on 23 August 1935 as so revised.[84] As Mark Flood notes,

> "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."[85]

Under the extensions of the temporary plan, the insurance limit was raised to $5,000 per depositor, which had been found to provide full coverage to 98 percent of depositors. The Banking Act of 1935 maintained this coverage limit. Insured banks would now be charged a premium of one-twelfth of one percent of their deposits, payable twice annually, which was a sharp reduction from the one half percent charged under the temporary plan. The 1935 Act expanded the supervisory powers of the Federal Deposit Insurance Corporation (FDIC), and required all member banks of the Federal Reserve System to insure their deposits with the FDIC. Nonmember banks with deposits of under $1 million could obtain insurance with FDIC approval, but had to agree to submit to examination.[86] While deposit insurance became mandatory in the United States for all federally-chartered banks and savings institutions, as is evidenced by the FDIC coverage sticker that is commonly seen at American banks, insurance coverage is not universal, as among certain state-chartered banks.

Having given in and decided that he would support the deposit insurance plan, as modified, Franklin Roosevelt became its proud parent. He congratulated Carter Glass for the success of the legislation but also took credit for himself (to the amusement or outrage of various observers). Raymond Moley, a key adviser, wrote that "Roosevelt at first endured and then embraced it. . . . I am convinced that finally he made himself believe he had favored it from the beginning."[87] On one such occasion, Vice President Garner winked and commented, "I see Roosevelt is claiming credit for the guarantee of bank deposits."[88] The Republican party made a political point of this, insisting that the Republicans deserved credit for the popular reform, not FDR. In 1936 the Republican National Committee issued a press release publicizing an October 1932 letter in which Franklin Roosevelt had sharply criticized deposit insurance, stating that for "a number of reasons of sound government finance, such a plan would be quite dangerous." According to an article in The New York Times, the Republican National Committee "declared that Federal deposit insurance was put through by Senator Arthur H. Vandenberg, Republican, 'in the face of the strongest opposition from Franklin Delano Roosevelt and from the banks almost as a unit.'"[89] It is possible that the idea of deposit insurance had struck a chord with the President, despite his strong reservations about the notion of unlimited bank guaranty. The idea came from New York, originated during the governorship of Martin Van Buren, another New Yorker of Netherlands heritage who later became President of the United States, and was inspired by Canton hong merchants with whom his grandfather had done business.[90]

The bank deposit insurance program that was implemented in the United States in the 1930s is significantly different from the collective guaranty program that was enforced among the hong merchants of Canton between 1780 and 1842. The concept had evolved in the course of its transplantations. The United States and Chinese programs each concerned businesses operated under government license. Each involved a fund, maintained with the proceeds of a form of tax, that was intended to pay the claims of creditors against members of the licensed group. One program

was local, and the other national. The imperial Chinese system lacked independent management, existence, or accounts. The modern United States program involves independent administration, distinct accounts and accounting, and government oversight of the program itself. At Canton, the Consoo Fund was heavily drawn on by the government for other purposes, with the result that adequate liquid funds were never available to pay claims when losses occurred. In the United States, the Federal Deposit Insurance Corporation and other deposit insurers have always held their insurance funds free from government draw, although funds on hand have not always been adequate to pay losses that have arisen. Under the Chinese program, the risks that were taken by members of the insured guild were not subject to regulatory scrutiny. As a result, some of the hong failures, and the scale of the losses involved, came as a surprise. The United States program involves ongoing examiner scrutiny of the risks taken by insured banks, with the objective that losses and bank failures ought not to come as a surprise. In the United States, in 1933, the liability of the deposit insurance fund was limited. This was a key objective of President Roosevelt. At Canton, the liability of the Consoo Fund was unlimited. While the modern United States bank insurance program thus differs in key respects from the structure of the Canton program, its experiences after 1933, the subject matter of the following chapter, yet echo other aspects of its Chinese prehistory.

---

1 Hammond, Banks and Politics in America, p. 445; Randall S. Kroszner and William R. Melick, "Lessons from the U.S. Experience with Deposit Insurance," in Ash Demirgüç-Kunt, Edward J. Kane and Luc Laeven, eds., Deposit Insurance Around The World: Issues of Design and Implementation (Cambridge: MIT Press, 2008), p. 193.

2 Robert E. Chaddock, The Safety Fund Banking System in New York, 1829-1866 (National Monetary Commission, 61st Cong., 2nd sess., Senate Document No. 581) (Washington, D.C., U.S. Government Printing Office, 1910), p. 260.

3 David A. Moss, When All Else Fails: Government as the Ultimate Risk Manager (Cambridge: Harvard Univ. Press, 2002), p. 100 (emphasis in the original); Carter Golembe, "The Deposit Insurance Legislation of 1933," Political Science Quarterly, Vol. 75, pp. 181-200 (1960), p. 183 ("There seems to have been no American precedent for the proposed insurance plan. . . . The examination proposal was hardly less novel, since it contemplated regular examination by salaried officials empowered to investigate the condition of the banks fully -- in short a degree of supervision almost unthinkable at the time.").

4 Van Buren, Message of His Excellency Gov. Van Buren on the Subject of Banks, p. 23; Howard Bodenhorn, State Banking in Early America: A New Economic History (Oxford: Oxford Univ. Press, 2003), p. 158; Hammond, Banks and Politics in America, p. 557; Golembe, "Deposit Insurance Legislation," p. 183; Allen Johnson and Dumas Malone, eds., Dictionary of American Biography (New York: Charles Scribner's Sons, 1931), Vol. 6, pp. 525-526 (biography of Joshua Forman by H.T.).

5 Charles W. Calomiris, U.S. Bank Deregulation in Historical Perspective (Cambridge: Cambridge Univ. Press, 2000), p. 44 ("the legal system of the United States grew out of the mercantilistic colonial system, in which the guiding principle was the exchange of monopoly privileges (including charters, land grants,

exclusions of competition, and licensing) for advantages to the government (including new sources of government revenue, and strategic military advances). This was a system for promoting expansion, but in a heavily controlled atmosphere, in which society's interests (as interpreted by the government) took precedence over individual gain and the freedom to contract in particular ways.”). See, for example, Oscar Handlin and Mary Flug Handlin, Commonwealth: A Study of the Role of Government in the American Economy: Massachusetts, 1774–1861 (Cambridge: Belknap Press, 1969).

6 Hammond, Banks and Politics in America, p. 557.

7 See Alexis de Tocqueville, Democracy in America (George Lawrence, tr., J.P. Mayer, ed., Garden City, N.Y.: Anchor Books, 1969), pp. 506-13.

8 Johnson and Malone, Dictionary of American Biography, Vol. 6, pp. 525-526; William S. Powell, ed., Dictionary of North Carolina Biography (Chapel Hill: Univ. of North Carolina Press, 1986), Vol. 2, pp. 220-1 (biography of Joshua Forman by C. Sylvester Green); Ellen E. Dickinson, “Joshua Forman, the founder of Syracuse,” Magazine of American History, Vol. 8 (1882), pp. 400-7; Joshua Victor Hopkins Clark, Onondaga; or Reminiscences of Earlier and Later Times (Syracuse: Stoddard and Babcock, 1849), Vol. 2, pp. 69-83.

9 Johnson and Malone, Dictionary of American Biography, Vol. 6, pp. 525-526; Powell, Dictionary of North Carolina Biography, Vol. 2, pp. 220-1; Dickinson, “Joshua Forman,” p. 400 (Forman's family had emigrated from Holland); Clark, Onondaga, Vol. 2, pp. 69-83.

10 Johnson and Malone, Dictionary of American Biography, Vol. 6, pp. 525-526; Powell, Dictionary of North Carolina Biography, Vol. 2, pp. 220-1; Dickinson, “Joshua Forman,” pp. 400-7; Clark, Onondaga, Vol. 2, pp. 69-83.

11 Johnson and Malone, Dictionary of American Biography, Vol. 6, pp. 525-526; Powell, Dictionary of North Carolina Biography, Vol. 2, pp. 220-1; Dickinson, “Joshua Forman,” pp. 400-7; Clark, Onondaga, Vol. 2, pp. 69-83; Bruce E. Stewart, “Distillers and Prohibitionists: Social Conflict and the Rise of Anti-Alcohol Reform in Appalachian North Carolina, 1790-1908” (Ph.D. diss., Univ. of Georgia, 2007), p. 59.

12 Robert G. Albion, The Rise of New York Port [1815-1860] (New York: Charles Scribner’s Sons, 1939), pp. 200-3; Downs, Golden Ghetto, pp. 67-8, 201 and 377; Conrad E. Wright, “Merchants and Mandarins: New York and the Early China Trade,” pp. 17-54 in David S. Howard, New York and the China Trade (New York: The New-York Historical Society, 1984), pp. 27 and 30.

13 Downs, Golden Ghetto, p. 377.

14 In Consequa v. Fanning, 3 Johns. Ch. 587, 603, 605 (N.Y. 1818), Chancellor James Kent, who was known as the “American Blackstone,” rendered a decision in favor of plaintiff Conseequa which indicates his annoyance with the defenses that were raised (“The defendants, in addition to all these unfounded charges, state . . .”).

15 Howard Bodenhorn, A History of Banking in Antebellum America: Financial Markets and Economic Development in an Era of Nation-Building (Cambridge: Cambridge Univ. Press, 2000), pp. 16-7; Bodenhorn, State Banking in Early America, p. 95; Bruce D. Smith and Warren E. Webber, “Private Money Creation and the

Suffolk Banking System," Journal of Money, Credit and Banking, Vol. 31, No. 3, Part 2 (1999), p. 627 n.6.

16 United States Constitution, Art. I, § 10 ("No State shall . . . coin Money; emit Bills of Credit; [or] . . . make any Thing but gold and silver Coin a Tender in Payment of Debts . . ."); Jane Kamensky, The Exchange Artist: A Tale of High-Flying Speculation and America's First Banking Collapse (New York: Viking, 2008), pp. 15-6.

17 Calomiris, U.S. Bank Deregulation, p. 43.

18 Bodenhorn, Banking in Antebellum America, p. 10; Kamensky, Exchange Artist, pp. 16-7.

19 Bodenhorn, Banking in Antebellum America, p. 17.

20 Bodenhorn, Banking in Antebellum America, p. 17; Robert E. Wright, "The First Phase of the Empire State's 'Triple Transition': Banks' Influence on the Market, Democracy, and Federalism in New York, 1776-1838," Social Science History, Vol. 21, pp. 521-58 (1997), p. 532.

21 Kamensky, Exchange Artist, p. 15; Q. David Bowers, Obsolete Paper Money Issued by Banks in the United States 1782-1866 (Atlanta: Whitman Publishing LLC, 2006).

22 Kamensky, Exchange Artist, pp. 59 and 140-2.

23 Kamensky, Exchange Artist, pp. 9, 62-70, 93, 109-10, 128-35, 144 and 153-62.

24 Kamensky, Exchange Artist, pp. 9 and 158-60.

25 Kamensky, Exchange Artist, pp. 129 and 165-217.

26 Kamensky, Exchange Artist, pp. 1-4, 162-4 and 168-73. It generated headlines again a decade later when the underutilized building burned to the ground in a spectacular fire.

27 Kamensky, Exchange Artist, p. 168.

28 Davis R. Dewey, State Banking Before the Civil War (National Monetary Commission, 61st Cong., 2nd sess., Senate Document No. 581) (Washington, D.C., U.S. Government Printing Office, 1910), pp. 100-4 (methods of evading redemption); David A. Moss and Sarah Brennan, "Managing Money Risk in Antebellum New York: From Chartered Banking to Free Banking and Beyond," Studies in American Political Development, Vol. 15, pp. 138-62 (Fall 2001), p. 140; Bowers, Obsolete Paper Money, p. 177; Bodenhorn, State Banking in Early America, p. 95; Kamensky, Exchange Artist, pp. 17-8; Smith and Webber, "Suffolk Banking System," p. 625; Gary B. Gorton, Slapped by the Invisible Hand: The Panic of 2007 (Oxford: Oxford Univ. Press, 2010), p. 5.

29 Bodenhorn, State Banking in Early America, p. 155 ("Systemwide suspensions occurred during the panic of 1819 and the depression of the early 1820s, during the panics of 1837 and 1839 (lasting through 1842), and during the panic and recession of the late 1850s.").

30 Bodenhorn, State Banking in Early America, p. 8; Moss, When All Else Fails, pp. 95-100; Wright, "Banks' Influence," p. 539; Anonymous, An Examination of Some of the Provisions of the "Act to Create a Fund for the Benefit of the Creditors of Certain Monied Corporations, and for Other Purposes," Passed April, 1829; Particularly as to its Effects on the City of New-York. By a Stockholder (New York: Ludwig & Tolefree, 1829), p. 4.

---

31 Bodenhorn, State Banking in Early America, pp. 156-7; Chaddock, Safety Fund Banking System, p. 242; Moss and Brennan, "Managing Money Risk," pp. 145-6; Wright, "Banks' Influence," p. 536.

32 Moss, When All Else Fails, p. 97; Anonymous, An Examination, p. 13 ("During the session of 1824 and 1825, the legislature chartered several moneyed institutions for this city, under the denomination of loan companies, who issued their bonds and passed them off as money, to a large amount. This large addition to the circulating paper of the city, was, in a measure, one of the causes, which led to the great cotton speculations of 1826, and which broke down so many of our citizens, and finally broke down the companies also."); Q. David Bowers, Obsolete Paper Money, pp. 123-4 and 128-9.

33 Bodenhorn, State Banking in Early America, p. 158; Moss, When All Else Fails, p. 100; Moss and Brennan, "Managing Money Risk," p. 148.

34 Chaddock, Safety Fund Banking System, pp. 248-51; Charles W. Calomiris, "Is Deposit Insurance Necessary? A Historical Perspective," The Journal of Economic History, Vol. 50, pp. 283-295 (1990), p. 284.

35 Journal of the Senate of the State of New-York at their Fifty-Second Session (Albany: E. Croswell, 1829), p. 10; Journal of the Assembly of the State of New-York at their Fifty-Second Session (Albany: E. Croswell, 1829), p. 13; Albany Argus, 7 January 1829, p. 2.

36 Moss, When All Else Fails, p. 101; Moss and Brennan, "Managing Money Risk," p. 139; Hammond, Banks and Politics in America, pp. 445 and 559; Frank Otto Gatell, " Sober Second Thoughts on Van Buren, the Albany Regency, and the Wall Street Conspiracy," The Journal of American History, Vol. 53, pp. 19-40 (1966), p. 20.

37 Journal of the Assembly of the State of New-York (1829), p. 186.

38 Van Buren, Message of His Excellency Gov. Van Buren on the Subject of Banks, p. 13.

39 Anonymous, An Examination, pp. 6-7. See Noble State Bank v. Haskell, 219 U.S. 104, 112 (1911) (O.W. Holmes, J.) ("It is asked whether the state could require all corporations or all grocers to help to guarantee each other's solvency, and where we are going to draw the line. But the last is a futile question, and we will answer the others when they arise.").

40 Moss, When All Else Fails, p. 103; Hammond, Banks and Politics, pp. 557-9.

41 Bodenhorn, State Banking in Early America, pp. 160, 161 and 166-169.

42 One measure of the novelty of New York's 1829 experiment is that the term "Safety Fund" was newly created. Dictionary research finds no use of the term before 1829, and when it is found, it is in older sources, or dictionaries of Americanisms, tied to the system of 1829. Mitford M. Mathews, ed., A Dictionary of Americanisms (Chicago: Univ. of Chicago Press, 1951), Vol. 2, p. 1442; William A. Craigie and James R. Hulbert, eds., A Dictionary of American English (Chicago: Univ. of Chicago Press, 1944), Vol. 4, pp. 2001-2002; Isaac K. Funk, ed., A Standard Dictionary of the English Language (New York: Funk & Wagnalls Co., 1935), Vol. 2; Webster's New International Dictionary (1925), p. 1867. The term has been carried over into the American insurance industry, where it has had an independent life with at least two meanings, such as a common fund created by contract, Joseph A. Joyce, A Treatise on the Law of Insurance of Every Kind (2d ed., Rochester: Lawyers Co-operative Publishing Co., 1917), § 1287, p. 3:2427, or a non-compulsory law

---

permitting an insurance company to accumulate from profits a fund to be used to meet emergency claims. Lewis E. Davids, Dictionary of Insurance (6th rev. ed., Totowa, N.J.: Rowman & Allanheld, 1983), p. 271; H. R. Hayden, ed., The Annual Cyclopedia of Insurance of the United States 1894-1895 (Hartford: H. R. Hayden, 1895), pp. 506-507 (listing states with such laws).

43 Anonymous, "Bank of the United States," North American Review, Vol. 32 (April 1831), p. 56; Albert Gallatin, Considerations on the Currency and Banking System of the United States (Philadelphia: Carey & Lea, 1831), p. 70.

44 Howard Bodenhorn, "Zombie Banks and the Demise of New York's Safety Fund," Eastern Economic Journal, Vol. 22, pp. 21-33 (1996), pp. 23-4, 28 and 30.

45 Bodenhorn, "Zombie Banks," p. 27 ("Edward Kane called the latter zombie banks because they enjoyed an 'unnatural life-in-death experience, in that if they had not been insured, the firm's creditors would have taken control from the stockholders once it had become clear that their enterprise's net worth was exhausted'"), citing Edward J. Kane, The S & L Insurance Mess: How Did It Happen? (Washington, D.C.: The Urban Institute Press, 1989). "Ten of 16 member-bank failures prior to 1842 (the period when insurance was still perceived as effective) were traceable to fraud or unsafe practices. Moreover, such problems were not detected until after they had imposed large losses on the fund." Calomiris, "Is Deposit Insurance Necessary?," p. 287; Charles W. Calomiris, and Eugene N. White, "The Origins of Federal Deposit Insurance," in Claudia Goldin and Gary D. Libecap, eds., The Regulated Economy: A Historical Approach to Political Economy (Chicago: Univ. of Chicago Press, 1994), p. 149, and also in Charles W. Calomiris, U.S. Bank Deregulation in Historical Perspective (Cambridge: Cambridge Univ. Press, 2000), pp. 167-8.

46 Bodenhorn, Banking in Antebellum America, pp. 38-9; Hammond, Banks and Politics in America, pp. 560-2; Moss, When All Else Fails, p. 367 n.98; Moss and Brennan, "Managing Money Risk," pp. 150-151; Calomiris, U.S. Bank Deregulation, p. 69; Calomiris, "Is Deposit Insurance Necessary?," p. 286; Bowers, Obsolete Paper Money, pp. 218-23 and 535-8.

47 Golembe, "Deposit Insurance Legislation of 1933," p. 186; Calomiris, U.S. Bank Deregulation, pp. 44-5 and 70; Calomiris, "Is Deposit Insurance Necessary?," p. 286.

48 Golembe, "Deposit Insurance Legislation," pp. 189-90; Moss, When All Else Fails, p. 371 n.117; Harry E. Miller, Banking Theories in the United States Before 1860 (Cambridge: Harvard Univ. Press, 1927), p. 151; Thomas Bruce Robb, The Guaranty of Bank Deposits (Boston: Houghton Mifflin, 1921), p. 12.

49 Golembe, "Deposit Insurance Legislation," p. 190; Calomiris, U.S. Bank Deregulation, p. 70; Calomiris, "Is Deposit Insurance Necessary?," pp. 286-7.

50 Moss, When All Else Fails, p. 367 n.98; Moss and Brennan, "Managing Money Risk," p. 154 n.129; Calomiris, U.S. Bank Deregulation, p. 70; Calomiris, "Is Deposit Insurance Necessary?," p. 286; Hammond, Banks and Politics in America, p. 561.

51 Bodenhorn, State Banking in Early America, pp. 181-182 and 183.

52 Golembe, "Deposit Insurance Legislation," pp. 184-186 and 191; Calomiris, U.S. Bank Deregulation, pp. 70-1; Hammond, Banks and Politics in America, p. 563; Federal Deposit Insurance Corporation, Federal Deposit Insurance Corporation: The

First Fifty Years: A History of the FDIC 1933-1983 (Washington, D.C.: Federal Deposit Insurance Corporation, 1984), pp. 16-7.

53 Golembe, "Deposit Insurance Legislation," p. 184; Dewey, State Banking Before the Civil War, pp. 130 and 193.

54 Golembe, "Deposit Insurance Legislation," pp. 184-6; Chaddock, Safety Fund Banking System, p. 387.

55 Calomiris, U.S. Bank Deregulation, p. 166 n.2; Golembe, "Deposit Insurance Legislation," p. 187; Moss, When All Else Fails, p. 115; Moss and Brennan, "Managing Money Risk," p. 161; Allan H. Meltzer, A History of the Federal Reserve, Vol. I (1913-1951) (Chicago: Univ. of Chicago Press, 2003), pp. 66 n.2 and 69; Kroszner and Melick, "Lessons from the U.S. Experience," p. 193.

56 Golembe, "Deposit Insurance Legislation," p. 187.

57 Gary Gorton asserts that the international panic of 2007 was similar to that of 1907. Gorton, Slapped by the Invisible Hand, pp. 2-3 ("I hope to convince you that the Panic of 2007 is not so different from, for example, the Panic of 1907 or that of 1893. But there is one big difference; the earlier panics were visible to all. In the Panic of 2007, most people had never heard of the markets that were involved, didn't know how they worked or what their purposes were. Terms like subprime mortgage, asset-backed commercial paper conduit, structured investment vehicle, credit derivative, securitization, or repo market were meaningless.").

58 Moss, When All Else Fails, p. 116. The banking industry sympathies of Frederic A. Delano (1863-1953), Franklin D. Roosevelt's uncle, resulted in his being appointed a member and Vice Chairman of the first Federal Reserve Board. Delano served as a member of the Federal Reserve Board from 1914 to 1918 and as a director of the Federal Reserve Bank of Richmond in the early 1930s. Meltzer, History of the Federal Reserve, Vol. I, pp. 73-4; Rik W. Hafer, The Federal Reserve System: An Encyclopedia (Westport, Conn.: Greenwood Press, 2005), pp. 433 and 437; Gabriel Kolko, The Triumph of Conservatism: A Re-interpretation of American History, 1900-1916 (New York: The Free Press, 1977), p. 249 ("To take the place of one of these rejections, Frederic A. Delano, a railroad administrator and a former director of the National Citizens' League, was given the job. . . . In all, the banking community and those close to it were given three of the five board seats."). The author is a great-grandson of Frederic A. Delano.

59 Golembe, "Deposit Insurance Legislation," pp. 187-8; James Grant, Money of the Mind: Borrowing and Lending in America from the Civil War to Michael Milken (New York: Farrar Straus Giroux, 1992), pp. 137-40; Calomiris, and White, "Origins of Federal Deposit Insurance," in Goldin and Libecap, Regulated Economy, pp. 150 and 152 ("Of these 150 bills, 147 never emerged from the House or Senate committees that were given the responsibility of considering them."), and also in Calomiris, U.S. Bank Deregulation, pp. 171-2.

60 Golembe, "Deposit Insurance Legislation," pp. 188 and 195.

61 Golembe, "Deposit Insurance Legislation, pp. 187-8; A History of the FDIC 1933-1983, pp. 25-7; Kroszner and Melick, "Lessons from the U.S. Experience," p. 194; Moss, When All Else Fails, p. 117; Moss and Brennan, "Managing Money Risk," p. 161. In Noble State Bank v. Haskell, 219 U.S. 104, 109 (1911), the Supreme Court described the Oklahoma deposit insurance law as follows: "This act creates the Board and directs it to levy upon every bank existing under the laws of the state an

assessment of one percent of the bank's average daily deposits, with certain deductions, for the purpose of creating a Depositors' Guaranty Fund. There are provisos for keeping up the fund, and by an act passed March 11, 1909, since the suit was begun, the assessment is to be five percent. The purpose of the fund is shown by its name. It is to secure the full repayment of deposits. When a bank becomes insolvent and goes into the hands of the Bank Commissioner, if its cash immediately available is not enough to pay depositors in full, the Banking Board is to draw from the Depositors' Guaranty Fund (and from additional assessments if required) the amount needed to make up the deficiency. A lien is reserved upon the assets of the failing bank to make good the sum thus taken from the fund." See Kroszner and Melick, "Lessons from the U.S. Experience," pp. 193-7 (analysis of the Oklahoma deposit insurance program in operation).

62 Noble State Bank v. Haskell, 219 U.S. 104, 112 (1911) (O.W. Holmes, J.); Golembe, "Deposit Insurance Legislation," pp. 191-2; Kroszner and Melick, "Lessons from the U.S. Experience," p. 193. "In 1910, practically all of Oklahoma's brand-new deposit-guarantee fund was tied up in a single bank failure, and The New York Times chose to caption its editorial on the Holmes decision (and on state deposit insurance in general), 'Constitutional, But Worthless.'" Grant, Money of the Mind, p. 137.

63 Golembe, "Deposit Insurance Legislation," pp. 187-8; Calomiris, U.S. Bank Deregulation, pp. 72-5; Calomiris, and White, "Origins of Federal Deposit Insurance," in Goldin and Libecap, Regulated Economy, pp. 149-50, and also in Calomiris, U.S. Bank Deregulation, pp. 168-9; Kroszner and Melick, "Lessons from the U.S. Experience," pp. 197-8; Grant, Money of the Mind, pp. 135-7.

64 A History of the FDIC 1933-1983, pp. iii, 3 and 38; Helen M. Burns, The American Banking Community and the New Deal Banking Reforms 1933-1935 (Westport, Conn.: Greenwood Press, 1974), pp. 31 and 39-41; Grant, Money of the Mind, pp. 222 and 225-7.

65 Golembe, "Deposit Insurance Legislation," pp. 181-2; Susan Estabrook Kennedy, The Banking Crisis of 1933 (Lexington: The Univ. Press of Kentucky, 1973), p. 222; Charles Calomiris, "Banking Crises and the Rules of the Game" (Cambridge, Ma.: National Bureau of Economic Research, Working Paper No. 15403, 2009), p. 15, available at:

http://www.nber.org/papers/w15403

66 Golembe, "Deposit Insurance Legislation," p. 199.

67 Kennedy, Banking Crisis of 1933, p. 214; Mark D. Flood, "The Great Deposit Insurance Debate," The Federal Reserve Bank of St. Louis Review, Vol. 74, pp. 51-77 (July/August 1992), p. 63 and n.79, available at:

http://research.stlouisfed.org/publications/review/92/07/Deposit_Jul_Aug1992.pdf

In his last days as President, Herbert Hoover is said to have pressed the Federal Reserve to agree to implement a bank deposit insurance program. R. Gordon Hoxie, " Hoover and the Banking Crisis," Presidential Studies Quarterly, Vol. 4/5, Vol. 4, no. 3/4 - Vol. 5, no. 1, pp. 25-28 (Summer/Fall, 1974 - Winter, 1975), p. 28.

68 Anonymous, "Roosevelt 'Won' to Bank Insurance," The New York Times, 27 October 1936.

---

69 Adam Cohen, Nothing to Fear: FDR's Inner Circle and the Hundred Days that Created Modern America (New York: The Penguin Press, 2009), p. 278.

70 Kennedy, Banking Crisis of 1933, p. 214.

71 Golembe, "Deposit Insurance Legislation," p. 198 n.23; Kennedy, Banking Crisis of 1933, p. 214.

72 Geoffrey C. Ward, A First-Class Temperament: The Emergence of Franklin Roosevelt (New York: Harper & Row, 1989), pp. 560-3, 623 n.19, 650-5, 732-3 (the company had become third largest by 1923); Kenneth S. Davis, FDR: The Beckoning of Destiny, 1882-1928 (New York: Random House, 1971), pp. 627, 629, 673, 697-8 and 708; Flood, "Great Deposit Insurance Debate," p. 61 n.58. In addition, Franklin Roosevelt's uncle Frederic A. Delano, with whom he was close, had banking industry ties and had long served on the Federal Reserve Board. See p. 201 n.58 above. Of all of the input he was receiving from banking industry proponents in various quarters, Roosevelt quipped at one point, "They'll make a banker of me yet." Kennedy, The Banking Crisis of 1933, p. 168.

73 Franklin D. Roosevelt, The Public Papers and Addresses of Franklin D. Roosevelt, Vol. 2 (New York: Random House, 1938), p. 37 (first press conference, 8 March 1933).

74 Moss, When All Else Fails, p. 118; Kennedy, Banking Crisis of 1933, pp. 214-8; Calomiris, "Banking Crises and the Rules of the Game," pp. 12-14; Flood, "Great Deposit Insurance Debate,", p. 59.

75 Howard H. Preston, " The Banking Act of 1933," The American Economic Review, Vol. 23, pp. 585-607 (1933), pp. 599-600; Flood, "Great Deposit Insurance Debate," pp. 59 and n.48 (citing Rome C. Stephenson, "Providing Safety for Future Banking," Bankers Magazine (May 1931), pp. 591-94) (the footnote shows the hint of truth in Stephenson's hyperbole).

76 Golembe, "Deposit Insurance Legislation," pp. 197-8; Kennedy, Banking Crisis of 1933, pp. 203-4 and 212; Calomiris, and White, "Origins of Federal Deposit Insurance," in Goldin and Libecap, Regulated Economy, p. 176, and also in Calomiris, U.S. Bank Deregulation, pp. 199-200; Flood, "Great Deposit Insurance Debate," p. 66.

77 Flood, "Great Deposit Insurance Debate," p. 60.

78 Flood, "Great Deposit Insurance Debate," p. 62 (Senator Vandenberg stated: "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.") (emphasis in the original).

79 Preston, "Banking Act of 1933," pp. 597-8.

80 Flood, "Great Deposit Insurance Debate," p. 58 (quoting from "Guaranty of Bank Deposits," Association of Reserve City Bankers, Commission on Banking Law and Practice, Bulletin No. 3 (Chicago, November 1933), p. 27 [emphasis in the original]).

81 Flood, "Great Deposit Insurance Debate," p. 57 n.29.

82 Flood, "Great Deposit Insurance Debate," pp. 57-60.

83 Kennedy, Banking Crisis of 1933, pp. 219-222; Burns, American Banking Community, pp. 90-2; Calomiris, and White, "Origins of Federal Deposit Insurance," in Goldin and Libecap, Regulated Economy, p. 174, and also in

Calomiris, U.S. Bank Deregulation, p. 197; Cohen, Nothing to Fear, p. 278; Preston, "Banking Act of 1933," pp. 585, 589 and 597; Grant, Money of the Mind, p. 113; Flood, "Great Deposit Insurance Debate," pp. 52 and 67.

84 Golembe, "Deposit Insurance Legislation," pp. 193-4; Preston, " Banking Act of 1933," pp. 591-2; Flood, "Great Deposit Insurance Debate," pp. 52 n.3; Calomiris, "Banking Crises and the Rules of the Game," p. 14.

85 Flood, "Great Deposit Insurance Debate," p. 73.

86 Golembe, "Deposit Insurance Legislation," pp. 193-4; Calomiris, and White, "Origins of Federal Deposit Insurance," in Goldin and Libecap, Regulated Economy, p. 176, and also in Calomiris, U.S. Bank Deregulation, pp. 199-200; A History of the FDIC 1933-1983, p. 5.

87 Burns, American Banking Community, p. 92; Cohen, Nothing to Fear, p. 279.

88 Kennedy, Banking Crisis of 1933, p. 222 and n.57.

89 Anonymous, "Roosevelt 'Won' to Bank Insurance," The New York Times, 27 October 1936.

90 Downs, The Golden Ghetto, p. 179. One can easily imagine Franklin Roosevelt taking an interest in the origins of bank deposit insurance. There was much in the topic to perk his interest. The hong merchant origins of the idea received publicity in 1931 when Volume Six of the Dictionary of American Biography was published. It is tempting to imagine the article on Joshua Forman in it, which mentions the hong merchant connection, having been brought to the attention of Roosevelt or his circle as the deposit insurance debate raged in 1932-33. The author is unaware of any evidence this ever happened.