

Are Bankers Intelligent?

BY GEORGE E. ANDERSON

The course of this depression makes it a very pertinent question

THERE seems to be no question of the changed status of the average banker. Not many years ago he was, disregarding sex in metaphors, the queen bee in the community hive. About him revolved all sorts of community activities from church sociables to the building of the new plow factory. On his good will and assistance depended all new enterprises. To him came all the secrets of the local business world. He controlled the destinies of the church, the local chamber of commerce, Kiwanis, Rotary, the country club and all the what-nots of his home town. Through such and many other influences he enjoyed an enviable social position. He was a power in politics because, from knowledge thus gained, he knew which strings to pull and how to pull them to shape the destinies of his city, county and State. He bossed the city through local business connections. He bossed the country through farm loans and rural business connections. The attraction of State government deposits often led him to dip heavily into the larger affairs of the commonwealth with no mean success. In him, according to the prevailing opinion of his contemporaries, lay all the business wisdom of the ages. At all events he controlled the purse strings.

It would be going too far to say that all this has changed. Many bankers still enjoy the powers and privileges enumerated. Perhaps in a large majority of communities the banker is still the king pin in the local works. Many bankers, like many banks, have passed through the changing fortunes of the past few years and have emerged greater, stronger, more authoritative than ever. On an average, however, things have changed considerably. There is no longer the same prestige in the banker's position; his authority is not quite so obvious. Experiences of the past three years have demonstrated that financial idols in metropolitan money centres have feet of clay. They have made mistakes which have cost themselves and the country much. The local banker, too, has made mistakes — ghastly, calamitous. Some of them have been such as to paralyze whole communities, embarrassing, when they have not ruined, thousands of people at one fell swoop. The aggregate results of these mistakes are overwhelming. There are certainly many reasons why the average banker has lost his power and his prestige in his community — many reasons and all good.

It is unnecessary, of course, to rub salt in the banker's wounds. For the

sake of argument, however, it is necessary to remind him and ourselves that in the past ten years one-third of the nation's banking institutions have closed their doors involuntarily. That in itself has good points. There were too many banks, especially too many small, weak ones. A large number of them should never have been born. Unfortunately these bank suspensions have involved something more than the banks and the bankers. They have tied up billions of dollars in deposits, have embarrassed literally millions of depositors and thousands of communities, working ruin on the business man, the wage earner, the widow, the orphan and, of course, upon the banker himself in a preëminent degree. Thousands of bankers have lost everything they had in the world, including only too often that honor which men prize above rubies.

It would seem to a person of ordinary intelligence that in view of such a state of things the banker would be the first to do something about it. That presumption is erroneous. The banker has not only done nothing about it but he has prevented any one else doing anything about it. Every one familiar with the subject recognizes the difficulty of bank reform. Changing the form or substance of the banking system of a nation of a hundred and twenty million people, resting upon a complicated body of laws built up not only in the nation itself but also in each of forty-eight putative sovereign States, is not easy. Nevertheless, after years of observation and experience, the authorities in Washington have evolved certain ideas of progressive reform to which they have sought to give reality. Among these may be named branch banking, which would enable strong banks to supplant weak local banks in rural communities;

increased powers of supervision for the Comptroller of the Currency; a higher limit for minimum capital in small banks; membership of all banks in the Federal Reserve system and more strict control of member banks within that system; and the separation of savings and commercial banks where the two are combined in one institution as is so generally the case at present. Above all is the matter of the control of credit and the elimination of all weak and troublesome small State banks and the establishment of a unified system for the whole country under some form of national supervision and control.

It may be admitted that no one of these reforms would afford immediate relief from the present acute situation; any one or all of them would require time for beneficent results; probably all of them would not result in a perfect system; but any one of them would have indicated some progress toward betterment.

Has the banker advocated any of these reforms? He has not. Branch banking has been opposed by practically every small bank in the country — and many large ones. Increased supervisory power for the Comptroller has been bitterly resented by nearly every national bank as an invasion of its prerogatives although under the present law the Comptroller can not even enforce existing statutes against recalcitrant bankers short of moving for the forfeiture of their charters. Small banks refuse to increase their capital although admittedly their very existence from day to day is often endangered by the inadequacy of their working funds. Instead of increasing membership in the Federal Reserve the number of member banks is decreasing. Small banks claim that they can not afford to put more

money into their business or become members of the Federal Reserve — too poor to do business safely but quite willing to play with other people's money at other people's risk. Commercial banks refuse to part with their savings departments lest they lose deposits, although they recognize that they are a constant threat to their liquidity. In short, not a single measure of bank reform has been proposed by dominant banking interests; not a single measure of such reform proposed by others have they accepted.

Although the Comptroller of the Currency, the Federal Reserve Board, the Senate Committee on Banking and Currency and at least a large minority of the House Committee on the same subject are agreed that no adequate control of credit and no safe banking system can exist in this country except under a unified system of banking under national control, probably ninety-nine one-hundredths of the twelve thousand State banks now doing business are ready to faint with horror at the idea. Having certain advantages in the possession of State charters — mostly in the way of loose control and the privilege of unsafe banking practice — they do not propose to give them up, *coelum ruat*; and then some.

HEREIN, indeed, is the milk in the cocoanut: short-sighted and inordinate selfishness on the part of the dominant element in American banking. First of all there is the desire of the average small town banker, doing business under a State charter, to retain an unfair — and unsafe — advantage over a rival, usually a national bank. His national bank rival insists upon the right to meet competition by practices equally unfair and unsafe. In this ri-

valry each is equally ready to defy the law, if any, which would prevent unsound banking. Under this rivalry each insists upon the right to control his bank notwithstanding law, public policy, or the good of the general public. Admitting that many of their practices are unsound — and results demonstrate that they are unsound whether it is admitted or not — they hope some way or other to get by in so doing — drifting, drifting, drifting in a leaky boat in a boisterous sea with a rocky shore ahead of them strewn with the wreckage of ten thousand banks destroyed in ten years.

Then there is the matter of jobs — just plain, everyday jobs. If all hearts were open, all desires known and no secrets hid, how many bankers would be found opposing branch banking, for example, for fear that branch banking or bank mergers would swallow up their own positions? How many bank officers have unwillingly followed unsafe banking practices at the behest of interests which control jobs in the bank? How many bankers have lost their property, their positions in their communities, their honor, their all and the all of many of their depositors in a vain effort merely to hold their jobs? How many big frogs in little puddles have risked everything for themselves and their clients for fear of becoming small frogs in big puddles?

Consider the narrow-minded, parochial outlook of the great majority of small town bankers which only too many of their large town colleagues are by way of sharing if not exceeding. How many of the average run of bankers operate their institutions as parts of the great national credit and financial system which they undoubtedly are whether so recognized or not? How

many of them have the vision to see, beyond the limits of their own little bailiwicks, the larger movements in trade, finance and industry which in reality mark the success or failure of their own operations?

Of course too much must not be expected of bankers any more than from any other class of citizenry. Bankers are quite human; most of them, in fact, rather ordinarily human. In evaluating replies to such questions as the above, due regard must be had for the weaknesses and foibles of human nature in every walk of life, in every country and in every age. Were most of us in bankers' shoes, it is quite probable that we would be found doing exactly what the banker is now doing. Pleading the foibles and weaknesses of human nature, however, is no justification for a continuation of a state of things which threatens the well-being of a nation; nor can any amount of explanation as to why things are as they are furnish a satisfactory excuse for their being so. Moreover, if bankers were actually profiting by a continuance of present conditions, the explanation might be more convincing. On the whole it is probable that no class of people suffers more from the present state of American banking than American bankers themselves.

The fact is that a continuation of present banking methods under the existing anomalous system or lack of system is of advantage to no one in the long run. Everybody, in the long run, would be better off under a unified, safe, national system. Such being the case one is led to inquire how and why things are allowed to go on as they have been going. Can bankers see what is to their own best interest? To put the

question bluntly, are bankers intelligent? The long course of banking disasters in the past ten years, the vast majority of which have had no connection whatever with business depression, renders the question less impertinent than might at first appear. On the whole, perhaps, we may conclude that the banker is intelligent, but this conclusion is predicated upon the condition that he change his views of things and his way of thinking and be right quick about it. There can no longer be any question that there is something radically wrong with the American banking system which, judging by the experience of other countries, intelligence can locate and correct.

It would seem to be the part of intelligence on the part of the average banker to see to it, for his own peace of mind, for the sake of his own investments, his own reputation, his own job, not to mention his duty to the public, that present evils are corrected; and to sacrifice, if need be, small present interests for larger and more permanent interests. Present reluctance on the part of the bankers of the United States to accept bank reform not only threatens the soundness of American finances and the well-being of every man, woman and child in the country but also stands as a monumental exemplification of a crass lack of appreciation of their own position. Bank reform will come promptly when bankers agree to it. The best measure of bank intelligence at the present time is an intelligent appreciation of the fact that the régime of irresponsible picayune banking must be done away with if the banking fraternity is not to suffer the consequences of the wrath of a long suffering, outraged and no longer patient people.

How Long, O Prohibition?

BY HERBERT BRUCKER

How soon can we reasonably expect to be rid of the Eighteenth Amendment?

THROUGH all the tumult and the shouting over Prohibition the real issue is often lost to sight. We forget, in the scuffle over repeal versus resubmission versus modification and all the rest, that the issue remains this: will the Eighteenth Amendment and Volstead Act disappear?

Curiously, no analysis of the facts bearing on a change from Prohibition has been made. We have simply stood by and noted an amazing shift in the public temper. Acceptance of Prohibition as eternal has given way to a conviction that sooner or later Prohibition will be done away with. The Drys stand nonplussed at desertions from their cause. The Wets expect Prohibition to vanish almost of its own accord.

This transformation in national sentiment began, in so far as one can catalogue its origins, with the Presidential campaign of 1928. Al Smith made liquor an issue. When he was licked, the Drys said the issue was dead. It wasn't. It became more alive than ever in 1930, when three Congressional committees held hearings bearing on Prohibition, and when the *Literary Digest* conducted its

second poll of Wet and Dry opinion. Since then an avalanche of Wet victories in local primaries and elections has come crashing down upon the bewildered candidates of the Drys. Mr. Rockefeller has announced his conversion from bone-Dryness to repeal. And both national parties have given Wet promises that are historic.

In writing their Prohibition plank at Chicago the Republicans hesitatingly erected a monument to an Unknown Amendment, which was defined so vaguely that the Republican voter still wonders where his party stands. But whatever it may be for, this plank is unmistakably against Prohibition as we now have it. The Democrats, in their Convention, came down with both feet on repeal, to the accompaniment of roars and whoops that sounded like the crack of Prohibition's doom.

Both parties, in other words, have climbed down from their sanctimonious perches on top of the Eighteenth Amendment. Even though no one but an editorial writer or a simple-minded voter takes a political platform seriously, this is an event of cosmic proportions. It is more than an all-conquering Dry