

Toward banking reform

BY ELGIN GROSECLOSE, '20

Norman, March 9, 1933

EVENTS of the past five days have rudely awakened the American people to the grave weaknesses of our banking system, and made them realize that our economic system is no stronger than its weakest link. By the time this appears in print steps will have been taken to cope with the immediate situation; but before banking will again command universal confidence, measures of a more fundamental nature will be necessary. The collapse of our banking system was not the result of immediate causes—it may have been precipitated, like the World War, by obscure incidents, or by temporary forces of panic psychology—but was the result of deep rooted evils of long growth. Any program that may be proposed will be lacking validity that does not view the problem from the heights of historical perspective.

We as a people live under a money economy unexampled in history. From a self-sufficient pioneer people, making with our hands most of the articles of daily use, with an economy so simple that wampum and tobacco could serve as media of exchange, we have become so dependent upon money to support our ordinary transactions that within twenty four hours after the closing of the banks millions go hungry for want of a nickel to buy a loaf of bread.

There is nothing wrong in principle in a money economy—it represents, without doubt, a high state of civilization—but it is a complex system and requires, in the aggregate, a very stable machinery to administer it. It requires, essentially a great vitality and impermeability in our money mechanism.

The paradox is that among a people that has increasingly relied upon money to facilitate its commercial exchanges, the monetary mechanism has been progressively weakened and deteriorated, until it has no longer been able to withstand the strain.

This weakening began with the great westward expansion of the seventies, when producers both agricultural and industrial, anxious to obtain tools and implements, or anxious to obtain better prices for their products, raised the cry for cheaper money.

This cry crystallized into a demand for the free coinage of silver. At that time the principal function of banks was the issuance of notes rather than the receiving of deposits, and payments were generally made by cash rather than by check.

The demand for the free coinage of silver was successfully resisted and the issue definitely settled in the campaign of 1896. It is still argued whether the issue failed because of popular conviction on its merits, or because of a pre-election rise in the price of wheat. It did not matter, for a new instrumentality of payment was being introduced that supplied the people with more purchasing power than had all the silver won from the mines been coined into dollars.

This instrumentality was the bank check, or bank credit, and in a few years for the cry of "cheap money" had been substituted that of "easy credit."

In "deposit credit" was an instrument for the creation of purchasing power comparatively unlimited. To issue bank notes a national bank had to have government bonds to an equivalent value deposited in the federal treasury; but a deposit credit could be created with only a cash reserve of 25 per cent. With growing familiarity with checks, these instruments became the equivalent of cash, and the money fund of the United States might be said to be represented by the money stock in circulation plus the total of demand deposits. While the money stock increased but moderately through the years, deposit credit grew like a mushroom—expanding eleven times in the thirty years 1870-1900, and by seven in the thirty years 1900-1930. This was a far greater expansion than the industrial or agricultural growth of the country.

With the enactment of the Federal Reserve System the reserve requirements for national banks was reduced from 25 per cent (15 per cent for country banks) to 18 per cent, 15 per cent and 12 per cent, according to the classification of the bank; and in 1917 the requirements were still further reduced to 13 per cent, 10 per cent and 7 per cent. To the dilution permitted by laxer reserve requirements was added that derived from a wholesale re-

classification of demand deposits into time deposits (on which the reserve requirement is only 3 per cent). Between 1914 and 1931 proportionate reserves had declined 34 per cent, while deposits increased 300 per cent; by 1930 we had arrived at a total of \$32,000,000,000 net deposits in member banks supported by reserves of vault cash and Federal Reserve funds of only \$2,900,000,000, or 9 per cent.

We have, in fact, been going through an inflation in our monetary mechanism comparable in character, if not in degree, to that which occurred in Europe after the World War. The difference between American and European inflation is that European currency was based upon government credit, the American currency based upon private credit. In place of legal tender currency supported by gold and United States Government bonds, or deposit currency based upon substantial cash reserves, we had reached the point where our economic structure was maintained by a deposit currency supported almost wholly by individual credit instruments, and much of these of doubtful quality.

The amount of credit made available by the reduction in reserve requirements could not be properly absorbed in commercial transactions, for our industrial growth had been at a slower rate. Easy credit makes judgment dear, and banking judgment, with such tremendous lending power at its command, lost its powers of discrimination. This was complicated by the wholesale disturbances of values—particularly land and securities—resulting from the trading activity engendered by easy credit.

Instead of hard cash and sound commercial instruments behind deposits, bank portfolios were loaded with doubtful paper of concerns riding the waves of boom times, with real estate mortgages, installment paper and bonds of uncertain character.

The first question that must be answered in any long range planning is whether our system of payments built upon private credit is fundamentally sound. Universal experience has come to condemn money backed only by government credit—such as greenbacks, irredeemable francs and marks currency. Must we come to a similar conclusion as to our system based upon private commercial credit?

One great evil which has been made grimly apparent is that a money system built upon confidence is built upon sand. The sands run out and the foundation sinks, toppling our whole economic structure like an Egyptian monolith. In a world in which our whole system for supplying human wants is based upon the smooth functioning of money, should we trust the strength of our money to the vagaries of public confidence? Confidence

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Jazzbo, which was not so bad himself fer a quarter. When I come up Jim was a-waitin' with the pack at his heels.

"When we got to the hills the sun was jist comin' up and what should we see a-standin' there on the hill but Ole Bob. We stopped and Jim said kinda like he was a-seein' him for the first time: 'Ole Bob.' We set there on our hosses and watched the old fella for some minutes while the dogs was a-payin' their respects to the carcass of a old dead steer. He stood there and looked at us in the same old way of his'n. We was both a-wonderin' the same old thing; whether their ears was cropped and whether that tail was bobbed and what made him so big. I guess he was thinkin' 'well there's them fool men agin that thinks they got some runnin' dogs—I was jist needin' a little exercise for my digestion anyway.'

"Jim looked over at me and said: 'No use a-gettin the dogs tar'd out on that _____.' I said, 'No I reckon not.' Then ole Spot scented him—the wind was favorin' us. It was the same story. He jist waited till the dogs got mighty nigh on him then he turned and run off, the dogs a-snappin' at his rear, it seemed like. Jist as we had done a hundred times we loped to the top of the hill and aimed to set and wait for the dogs to come a-pantin' back. But when we got there we didn't see him. We looked around. There was a old corn field at the foot of the hill, which had belonged to a farm that had been 'thrown out,' and there was the pack runnin' down the middle of it, and Ole Bob about forty yards ahead of 'em.

"The field was about a quarter of a mile across, and at the other side was a ditch about five feet deep and about ten wide. We stopped, cause we knowed he aimed to pull a fast one. He would make the ditch and then run along it and come out way down at the end, and the dogs goin' as fast as they was, and running by sight, would pile up in the ditch and when they got untangled would run straight ahead, while Ole Bob would climb out way down the ditch and trot off about his business. He aimed to pull a shanani-gan—didn't feel like playin' this mornin'.

"But right here's where that Fate you read about comes in. The little trick worked. Purty soon we seen Ole Bob climb out of the ditch way down the ravine and stand there, with his tongue out and lookin' back. With his tongue out that a way he looked like he was a-laffin'. We wondered where the dogs was—we guessed they was kinda gettin' untangled in the bottom of the ditch, when that Fate come in. She musta bin a-straddle of the oneriest dog in the outfit; a big Scotch deer hound, ole Snow, which was pure white, and had never ketched nothin' more than beef scraps at butcherin' time. He was fast as hell, and would run a jackrabbit clean out of the country, but he always laid back when the pack run ole

shep; but savage as hell at the kill, and growled like he was mean.

"Imagine our surprise when somethin' white come out of that ditch right on top of Ole Bob. We figured afterwards that Ole Snow was on him before he knowed it and Snow bein' scairt to death jist set in to fightin' like a 'possum that is cornered. Well, him and Ole Bob mixed it. Ole Snow was big and strong, and he could fairly fight when he had to, er when he was scairt like he was now.

"We poured in the steel and got to the fight about the same time as the rest of the pack. Now, I've seen some fights in my time, but I never seen one like that Ole Bob put up. Yu know when a pack hits a coyote, he goes down and up again two or three time before he is finely kilt. But not Ole Bob; he wasn't down once, but ever dog in the pack was down more than once. Well we had to help the dogs kill him. I believe he would have whupped that whole pack, and Jim thinks so too. Finely he was stretched out there in the long grass, and the dogs was a-layin' around lickin' their wounds, and me and Jim was blowin' too. My pants was ripped down the leg, and Jim's hand was cut.

"We throwed him on the saddle and started hime—no more runs that day, and as it turned out no more runs for several months cause ever dog in the pack was cut up purty severe, and we had to go back after ole Dan and Socks in the wagon—they jist couldn't make it.

"As we rode along slow so the limpin' dogs could keep up we wondered why ole Snow had run down the ditch, and we come to the conclusion that they musta bin a rabbit got up jist as the dogs pulled in, and ole Snow preferred rabbit to coyote so he got unscrambled, him a hangin' back a little too, and took down the ditch after the rabbit right onto Ole Bob, and both of them was surprised. But if Ole Bob had played as he usually did he would be singin' to the moon yet, I guess. I don't know what was the matter with him that morning, unless as Jim said, he musta had a double breakfast.

We stood there in the sun for a short time in silence. Ed was studying the end of his Saturday afternoon cigar, which had gone out during the recital, then he pushed his hat back on the back of his head, took out his knife, squatted on his high heels and picked up a piece of a pine box which had fallen into the gutter. He said as if reminiscently, "I was ridin' that country the other day lookin' about some strays. Yu know it's kinda funny not seein' that big wolf standin' on the point of the hill, a-looking as if he owned the Osage. He weighed over fifty pound—haint never seen his match—don't guess they make a common coyote any bigger. Seemed like I could hear them teeth of his'n comin' together when he missed a foreleg du-in' the fight, and them yellow eyes of his'n that made you feel kinda funny after he was stretched out there in

the grass—seemed like them eyes was a-sayin' that he hadn't quit yet, even if they wasn't much left of him but some yellow hair matted with blood."

During the short silence that followed he had shaped the piece of pine box into a smooth peg. He arose, put his knife back in his pocket, pushed his big hat forward and looked up the street, squinting as he would squint riding across the prairie when the sun was bright. Then with a touch of embarrassment: "Yu know I wish he was still kinda a-Kingin' it over them hills—shore wish we hadn't ketched him." Then after a brief pause: "Shore'n hell do."

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TOWARD BANKING REFORM

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is something that exists within the secret chambers of the individual; it is amenable to no law; it accepts no regulation. Like the gourd of Jonah, it covers us with its shadow, and by night it is withered by a worm.

Would we not, therefore, strengthen our whole economic structure by abandoning credit money and returning pretty much to a hard money basis, much as in Europe where payments by check are practically unknown?

With an economic machine geared to a deposit money mechanism of fifty or sixty billion dollar capacity, it is apparent that a return to a hard money basis, if not actually impossible, would prove even more disastrous than the collapse of the deposit money mechanism.

The solution to the problem would therefore seem to be a *rapprochement* of the two concepts; i.e. restriction of our credit mechanism to limits supportable by sound money, and expansion of our currency base by conservative means.

The senior Senator from Oklahoma, with a statesman's foresight, has long held the thesis that there is an inadequate supply of actual currency in the country. Over ten years ago, to the writer's knowledge, when the present collapse of banking was something far under the horizon, Senator Thomas was deeply concerned with the problem of an inadequate currency.

With modifications in our banking laws increasing the reserve requirements to be held against deposits, in order to prevent any increase in currency from being used by the banking system to inflate credit, measures to increase the government backed currency should command approval.

The emergency enactments, providing for the expansion of the currency by the issuance of Federal Reserve notes backed by a wide list of bank assets, is an acknowledgment that our present credit money system has grown too large to be

supported in time of stress by the currency existing or creatable by the Federal Reserve mechanism, and to this extent confirms the views held by Senator Thomas.

In the long range planning that must follow these emergency measures, it would seem that the following must be taken into consideration:

(1) Return to the higher reserve ratios prevailing prior to the Federal Reserve System, in order to restrain the speculative credit excesses such as that through which we have passed, and to prevent a recurrence of deposit currency inflation.

(2) Since assets other than cash are wasting assets; i.e. subject to loss, the "cushion" of bank capital should be strengthened by minimum capital requirements in relation to deposits. Banks may be closed through inability suddenly to convert sound assets into cash, but banks become insolvent through wasting assets until there is no margin of reserve behind deposits. It is in this latter class of cases that the immense losses to depositors have occurred.

(3) Unification of state and national banks under a single system. There can

be no effective credit control under 49 separate banking systems.

(4) Modification of Federal Reserve theory to permit wide discretion to Federal Reserve banks in the kind of paper they may discount, in order that the full power of the system may be thrown behind solvent institutions. At the same time give them greater discretionary power as to the amount of discounting they shall do for member banks. This would enable the System to exercise a closer control over the use of credit by preventing banks in commercial centers from overextending merely because they possessed large quantities of the narrow classification of paper at present eligible, and allow banks in other communities to receive Federal Reserve aid when needed.

(5) Fuller bank statements, at least as full as are now obtainable from Canadian banks, should be required. Secrecy breeds distrust and encourages lax banking; complete frankness engenders confidence. While it is impossible to give a complete picture of a bank's condition in a statement, yet statements can be drawn that will give to the intelligent person a fairly representative picture. The chief effect will be its influence upon bank management.

MITCHAM-LESLEY: Miss Emily Maranda Mitcham, '31as, and H. G. Lesley, October 24, 1932. Home, 1801 Tilden, Wichita Falls, Texas.

WHITE-HUDIBURG: Miss Bernice Johnnie White, '28as, and Joseph A. Hudiburg, December 29, 1932 at Shawnee. Home, Cromwell.

JORDAN-WELCH: Miss Mary Virginia Jordan, '31as, and Taft Welch, January 16, 1932. Home 1547 South Gary, Tulsa.

BICKETT-LENDERKING: Miss Edna Bickett, '31bus, and Howard Lenderking, '31eng, February 19, in Baltimore, Maryland. Home, 25-A Shaler Lane, Cambridge, Massachusetts.

CREWS-KIEL: Miss Alberta Crews and William J. Kiel, '31geol., August 6, 1932 in Kansas City, Missouri. Home, 915 Avenue D., Ft. Madison, Iowa.

MANN-KELLEY: Miss Ruth Margaret Mann and Verdene Kelley, '31ex, January 31, 1932, at Lake Charles, Louisiana. Phi Kappa Sigma. Home, Conroe, Texas.

BOLTON-AGENT: Miss Phyllis Bolton, '33as, and Paul Agent, '33as, February 3 in Purcell. Kappa Kappa Gamma. Home, Logan apartments, Norman.

GRIFFITH-EBBS: Miss Maomi Griffith, '32nurse, and Robert E. Ebbs, '33eng, February 3 in Norman. Home, 129 West Eighteenth street, Oklahoma City.

MCCRAE-COATES: Miss Eunisa McCrae and John J. Coates, '27as, February 11, in Kansas City. Phi Delta Theta. Home, 2506 North Robinson, Oklahoma City.

LESSERT-BALDWIN: Miss Cynthia Pearl Lessert, '34ed, and Elbert Baldwin, '36as, February 8 in Oklahoma City. Home, Norman.

VAN DYKE-SHAW: Miss Marguerite VanDyke, '26as, and M. A. Shaw, February 14. Home, 252 One Hundred and Fifth street, New York City.

EDWARDS-GALE: Miss Nora Elizabeth Edwards, '29B.S., and Filbert Gale, October 25, 1932 in Paris, Texas. Home, 347 Thorman place, San Antonio, Texas.

HARRISON-HUSTON: Miss Marguerite Harrison, and Dix Huston, '32bus, February 26. Home, 1404 West Twenty-third, Oklahoma City.

PHELPS-FROST: Miss Carie Alice Phelps and Paul Karl Frost, '27ex, January 27. Home, Oklahoma City.

PHELPS-DAVIS: Miss Madge Phelps and William Bygate Davis, '31ex, January 27, in Oklahoma City. Home, Tyler, Texas.

KELLNER-BALL: Miss Sarah Mae Kellner, '30ex, and Ralph M. Ball, February 11. Home, 32½ College circle, Stillwater.

BOHART-MANAR: Miss Ada Louise Bohart and Thomas G. Manar, '31ex, January 13. Delta Chi. Home, Tahlequah.

BIRTHS

Lynn Abbott, '30as, and Mrs Abbott, a son, Bob, December 25, 1932. Home, 809 West Elm, Durant.

Dr. J. I. Payte, '30med, and Mrs Payte, a son, Tom, July 7, 1932. Home, 1304 North-east Eighteenth, Oklahoma City.

Mrs Theitis Curreathers Montgomery, '25ex, and R. Place Montgomery, '25law, a son, Robert Place, jr., May 2, 1932. Home, 218 South Bailey, Hobart.

Jess C. Wesner, '27 law, and Mrs Wesner, a daughter, January 31, 1933. Home, 707 North-west street, Cordell.

Neal Sullivan, '22as, '24law, and Mrs Sullivan, a son, November, 1932. Home, Newkirk.

William B. Thompson, '25as, and Mrs Thompson, a son, Thomas Edward, June 18, 1932. Home, 922 East Cypress, Altus.

Mrs Nellie Clark Clark, '23as, and Frank T. Clark, '22sc, a son, Frank Halstead, January 10, 1932. Home, 1320 Johnstone avenue, Bartlesville.

Clyde B. Tinkle, '21pharm, and Mrs Tinkle, a son, February 5, 1933. Home, 837 Southwest Twenty-ninth, Oklahoma City.

Sooner roll call

DIRECTORY CHANGES

George M. Bell, '30geol, Box 368, Houston, Tex. Mrs Ruth Little Clark, '31as, 303 West Washington, Purcell.

Fay Coil, '30eng, '32M.S., 107 "B" Northeast, Miami.

Gladys Cox, '23as, '25fa, 403 East Third, Edmond.

Mrs Ruth Runyan Crawford, '32as, 19 South Knoxville, Tulsa.

Hughes B. Davis, '17as, 938 Dixie Terminal Building, Cincinnati, Ohio.

George W. Day, '07pharm, Ft. Scott, Kansas.

Clyde C. Ferguson, '26eng, Marlow.

Vernon H. Fielding, '19ex, 310 Military avenue, Dodge City, Kansas.

Dr. Clifford C. Fulton, '24as, '26B.S., Medical Arts Building, Oklahoma City.

James B. Henderson, '32law, 120 South "A" street, Herrington, Kansas.

Ralph W. Keahey, '25as, Bonham, Texas.

Mrs Laura Thompson McCall, '27as, Helena.

Agnes Maud Milam, '27as, 1120 Bedford drive, Oklahoma City.

David D. Morris, '21as, 857 Euclid avenue, Santa Monica, California.

Mrs Lois Goddard Morrison, '28M.S., Charleston, Arkansas.

Dale N. Morrison, '29M.S., Charleston, Arkansas.

A. Stiles Munneke, '32eng, Martha.

Claude Melvin Neal, '31law, Lovington, New Mexico.

Mrs Mary Staig Abernathy, '32fa, 4206 Baring, East Chicago, Indiana.

Beatrice Katherine Thurber, '32lib sci, 1808 Northwest Thirty-eighth, Oklahoma City.

Mrs Nellie Barnes Veatch, '25fa, Nana Kru Mission, Nana Kru, via Sinoe Liberia, West Africa.

Dr. Everett P. Veatch, '26med, Nana Kru Mission, Nana Kru, via Sinoe, Liberia, West Africa.

Robert A. Yoder, '27ex, 30 Broad street, New York City.

MARRIAGES

LEE-McDONALD: Miss Frances Lec, '31as, and Angus McDonald, '33as, August 1931. Home, 633 Jenkins, Norman.

DENNER-HOCKMEYER: Miss Ona Denner, '29as, and Paul E. Hockmeyer, '31eng, January 29, 1933 at Enid. Home, Kansas City, Missouri.

CALHOON-BROOKING: Miss Mildred Calhoon and Leslie E. Brooking, '31M.S., October 5, 1932. Home, Schmircker apartments, Miami.

ALLISON-WHITNEY: Miss Ethel Allison and Charles Sumner Whitney, jr., '25as, '31M.A., August 10, 1931. Home, 306 West Albuquerque, Roswell, New Mexico.

BILLBERG-STRATTON: Miss Karna Billberg and Dr. Forrest L. Stratton, '26med, September 2, 1932. Home, Kilgore, Texas.

RILEY-GOINS: Miss Rose Riley and James I. Goins, '28law, May 19, 1932. Home, Marietta.

REA-ERWIN: Miss Zo Rea, '23he, and P. D. Erwin, '11as, '12law, July 16, 1932. Home Wellston.

PURYEAR-PETERS: Miss Margaret F. Puryear, '29as, and Paul A. Peters, October 23, 1932. Home, Route 5, Wellington, Texas.