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AMERICAN BANKERS ASSOCIATION

I. General Position With Respect To Legislation

The American Bankers Association has opposed many of the principal alterations in banking, currency and financial law of the past five decades.

(a) Postal Savings

Postal Savings was established in the United States by legislation enacted on June 25, 1910, "after nearly forty years of discussion of Postal Savings in the United States, during which time eight Postmasters General had urged the establishment of Postal Savings Banks; after 80 bills had been introduced in Congress for this purpose; after all political parties had advocated such a system in their platforms; and after Presidents Roosevelt and Taft had urged the establishment of a Postal Savings System." (See "The Postal Savings System of the United States," American Bankers Association Committee on Banking Studies, at p. 7).

Both before the establishment of the Postal Savings System, and virtually to the present time, the American Bankers Association has officially opposed Postal Savings in general or particular phases of its operation.

The American Bankers Association opposed the establishment of Postal Savings Banks, condemning it as unwise:

"It is the opinion of this Association that we should condemn in unqualified terms the proposition for the establishment of Postal Savings Banks * * *." (Proceeding, American Bankers Association, 1909, p. 252)

Thus, the Savings Bank Division resolved that it

"depreciates the agitation for an enlarged system of Postal Savings banking paying an increased rate of interest, and hereby protest against any legislation to that end." (Proceedings, American Bankers Association, 1921, p. 198)

The Committee on Federal Legislation opposed the Steenarson Bill (to amend the Postal Savings Law by increasing the maximum deposit and the rate of interest to be paid to depositors) and adopted a motion to

"oppose any increase in the powers of the Postal Savings System including the rate of interest which they pay and

disfavor any compromise with the proponents of the Steenarson Bill by which the existing powers of Postal Savings Banks be in any respect enlarged * * *." (Proceedings, American Bankers Association., 1922, p. 119).

As late as December 1935, the Association passed a resolution condemning as "inequitable" the "competition of the Postal Savings System with privately-owned banks through the relatively high interest rate and liberal interest privileges allowed its depositors."

(b) Guarantee of Bank Deposits by the Federal Government

The demands for insurance of deposits were virtually as old as that for establishment of a Postal Savings System. The American Bankers Association has at all times opposed the institution of a deposit guarantee system, and the establishment of the Federal Deposit Insurance Corporation by the Banking Act of 1933 was insufficient to quell the opposition of the Association.

The American Bankers Association successfully resisted all early attempts to guarantee deposits. Its legislative committee reported that it was:

"opposed to the guaranteeing of deposits by either State or Federal Government." (Proceedings, American Bankers Association, 1908, p. 283)

Its report was adopted and the Association stated that it was:

"unalterably opposed to any arbitrary plan looking to the mutual guaranty of deposits either by a state or the nation, believing it to be impractical, unsound and misleading, revolutionary in character and subversive to sound economics, placing a tool in the hands of the unscrupulous and inexperienced for reckless banking, and knowing further that such a law would weaken our banking system and jeopardize the interest of the people." (Proceedings, American Bankers Association, 1908, p. 286).

Similar opposition was voiced in 1909 (Proceedings, pp. 250, 260). After the adoption of the Federal Reserve System, attempts were again made to provide for the guaranty of deposits. Again, the Association objected. Its Federal Legislative Committee reported:

"As our Association is on record, by resolution, as opposed to the guaranty of bank deposits by the States or by the Nation, we have opposed the bill introduced in the last session, providing for the guarantee of deposits in banks of the Federal Reserve System. *** This bill *** is a measure which, if enacted into law, would seriously affect the banks of this country." (Proceedings, 1932)

and in 1933:

*** the American Bankers Association hereby records its deliberate judgment that the dangers involved in attempting to initiate at the beginning of 1934 the provisions for deposit insurance contained in the Bank Act of 1933 are genuine and serious. ***." (Proceedings, 1933, p. 36)

The President of the American Bankers Association, urging members to telegraph to the President recommending veto of the deposit insurance provision of the Banking Act of 1933, stated:

"The guaranty of bank deposits has been tried in a number of states and resulted invariably in confusion and disaster to the financial structure of the states, and if our party when returned to power should incorporate such a scheme in the federal organization, we would drive the strongest member banks from the Federal Reserve system."

An editorial in the American Bankers Association Journal for June 1933, at page 28, took the position that:

"It is entirely possible that the unwarranted burden that the [deposit insurance provisions] of the [Banking Act of 1933] would place on good banks might threaten the stability of the entire banking structure."

The President of the American Bankers Association stated that the scheme is not "different in essential purpose from the guarantee of deposit schemes that have been tried in eight western states and invariably failed," and that "the Economic Policy Commission of the American Bankers Association has just completed a partial restudy of the history and results of the deposit guarantee plans and the simple facts of these cases put them beyond the pale of sound remedies for the banking problem." (See address published 56 Trust Company 680 (June 1933)).

The American Bankers Association remained skeptical of the Federal Deposit Insurance in 1941 when it was stated by its research council, in reply to a questionnaire of the United States Senate Committee on banking and currency "Federal Deposit Insurance must still, in view of previous experience with state funds, be considered as experimental and not tested in the crucible of experience under varied economic conditions."

(c) The Federal Reserve System

The Federal Reserve System was an outgrowth of proposals for central reserve banking facilities which had been pending for many years. The first action by the executive council of the American Bankers Association approving any central reserve system was in 1911. At that time, the president of the association pointed out that:

"It is almost inconceivable that bankers should have taken thirty-seven years in coming to some solution satisfactory to themselves, and it is to be hoped that the present convention will give its approval of the action of the executive council in such a positive way that the whole country will understand that the bankers have at last agreed with practical unanimity on the cause of the trouble and the remedy."

The measure approved by the Association was however not acceptable to the Congress and new measures were introduced by Carter Glass, Chairman of the House Banking and Finance Committee. The Glass measure which was the basis of the Federal Reserve Act was disapproved by the American Bankers Association apparently for the reasons, among others, that investment in the stock of the Federal Reserve Banks was compulsory, and the individual banks had a minority representation in the Federal Reserve Banks and no voice whatever in the selection of the Federal Reserve Board. ^{1/} (See Proceedings American Bankers Association, 1913, pages 64-65, 75)

1/ In reporting on the Glass bill to the American Bankers' Association, its Currency Commission stated:

" *** The question is asked, 'Why, if the bankers approved such provisions in the so-called Aldrich bill, do they oppose similar provisions in the so-called Glass-Owen bill?' This is the reason:

"(a) Investment in the stock of the Central Reserve Association created by the bill of the National Monetary Commission was permissive, not compulsory; banks might invest in the same if they chose, or they might decline the opportunity, in accordance with the dictates of their business judgment.

The American Bankers Association then presented certain amendments to the Committee on Banking and Currency for the purpose of partially restoring the features which it deemed desirable. (See Proceedings, of the American Bankers Association, 1913, at pp. 112-13.

The basic objections by the American Bankers Association were, however, not met in the Federal Reserve Act as enacted.

Today the American Bankers Association apparently has on the whole approved the Federal Reserve Act as relatively good legislation. See, for example, statement of Mylander, representing the American Bankers Association, in Hearings before Committee on Agriculture, 76th Cong. 3d Sess. on H.R. 8748 (1940) at p. 444.

Continuation of footnote 1/ from p. 4.

"(b) Under the terms of the bill of the National Monetary Commission, the bankers controlled the management of the Central Reserve Association. It follows that an investment in the stock of the Association was an investment under their own control and management. On the contrary, investment in the stock of the Federal Reserve Banks of the Glass-Owen bill is compulsory. The individual banks have a minority representation in the management of these Federal Reserve Banks and have no voice whatever in the selection of the Federal Reserve Board, which dominates the Federal Reserve Banks, and the proposed measure only provides that one of the seven members must have banking experience.

"The fact that the bankers controlled the Central Reserve Association was a guarantee against political control, and it was equally a guarantee against incompetent management—two important respects wherein the pending measure is lacking." (Proceedings, American Bankers Association, 1913, p. 75).

(d) General Philosophy of the American Bankers Association in Connection with Legislation Involving Extension of Governmental Credit or Governmental Expenditure.

The general attitude of the American Bankers Association with respect to the extension of credit by the United States Government is somewhat indicated by the "statement of A.B.A.'s position on socialized credit."

"The American Bankers Association has long been opposed to the socialization of credit by the Government. By socialization, we mean the extension of credit and the making of loans by the Federal Government with costs and losses paid out of the Federal Treasury either directly or indirectly. Our position supports the stand maintained by leading farm organizations as they oppose the control of agricultural credit by political forces.

"It is recognized that direct relief by the Government in times of serious economic stress may involve some granting of loans from public funds as a temporary emergency expedient. However, the continued practice of making uneconomic loans from public funds, without the adequate consideration of the ability of the borrower to repay and with the losses socialized at the expense of the taxpayers, violates the principles on which credit rests and thereby endangers the foundation of a sound credit structure." (Resolution at the closing session of the wartime service meeting, September 15, 1943)

II. Tactics And Interest Of The American Bankers Association In Connection With Legislation

(a) Dilatory Tactics in Opposition to Legislation.

Although the question of a guarantee of deposits had been discussed from time to time since 1908, the 1933 report of the Economic Policy Commission recommended:

"that the official representatives of this association be directed to urge upon the National Administration at Washington the desirability of postponing by legislation or otherwise the initiation of deposit insurance until an adequate study and report can be made of the probable results that would follow the putting into effect * * * the provisions of the new banking law * * *" (Proceedings American Bankers Association, 1933, p. 34).

This report was favorably adopted. Likewise the Association adopted the Report of the Committee on Resolutions which stated that:

"We recommend to the National Administration at Washington that it seek means for postponing the initiation of deposit insurance * * *.

"* * * means should be found to postpone action in putting into effect the proposed measures for deposit insurance * * *."

It also took the position that:

"the whole project for deposit insurance * * * should be reconsidered * * * and * * * reiterates its conviction that the postponement of the first phase of the project is of the first importance." (Proceedings, 1933, p. 36)

The action taken by the Association in connection with the various currency reforms furnishes the most striking illustration of its technique in delaying legislative action. The President of the Association in his annual message to the convention in 1911 stated:

"It is almost inconceivable that bankers should have taken thirty-seven years in coming to some solution satisfactory to themselves" (Proceedings, 1911, p. 59-60).

The Association sought to minimize the need for the Banking Act of 1935:

"It is not our opinion that an emergency exists which makes it immediately necessary to have this legislation. (Statement of the President, Hearings before a Subcommittee of the Committee on Banking and Currency, U. S. Senate, 74th Cong. 1st Sess., on S. 1715 and H.R. 7617, at 515),

(b) Indirect Opposition to Legislation

At times the Association has found it advisable to adopt a more indirect approach:

"In the submission of this report the Legislative Committee in asking for its approval in very mild and polite terms condemns postal savings banks, but it also recognizes as inasmuch as two political parties have spoken for it, it is unwise for this Convention to place itself on record in offensive terms against that proposition if they seek to accomplish anything with the legislative authorities in shaping the law, if we must have the law. (Proceedings, 1908, p. 292)

and adopted a Resolution

"that the American Bankers Association welcomes all legislation that adds to the security and advancement of the business of the people, but deems the proposed plan of guaranteeing bank deposits and of establishing government savings banks as unwise and hurtful." (Proceedings, 1908, p. 293)

In 1910 the Postal Savings Committee reported as follows:

"As it became more and more evident that an attempt would be made to pass a postal savings bank bill your Committee urged upon the various Clearing House Associations of the country that they take action looking toward a delay of the matter." (Report of Postal Savings Bank Committee, Proceedings, 1910.)

The Bretton Woods proposals are not the first the Bankers Association commend in principle, but object to in methods and procedures. It favored

"the aims andmost of the provisions of the Glass Bill, but is opposed to the new insurance feature that has been incorporated in it." (The American Banker, May 17, 1933, p. 1).

(c) Preference for Self-Regulation

R. G. Page, Chairman, Committee on Mortgage Trusteeships of the Trust Division of the American Banking Association, Bankers Trust Company of New York, testifying at Hearings before the Subcommittee and the Committee on Banking and Currency, Senate, 76th Congress, 1st Sess. on S. 477, said:

"As I stated in my testimony on the bill in the previous session of Congress, trust institutions do not welcome Federal regulatory legislation of this type. The American Bankers Association does not believe that the bill is necessary. It would have preferred to continue its efforts to bring about a satisfactory system of voluntary control, similar to that now in use in connection with personal trusts, and throughout the committee's discussion of the subject I have so indicated to the Securities and Exchange Commission. * * *."

In the annual address of the First Vice-President of the American Bankers Association (1913) at pp. 64-65, it was stated that:

"We are loath to believe that the integrity and the patriotism of bankers are regarded with suspicion by our lawmakers; or that it is believed that bankers are not to be trusted in the management of their own business through which the needs of the commerce of the country have been so ably served in the past; or that it is believed that banking should be more restricted than other classes of business, except as to supervision; or that the experience of bankers in their chosen profession should not be of value in the preparation of a new law; or that in the pursuit of politics the best thought of the country on so important a problem will not be given fair consideration.

"It is hoped, then, that the final results obtained will be such as will permit bankers to retain their self-respect in the control of their own property and to transact business under conditions at least as favorable as is provided for State institutions, through which so large a percentage of the business of the country is now satisfactorily handled. * * *." (Proceedings, 1913, pp. 64-65)

The American Bankers Association disapproved of the Glass Steagall bill, which became the Federal Reserve Act because it did not embody the principle of self-regulations (Part I above). Farm Credit legislation has been disapproved because it involves the establishment, continuance, or enlargement of federal credit facilities or the use of boards upon which bankers are not fully represented. (See Hearings before the Committee on Agriculture on H.R. 4384, 78th Cong. 2d Sess. (1944))

(d) Predictions of Undesirable Results

As early as 1898 the Association predicted that the establishment of postal savings banks in this country would be productive of much evil and lead to gross extravagance on the part of the Government.

(Bankers Magazine, Feb. 1898, p. 277). In 1908 it was resolved

"That the American Bankers Association condemns as unwise and hurtful all propositions to establish Postal Savings Banks", (Proceedings, 1908, p. 304).

A spokesman for the American Bankers Association stated with respect to the Federal Reserve Act that "unless the proposed regional reserve system was radically changed, its failure in actual operation would be as certain as that of a central bank from a political point of view." (American Banker, Sept. 6, 1913).

A resolution passed in 1908 opposed any arbitrary plan looking to the mutual guaranty of deposits:

"believing it to be impractical, unsound, economics, placing a tool in the hands of the unscrupulous and inexperienced for reckless banking, and knowing further that such a law would weaken our banking system and jeopardize the interest of the people." (Proceeding 1908, p. 286).

Fifteen years later the Association was still of the same opinion:

"The obvious injustice of penalizing good banking for the protection of bad banking, of hazarding the funds of sound institutions to cover the losses of the unsound, must be clear to any one who will give this matter impartial consideration. It is entirely possible that the unwarranted burden which this would place on good banks might threaten the stability of the entire banking structure. It is an impracticable scheme to salvage incompetency and failure in others that might imperil the very existence of sound and well managed institutions." (Statement of President American Bankers Association, The American Banker, May 17, 1933, p. 1).

After the enactment of the Soldiers' and Sailors' Civil Relief Act, the Association feared that lending institutions would be practically helpless when a mortgager would become a member of the armed forces. (Proceedings, A.B.A. 1912, p. 169). However, the following year, it was reported that less than one per cent of the total number of loans outstanding were delinquent because of the privileges granted by the Act. (Proceedings, A.B.A. 1913, p. 20).

(e) Protection and Awareness of Banking Interests

A past President of the American Bankers Association advocated the following legislative policy:

"For the protection of the interests over which we are custodians, it is one of the duties imposed upon us, which should by no means be neglected, to defend ourselves and our business from those who pander to the multitudes for selfish ends, and who seek to sway the people by vain-glorious oratory in their appeals to the prejudices of the people, whose suffrage, rather than whose welfare, they earnestly seek. (Proceedings, 1908, p. 42)

The Association has ever been on the alert to preserve and safeguard the interests of the banking fraternity.

"From time to time it is to be expected that changes will be made in the (Postal Savings Bank) law and it should be the self-imposed task of this Section to see that these changes are not inimical to the interests of its constituents; it is well within our provinces - - - to have a hand in shaping future legislation and in resisting as far as we may the encroachments of paternalism." (Report of Committee on Postal Savings, Proceedings, 1914, p. 175).

We must at all times keep a watchful eye upon the constantly recurring efforts to amend the Postal Savings Law. We should be broad enough to cooperate in making any changes for the common good, but should carefully guard the interests we represent from governmental encroachment." (Proceedings, 1915, p. 181).

" * * * A successful result was obtained in connection with the Philippine Bill. * * * As finally passed it provides for a more autonomous Government of the Philippines, but the threatened weakening of the security of American investments has been entirely removed and the holders of Philippine bonds are safe. In procuring this result our Committee were without doubt, very ably assisted by the representatives of millions of dollars of Philippine Railway bonds, and by large business interests that would have suffered by the termination of business relations existing between this country and the Philippines. * * *" (Report of the Committee on Federal Legislation, Proceedings, 1916, p. 126).

In recent years, the American Bankers Association has expressed the matter somewhat differently. Thus, for example, in the 1935 statement of position on socialized credit and government subsidized credit, it stated that

"The American Bankers Association will continue to present its position on these matters [i.e. credit by governmental agencies] before appropriate administrative agencies of the Government and before committees of Congress in an effort to secure the relief which is not only reasonable and proper but which is as much in the public interest and in the interest of farmers as it is in the interest of chartered banking.