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EDITORIAL

Mr. Taft and the History of Bank Deposit Insurance.

In his speech at Hot Springs on the 26th, Mr. Taft denounced Mr. Bryan's proposal to require the insurance of bank deposits; and in doing so he said:

I am told that such a law was in force in New York, and that the result was that when a panic ensued, the tax having been improperly calculated, there were not sufficient funds to pay the loss, but this I have only on the authority of a well known writer on the subject.

The evident purpose of this remark was to carry an implication that insurance of bank deposits had been once tried and had failed, and therefore that banking experience was a witness against Mr. Bryan. Unless this was its purpose, the remark had no point.

The "well known writer" to whom Mr. Taft refers and whom he would have named had he been altogether candid, was the late John J. Knox, a distinguished banker who for many years served in Republican administrations as Comptroller of the Currency. Mr. Taft's allusion is evidently to Mr. Knox's well known work, "A History of Banking in the United States." Reference to this valuable volume, from pages 390 to 429, shows that Mr. Taft has neglected to consult his authority with the care demanded of a man in his position who presumes to draw conclusions for public use.

What was called the "safety fund system" of New York was, according to Mr. Knox, to whom Mr. Taft alludes, adopted in that State in 1829. It was the dominant system until 1838, when the "free banking" system was introduced. As understood at the time of its passage, the safety-fund" law provided insurance for circulation only; but twelve years after its enactment, the courts held that the fund was responsible not alone for the circulation but for all the other debts of insolvent banks. Of course an insurance fund based upon only one class of obligations was not large enough for all obligations, especially under stress of universal insolvency. It failed to meet the emergency, just as accident insurance companies would fail to meet obligations if their premiums, calculated upon accidental deaths alone and in normal conditions, were in the end unexpectedly held by the courts to be responsible for all the deaths of a great epidemic.

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Until the very worst year of the hard times of 1837-42, in which all the business of the entire country was disastrously involved, the "safety fund" system of New York was a complete success. Investments in "safety fund" bank stocks were largely made; and, as Mr. Knox writes, "from the year 1829 to the year 1841, covering a period of twelve years' duration, the safety fund was not drawn upon, as no chartered bank became insolvent during that time." When the stress came, the insurance fund was indeed insufficient, but this was due, not to an improper calculation of "the tax," as Mr. Taft has it, but, as Mr. Knox clearly explains, to what he calls an "oversight or misunderstanding" with reference to the scope of the law. "If, as was the probable intention of its suggestor," says Mr. Knox at page 409, "the fund had only been drawn on for the redemption of the circulation of the banks that became insolvent, it would have been amply sufficient for the purpose." And at page 411 he further observes—a very important fact which Mr. Taft should have noticed but did not—that the lack of legal restraints upon circulation had forced a vast volume of unguarded fraudulent issues upon the insurance fund for redemption.

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According to Mr. Knox's conclusion, at page 413 of his book—which Mr. Taft should have read before he spoke,—it was "owing to defects in the practical application rather than in the principle of the safety fund act," that "the banks under the system were called upon to contribute

about a million dollars more than they would had the defects referred to been seen and obviated at the outset." That is to say, if the law had secured circulation only, the New York "safety fund" would have been adequate. It is evidently as true that if responsibility for all debts had been intended, the insurance percentage would have been larger and the fund consequently sufficient. The essential point, therefore, is that failure of the "safety fund" of New York at a time of stress, when everything else failed from one end of the country to the other, was due to an oversight in the details of law making and not to the principle of the plan that Mr. Bryan proposes. Even as it was, both depositors and note holders got much more of their money back than either would have got but for the "safety fund" which Mr. Taft so lightly condemns.

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Since Mr. Taft has ignored so much in Mr. Knox's history of the New York banks, in order to make a false point against Mr. Bryan's bank deposit insurance, he could hardly have been expected to consider the history of the banks of other States, though included in the same volume to which he resorted for the point he has tried to make. Yet Mr. Knox tells, at page 732 of his history, of the deliberate adoption of the New York "safety fund" plan by Michigan seven years after it had gone into operation in New York; and at page 355 he describes the adoption of the same plan by Vermont in 1831. In Vermont legal safeguards were established which had been omitted in New York. Not only was the business so regulated as to prevent fraud, but the insurance fund was required by the law to be large enough to cover deposits as well as circulation. In consequence, writes Mr. Knox at page 356, the safety fund law in Vermont "*proved satisfactory in its operations and raised the standard of banking throughout the State.*"

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Political Coercion of Workingmen.

Mr. D. M. Parry, whose bitterness toward workingmen's unions has brought down upon him a good deal of just condemnation, takes patriotic and righteous ground with reference to the custom of his party in coercing workingmen in politics, and takes it boldly. In a letter to Mr. Kern, the Democratic candidate for Vice President, he speaks of that subject in these words:

I have had a good deal to say in the past about the abuse of power by the labor unions—some people tell me I have said too much on the subject—but I have yet to say a word in favor of any abuse