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## Kansas Farming and Banking in the 1920s

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by Mary Scott Rowland

CENTRALIZATION OF SERVICES, the growth of professionalism, and the rise of regulation—the dominant themes of managerial progressive reform—were the major characteristics of Kansas state government in the 1920s. Increased involvement by the state in transportation, health, and social services was typical of the reform that occurred in Kansas. But while the state extended its jurisdiction into many new areas of control, banking and farming were two areas of economic enterprise in which the state did not succeed in either regulating or centralizing. Although trends did develop that would hasten control by the national government in later decades, Kansas farming and banking largely remained bastions of rugged individualism in 1930.

### Background

The issues facing Kansas bankers from their early development through 1930 are set against a background of national financial policies. The late nineteenth century was dominated by an economic philosophy of industrial capitalism and ambivalent *laissez-faire*. The extent of federal involvement was to aid private enterprise without interfering in business operations. Government, according to Paul Studenski and Herman E. Krooss, was to be a "subsidiary agent which should respond to business-commands and give business every required support."<sup>1</sup> In the twentieth century, the goals of federal involvement broadened, and the national government assumed permanent responsibility as a stabilizer of the economy. Parallel to the expansion of federal control over the economy was the expansion of state controls. In the previous century, states had ceased being active developers of enterprise and had tended to become its supervisors and regulators. By the twentieth century, states had assumed service functions previously held by local gov-

ernments, at the same time losing power over economic functions to the federal government. The basic trends in governmental activity in financial matters up to 1930 were a rise in government spending and taxation; the decline of the idea (but not the fact) of balanced budgets; the excess of federal money resulting in more grants being given to states for agricultural experiment stations, transportation, and vocational education; standardization and responsibility in financial administration; high and militantly protective tariffs; and tendencies toward the centralization of banking and monetary policies.<sup>2</sup>

For most of its history, Kansas has had a dual banking system. National banks have been operated within the state as private corporations organized and supervised by the federal government. For the first thirty years of statehood, Kansas had no general banking law for commercial state or private banks, no regulation or inspection, and no bank commissioner or reporting system.<sup>3</sup> Virtually anyone who wanted to establish a bank could do so. To correct the errors of the system, the banking law of 1891 provided that five or more persons could organize a bank to collect money, make loans, and buy and sell gold or other currency within



The Carlton State Bank, Carlton, around the turn of the century.

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An interior view of the People's State Bank in Coffeyville.

the state; required a minimum capitalization of \$5,000 with a reserve of twenty percent to establish a bank; and mandated a bank commissioner whose duty it was to inspect each bank yearly. Since 561 banks fell under the scope of the act, effective regulation was impossible given the limited resources provided by the state. The law, nevertheless, was an attempt to monitor banking activities. Since these banks previously had been immune to state interference, some bankers naturally rejected the efforts at control and challenged the constitutionality of the law on the basis of infringement of private rights. The state supreme court, however, ruled the law constitutional in 1894.<sup>4</sup>

In 1897, the legislature revised the banking law to expand the powers of the commission, to regulate loans, to limit bank investment, to force banks to eliminate questionable assets, and to subject all private banks to the provisions of the act. With these changes, banking laws remained essentially the same until 1947. The difference came with the growth of services

over which the state had regulatory control and the power to enforce that regulation.<sup>5</sup>

Efforts to increase regulation resulted in the Depositors' Guaranty System. Approved by the legislature in 1909, the law provided a means to insure depositors' funds only in incorporated state banks that participated in the system on a voluntary basis. Assessments were levied on member banks to create the Depositors' Guaranty Fund which would be used to pay depositors only after the proceeds of liquidation of failed banks' assets had been exhausted. After a bank failed, the bank commissioner was to assume control of the bank during the transition. Depositors would be given certificates in the amount of their deposits that would be repaid from liquidation proceedings. Only if these funds were inadequate would depositors be paid from Depositors' Guaranty funds. The constitutionality of the law was immediately questioned, and the U.S. Circuit Court ruled in its favor.<sup>6</sup> Since national banks feared their depositors would transfer funds to guaranteed state banks, they and uninsured state bankers organized the Bankers Deposit Guaranty and Surety Company in April 1909 to execute surety

1. Paul Studenski and Herman E. Krooss, *Financial History of the United States* (New York: McGraw-Hill, 1952), 2.

2. *Ibid.*, 3-10.

3. George L. Anderson, "A Century of Banking in Kansas," in John D. Bright, ed., *Kansas: The First Century*, 4 vols. (New York: Lewis Historical Publishing Co., 1956), 2:406.

4. Roger D. Kirkwood, ed., *The Story of Banking in Kansas* (N.p.: Kansas Bankers Association, n.d.), 18.

5. Anderson, "Century of Banking," 417.

6. Wayne D. Angell, "A Century of Commercial Banking in Kansas, 1856 to 1956" (Ph.D. diss., University of Kansas, 1957), 363-67.



*Dorrance photographer L.W. Halbe took this photograph of the Dorrance Citizens State Bank interior on October 6, 1910.*

bonds to cover their depositors and underwrite fidelity bonds on employees.<sup>7</sup>

At the time, the Kansas Depositors' Guaranty System was regarded as a model for other states, and many midwestern states followed the pattern established by the Jayhawkers. A Kansas banking commissioner said that "the guaranty Law in Kansas has done more to put the proper amount of confidence in the state banks, than any other one thing since its enactment."<sup>8</sup> Soon after Kansas introduced its solution to protect depositors, the federal government inaugu-

7. *Ibid.*, 369. The company reorganized in 1922 as the Kansas Bankers Surety Company, which executed only fidelity bonds.

8. Kansas State Bank Commissioner, *Eleventh Biennial Report*, 1912, 3-4.

rated its system to protect banks: the Federal Reserve System. This system was to provide for bank liquidity in times of emergency and to prevent problems that had occurred in earlier panics. Wayne D. Angell, a historian of Kansas banking, has written:

The new system partly corrected the more glaring weaknesses of the national banking system, including the inelasticity of currency, the pyramiding of reserves, and the expensive and inefficient method of check clearance. Nevertheless, an important task remained to be accomplished; the influence of the new system was curtailed by the reluctance of state banks to join, and the restricting provisions for membership imposed on state banks.<sup>9</sup>

By 1915, the first Kansas bank had joined the federal system, and by 1920 nine Kansas banks were members. From 1920 to 1930, four more banks were admitted to the Federal Reserve System, but seven withdrew. Since statistics for the nation revealed admissions considerably higher in other states, the refusal of many Kansas bankers to become a part of the system may have reflected possible lack of capital resources or, more likely, opposition to the political influence of the board or fear of loss of identity as state banks.<sup>10</sup>

Credit to farmers, the central fact of the state's banks, was not substantially improved by the Federal Reserve System, but in 1916, the Federal Farm Loan Act was passed to loan money on first mortgages through the National Farm Loan Association. This altered credit drastically by increasing the amount of capital funds available in agricultural areas and by assuming a larger portion of the total farm mortgage debt. By 1917, when modifications were made in the Federal Reserve Act to encourage state bank participation, all major objections of the larger state banks to the system were met but with still no better results. By the time of World War I, state banks were still reluctant to involve themselves with the federal government in the major financial programs from Washington. Kansas banks still preferred to work within the state system, and Kansas farmers still depended largely upon local state banks for mortgages and other loans.

#### The Influence of the Farmers

At the time of the war, credit to Kansas farmers, while important, was not critical because of good farm crops and high prices. This agricultural state ranked first in the nation in per capita wealth in 1915, and this wealth was reflected in bank deposits. From \$248.8 million in 1914, bank deposits increased seventy percent to \$423 million in 1917.<sup>11</sup> When the United States entered the war, and Kansas was called

upon to produce even more agricultural goods, the efforts of the farmers, encouraged by the bankers and the government, were characterized by speculative development rather than sound economic growth. The short-term effect of the war demand for production resulted in small change in the farmers' output but a marked change in prices and income. Using 1910-14 as a parity base, agricultural production in 1919 was 110, farm prices 215, and farm income (prices and output less expenses) was 254.<sup>12</sup>

To respond to the demands of the war, an estimated forty-five million acres of new land were cultivated. In 1917, Kansas had over three million acres in cultivation; in 1918, nearly seven million acres; and in 1919 almost twelve million acres. Since wheat was the crop most in demand, prices for this

commodity soared. In 1912, the average value per bushel was \$.80; in 1916, it was \$1.35; in 1917, \$2.06; in 1918, \$1.99, and in 1919, \$1.98.<sup>13</sup> Farmers were encouraged by the federal government to produce more wheat. As an inducement, on August 10, 1917, the Lever Food and Fuel Control Act set a minimum of \$2.20 per bushel for the 1917 crop and \$2.00 for the 1918 crop; gave the president power to guarantee farmers a profit for their labors; and created the position of food administrator, which Herbert Hoover filled. On June 21, 1918, Pres. Woodrow Wilson raised the minimum price for 1918 wheat to \$2.26. Although the war was over on November 11, 1918, the need for American wheat continued through 1919, and the Kansas farmers planted an all-time high acreage that year.

After the armistice, the farmers did not appear to realize the boom was over. They ignored the fact that European countries would resume their own agricultural production. They did not reduce acreage and abandon the marginal land that had been cultivated, and they did not reduce their spending for farm

9. Angell, "Century of Commercial Banking," 378.

10. *Ibid.*, 379-84. See also A. H. Moffett to Henry J. Allen, November 26, 1920, Records of the Governor's Office, Gov. Henry J. Allen, 1919-1923, Archives Department, Kansas State Historical Society.

11. Angell, "Century of Commercial Banking," 385.

12. "Price Patterns Through the Years That Have Had Direct Influence Upon the Economy of Kansas Agriculture," *Report of the Kansas State Board of Agriculture* 69 (February 1950): 95. See also Kansas State Board of Agriculture, *Twenty-seventh Biennial Report*, 1930, 538.

13. D. Spencer Yohe, *Kansas Statistical Base Book* (Lawrence: University of Kansas, 1954), 4, uses slightly different figures. See also Arthur Capper, "A Look Backward at the 20's," *Nation's Agriculture* 15 (January 1940): 13.



The Effingham Farmers and Merchants State Bank around 1910.

equipment. Nor were they prepared for the depression that followed the war. By May 31, 1920, when the wheat price supports were removed, hard times were in store for the Kansas farmer. How soon bad times came is reflected in an agricultural price index of 234 for 1920 and 112 for 1921.<sup>14</sup>

The drop in income and prices after the war reflected the unequal growth pattern of supply and demand. By 1920, supply was running ahead of demand primarily because of decreased demand caused by new production technology, new land development, the resumption of European production, and a change in American diets—all of which turned out to be long-term changes. Other factors that caused the agricultural depression were inflated prices of manufactured goods, spiraling costs of fuel and transportation, higher taxes, and more stringent credit. The failure of farmers was to recognize that theirs was a business in which factors other than production were important. Farmers had to learn that marketing, consumption,

and distribution were contributing elements to prosperity.<sup>15</sup> Unfortunately for the individual, there was little a farmer could prudently do about these factors. Justification for marketing efforts by individual producers requires, for example, that these producers be able to influence their specific efforts, whereas the most individual farmers can do is try to intuit when the best prices might occur for their products near the time when the products are ready for sale.

Given the rapid expansion in farm acreage during the war and the sudden collapse of prices during the agricultural depression, there is an expectation that the number of farms would decline sharply after 1921. But since most resources—fences, tractors, terraces, even sometimes people—specifically used in agriculture have only scrap value for nonagricultural application, this was not the case (see table 1).

Since more acres were under cultivation, farms in 1930 were larger than those of 1910, indicating either that the small farms were less profitable or that larger farms were more efficient. It might also mean that farmers invested profits earned during the war years into yet more land at increased land prices. Land supply tends to be relatively inelastic when land prices de-

14. Ross Robertson, *History of American Economy* (New York: Harcourt Brace Jovanovich, 1973), 515. See also Theodore Saloutos and John D. Hicks, *Agricultural Discontent in the Middle West, 1900-1939* (Madison: University of Wisconsin Press, 1951), 98, and J. D. Morgan, *Some Controlling Forces in Kansas Population Movement* (Lawrence: Bureau of Business Research, School of Business, University of Kansas, 1953), 37.

15. Fred L. Parrish, "Kansas Agriculture 1901-1930," in Bright, ed., *Kansas: The First Century*, 2:125.



*The Russell State Bank, Russell.*

crease, because capital is spent to increase the supply, and recovery of capital is possible only through continued farm use. When the farmers' savings were in land, and actual income declined because of farm prices, farmers were often unable to repay their debts. This was true in the 1920s, the 1930s, and even the 1980s.<sup>16</sup> In the 1920s, the inability of the farmers to pay their debts caused the long depression. And the farm problem was also the central problem of Kansas bankers. The depression that began in the 1920s raised several questions for farmers: how were they going to get credit? what was the role of the government in helping farmers? what was the state's responsibility to them? who would give them long-term loans at low interest? who would be the final arbiter in solving the farm problem?

Most of these questions remained unanswered throughout the 1920s, although some attempt was made to address the credit question. In 1915, the state bank commissioner had advocated a "practical loan-to-the-farmer" plan, and in the 1920s, Gov. Henry J. Allen recommended state loans to tenants to purchase farm lands. His successor, Jonathan Davis, urged the creation of state reserve banks to give credit on grain and livestock. At the local level, rural credit associations worked to make credit readily available, while at the federal level the Wilson administration tried to improve rural credit facilities through the Federal Reserve System, but after the war, the system adopted a policy of deflationary money and the farmers were caught in the middle. Once told that "food [will] win the war," they were told in 1921 to go it "on their own."<sup>17</sup>

Yet the federal government was not totally unsympathetic to the farmers' problems, and between 1921 and 1933 various plans on how to help were formulated. In 1921, the National Joint Commission on Agricultural Inquiry recommended cooperative marketing, improved credit facilities, and more research by the Department of Agriculture. The National Agricultural Conference in 1922 accepted the idea of equality for agriculture and believed that "justice would be done if the ratio of prices received by the farmer to the prices paid by them were kept equal to the ratio that had prevailed in the years 1910-1914."<sup>18</sup> Throughout the 1920s, numerous acts were passed in an attempt to

TABLE 1

*Kansas Farms*

YEAR	NUMBER OF FARMS
1910	177,841
1920	165,286
1925	165,879
1930	166,042

Source: D. Spencer Yohe, *Kansas Statistical Base Book* (Lawrence: University of Kansas, 1954), 11.

alleviate the farm problem. Sen. Arthur Capper of Kansas was cosponsor of the Capper-Volstead Act of 1922 which freed farmers' cooperatives from the threat of prosecution for violation of the antitrust laws. The 1923 Federal Intermediate Credit Act established twelve intermediate credit banks to rediscount agricultural paper for commercial banks. In 1929, the Agriculture Marketing Act was passed, authorizing the Federal Farm Board to make loans to producer cooperatives in an effort to stabilize the prices of key agricultural commodities. Federal outlays of more than \$500 million, however, were unable to prevent the downward plunge of farm commodity prices during the severe depression of 1929-30.

Once accustomed to prosperity, the Kansas farmer relied on credit to secure land, equipment, and machinery in order to produce yet more goods. Rural banks were usually the credit source. After the depression of 1921, other sources of credit were located while the basic problem of supply and demand was not addressed. Possibly because farmers did not see themselves as businessmen, they did not significantly recognize the issue of production control or market expansion. As farmers sought to continue previous rates of production they were, apparently, unaware of the facts of the Kansas economy: corn production had peaked in 1889; the wheat crop of 1914 was exceeded in only one year prior to 1930; and livestock production had peaked in 1910. Further, these facts of the Kansas economy were subordinated to the facts of the individual farmer's economy: a taste of past affluence, a desire for wealth, high debt service, and increased costs of production. Had these factors been studied, the farmers might have sought to limit production rather than continually expand their enterprises with borrowed money.

16. Theodore W. Schultz, *Agriculture in an Unstable Economy* (New York: McGraw-Hill, 1945), 28.

17. Parrish, "Kansas Agriculture," 135. See also Edgar Langsdorf, "The World War I Period," in Bright, ed., *Kansas: The First Century*, 2:49, and A. Bower Sageser, "Political Patterns of the 1920s," in Bright, ed., *Kansas: The First Century*, 2:73. Further information is found in Kansas State Bank Commissioner, *Fifteenth Biennial Report*, 1920, 3.

18. Robertson, *History of American Economy*, 519. See also Alice N. Christensen, "Agricultural Pressure and Government Response in the United States, 1919-1920" (Ph.D. diss., University of California, 1937).

TABLE 2  
*Banks and Trust Companies at Close of Biennium*

YEAR	NUMBER OF BANKS AND TRUST COMPANIES
1916	987
1918	1,044
1920	1,113
1922	1,094
1924	1,041
1926	973
1928	864
1930	791

Sources: Kansas State Bank Commissioner, *Thirteenth-Twentieth Biennial Reports*, 1916-1930.

### The Bankers' Response

From 1916 to 1930, Kansas was essentially agrarian. By 1930, only 38 percent of the state's population lived in cities; 28.8 percent lived in cities of more than ten thousand; 33 percent of the gainfully employed worked in agriculture; and the value of farm property, appraised at nearly \$2 billion, was the largest single segment of the state's worth. Because of the pervasive dependence on agriculture, the farmers' plight affected other economic endeavors in general and banking in particular. The crisis in agriculture led directly to a number of bank failures and indirectly to the collapse of the Depositors' Guaranty System.<sup>19</sup>

In 1916, the state bank commissioner, W. F. Benson, sent an enthusiastic transmittal letter to Governor Capper with his biennial report in which he stated that banking conditions had "never been better," mentioned a "very satisfactory showing" of business, and announced that "our state is in a very prosperous condition."<sup>20</sup> Few bank commissioners in the 1920s could echo such optimism. From 1916 to 1930, declining economic conditions were reflected in the reduced number of state banks within Kansas (see table 2).

The high number of bank failures is the most important fact of Kansas banking in the 1920s and was responsible for the failure and collapse of the Depositors' Guaranty System. Had banks not failed, the system could have continued until at least 1934. The

19. Parrish, "Kansas Agriculture," 135; Carroll D. Clark and Roy L. Roberts, *People of Kansas: A Demographic and Sociological Study* (Topeka: Kansas State Planning Board, 1936), 79, 256. See also I. D. Graham, "Kansas Farm Growth," in *Kansas Facts: A Yearbook of the State, 1931* (Topeka: Charles P. Beebe, 1931), 3:113.

20. Kansas State Bank Commissioner, *Thirteenth Biennial Report*, 1916, 5.

TABLE 3  
*Failures of Banks and Trust Companies per Biennium*

TYPE	YEAR					TOTAL
	1922	1924	1926	1928	1930	
Failed	23	53	45	72	36	229
Vol. Liquidated	5	13	10	4	8	40
Consolidated	10	18	32	48	37	145
Nationalized	5	4	3	3	3	18
Total	43	88	90	127	84	432

Sources: Kansas State Bank Commissioner, *Sixteenth-Twentieth Biennial Reports*, 1922-1930. The 1928 report contains an error that has been corrected.

pressures put on the system showed its weaknesses as well as the limitations of state involvement in money matters. Bank commissioners categorized bank failures as "voluntary liquidation"; "consolidation"; or "conversion into the national system" (see table 3).

When failed banks closed, they had to show "cause for failure." The largest cause was frozen assets or poor loans; in most instances, these were farm mortgages. This category, in terms of numbers, was followed by "dishonesty," then "incompetence and mismanagement" (see table 4).

Without doubt, one reason why so many banks failed with frozen assets or because of incompetent management (and hindsight would show it incompetent to make loans that could go bad), was the extreme undercapitalization of many of these banks at the time of charter. From 1920 to 1930, 183 banks were chartered, but unfortunately for Kansans as well as the owners of the banks, capitalization was extremely low (see table 5).

Of these new banks, seventy-nine percent were chartered with less than \$25,000. Without adequate underwriting, many banks were destined to fail in times of financial crisis. And bank commissioners, aware of this fact, urged higher capitalization requirements.

As undercapitalization was a problem for banks, so overbanking was a problem for the state. Different figures have been used to justify optimal banking conditions, and the Federal Reserve System concluded that one bank per 7,300 persons was an adequate ratio. In Kansas in 1920, there were 1,349 banks for 1,779,936 people. The entire state, by federal standards, was overbanked and in some counties seriously so. On the eve of the agricultural depression, Kansas had too

TABLE 4

*Reasons for Bank Failures*

REASONS	YEAR					TOTAL
	1922	1924	1926	1928	1930	
Poor Loans	5	44	15	22	24	110
Dishonesty	16	6	6	13	6	47
Incompetence	2	2	14	24	0	42
Other	0	1	10	13	6	30
Total	23	53	45	72	36	229

Sources: Kansas State Bank Commissioner, *Sixteenth-Twentieth Biennial Reports*, 1922-1930.

many banks with too little money behind them. The war and its resultant prosperity for farmers had white-washed the limitations of the state's banking system. When the farm market collapsed in 1921, the state bankers were in no condition to help the farmers. The long-standing marriage of Kansas farmers and bankers would become increasingly shaky throughout the decade.

#### Failure of the Depositors' Guaranty System

By 1916, there were 539 banks covered by the Depositors' Guaranty System. Whatever opposition some bankers originally may have had to the system had been overcome. Some bankers felt the cost of participation was too high, but Bank Commissioner Benson believed that the insured banks attracted more than enough new business, because they were insured, to cover the payments into the Depositors' Guaranty Fund, which then had a balance of \$191,005 in cash and \$488,563 in bonds. By 1920, the number of insured banks had risen to 676, about forty-five percent, with continuous requests from other banks to enter into the system. Standards for entry were considered high, and thorough examination was made into book-keeping as well as management procedures before new banks were admitted. With no failed banks and only one reorganization in the preceding biennium, the commissioner, Walter E. Wilson, felt fairly confident when he said, "When you deposit your money in a guaranteed bank in Kansas, you are sure of getting out as many dollars as you deposited. This is a square deal to the depositing public, and is the correct method of twentieth century banking."<sup>21</sup> Wilson chose

21. *Ibid.*, *Fifteenth Biennial Report*, 1920, 5.

TABLE 5

*Capitalization of Newly Organized Banks*

CAPITALIZATION	YEAR							TOTAL
	1920	1922	1924	1926	1928	1930		
\$25,000 and under	62	19	21	21	15	6	144	
\$26-\$50,000	11	3	6	2	2	3	27	
\$51-\$100,000	2	0	0	0	—	0	2	
Over \$100,000	4	1	2	2	1	0	10	
Total	79	23	29	25	18	9	183	

Sources: Kansas State Bank Commissioner, *Fifteenth-Twentieth Biennial Reports*, 1920-1930.

to comment only briefly on the closing of the Kansas State Bank at Salina which had caused a drain on the Depositors' Guaranty Fund. Nor did he comment on his involvement with the bank and the charges of partisanship in the bank commissioner that resulted from his activities. The miniscandal that resulted from the Salina bank affair showed the very tenuous financial status of the Depositors' Guaranty System and prompted the 1921 legislature to strengthen entrance requirements into the system, provide for financial exigencies that might deplete the fund, and make further provisions for increasing banks' contributions to the fund.<sup>22</sup>

By 1922, there were 703 banks operating under Depositors' Guaranty in Kansas, but the system underwent a major crisis when 17 of these failed. The issue for Depositors' Guaranty centered on the meaning of "deposits" under the law. Some bankers maintained that deposits were literally those funds made by persons or businesses in normal banking operations, while others maintained that time certificates were deposits also. The commissioner, F. H. Foster, favored the former interpretation and suggested redefinition to allow money to be repaid only to the one who originally deposited it. He also recommended the discontinuance of the limitation on the amount of interest paid depositors to allow state banks to better compete with national banks whose interest rates were not restricted.

22. "What Are the Facts?," undated newspaper clipping labeled "Political Advertising"; F. H. Foster to Henry J. Allen, July 10, 1920; Allen to Foster, July 12, 1920; J. H. Barley to Allen, July 13, 1920; "J. R. Hyland for State Senator" (n.d.), Records of the Governor's Office, Gov. Henry J. Allen. For more information on Wilson, see William E. Connelley, comp., *History of Kansas: State and People*, 5 vols. (Chicago: American Historical Society, 1918), 5:521.

Commissioner Foster's recommendations led to the legislature enacting laws requiring a minimum of \$500,000 in the Guaranty Fund and expanding the powers of the banking commissioner.<sup>23</sup>

The major problem for the Depositors' Guaranty System under Governor Davis was the failure of the large American State Bank in Wichita and the subsequent drain of \$1.5 million on the Depositors' Guaranty Fund. The failure of a bank with nearly \$5 million in deposits was an ominous sign for the state's economy, and the governor and his banking commissioner, Charles J. Peterson, former secretary of the Democratic Central Committee, were eager to handle

23. Kansas State Bank Commissioner, *Sixteenth Biennial Report*, 1922, 5-6. See also Kansas, *Session Laws*, 23d sess., 1923, ch. 73, 74.



An L.W. Halbe photograph of the Russell State Bank interior taken October 12, 1910.

the situation in a manner that would not embarrass the Democratic administration. A receiver was appointed and the bank subsequently reorganized as the State Reserve Bank. Davis was confronted with similar problems over the closing of the Fourth State Bank in Hutchinson and the resulting scramble among those who wanted to be the receiver. The Bankers Association urged the commissioner to reestablish the banks in Wichita and Hutchinson as quickly as possible so the cities would not lose the assets. Despite the problems with large banks failing, bankers remained optimistic about the work of the banking commissioner. Peterson, however, was more concerned about the large number of bank failures in general than about the closing of a few specific banks.<sup>24</sup>

His concerns were real, because banks continued to fail at an alarming rate. When Republican banker Ben S. Paulen was elected governor in 1924, the state had a chief executive who understood the problems of bankers. In his first message to the legislature, Paulen addressed his concerns about banking and the Depositors' Guaranty System. He felt that bank failures were largely caused by excessive loans and recommended that the state pass stringent laws governing their issuance. The governor told the legislature there was about \$8.5 million in guaranty certificates outstanding earning five percent, which then yielded more annually than bank member assessments. He did not favor further levies on banking, fearing yet more banks would fail under the weight of additional assessment. But he favored a banking advisory committee and stronger banking laws. The governor gave no indication of the imminent demise of the Depositors' Guaranty System.<sup>25</sup>

The legislature responded to the new governor by creating a five-man advisory board and providing that the commissioner could examine all receiverships of failed banks. Wyandotte bankers organized a protest against a bill that would remove the exemption then extended to guaranteed banks from pledging bonds with public money to secure public funds. The bankers believed that this could undermine public confidence in the fund, reduce the amount of assessment income, and slow down the process of paying for the liquidation of failed banks. This resolution also indicated that banking was on the upgrade and that the fund should not be further weakened. Part of the improved conditions was attributable to the efforts of the new commissioner, Topeka businessman Roy L. Bone, who was re-

24. Kansas State Bank Commissioner, *Seventeenth Biennial Report*, 1924, 4.

25. Kansas, *House Journal*, 24th sess., 1925, 11.



*The interior of the Farmers and Merchants State Bank, Argonia, about 1911.*

lucant, through his membership on the Charter Board, to issue charters to new banks when business conditions were so shaky.<sup>26</sup>

Despite the best intentions of the governor and the commissioner, too many banks continued to fail, and the future of the Depositors' Guaranty System looked bleak. When collapse seemed near, many Kansans wrote Governor Paulen asking his opinion but primarily giving theirs. The governor responded to the public by saying he had always believed in the system but felt that it had not lived up to its earlier promise. He indicated that nationally fewer states were participating in such a system and that only six states then had laws on the books. In April 1926, Paulen became very apprehensive when twenty banks applied for withdrawal from the Depositors' Guaranty System and seven more sent in resolutions for withdrawal. Since actions by the stockholders were necessary prior to removal from the system, Paulen was eager to see if the larger banks

would leave the system. If they did, public confidence would falter. Paulen and Bone urged bankers to stand behind the system because it protected the public's money and created confidence in the banking system.<sup>27</sup> What most people in Kansas wanted, however, was not a pledge of confidence but a guarantee from the state that the system would be underwritten by the state. Their concern was prompted by the 1925 legislature, which had passed a law eliminating interest to holders of certificates against the fund and providing that these certificates instead would be given to people who had money in failed banks. Since it was common for banks to repay at sixty percent, many depositors lost money from the fund and wanted the state to assume their losses. Paulen had to tell these people that the banks, not the state, were behind the fund.<sup>28</sup>

In April 1926, the state supreme court, in effect, fixed the liability of guaranteed banks at the amount of bonds on deposit in the fund and allowed banks operating under the system to withdraw by forfeiting

26. Kansas, *Session Laws*, 24th sess., 1925, ch. 88, 91, 256. See also undated resolution signed by nineteen Kansas City bankers in a letter of C. N. Prouty to Ben S. Paulen, February 6, 1924; W. A. Vincent to Paulen, November 23, 1925; and F. E. Burke to Clyde Miller, secretary to the governor, February 19, 1925, Records of the Governor's Office, Gov. Ben S. Paulen, 1925-1929, Archives Department, Kansas State Historical Society; also *Topeka Daily Capital*, March 21, 1918.

27. J. G. Ambrose to Paulen, April 20, 1926, Records of the Governor's Office, Gov. Ben S. Paulen.

28. Paulen to C. C. Scates, April 22, 1926; Matt Dunn to Paulen, December 30, 1926; Henry Comley to Paulen, July 18, 1926; Paulen to Comley, July 17, 1926; Roy Bone to Wallace T. Rouse, March 15, 1926, Records of the Governor's Office, Gov. Ben S. Paulen.



An employee of an unidentified Iola bank on the job in March 1915.

an average of \$1,600 in bonds.<sup>29</sup> Immediately thereafter many banks withdrew, and by July, only 225 banks were left in the system with many others in the process of withdrawal. At that time, the system had assets of \$1,121,992 and liabilities of \$6,748,202, a deficit of over \$5 million. Despite some last-minute attempts by the commissioner, there was no possibility the system could ever be solvent, and Bone recommended that the law be repealed. By declaring the fund void, he could use the bonds and cash to pay creditors of the failed banks.<sup>30</sup> Paulen struggled to preserve the failing system and, true to his political style, sent letters to prominent citizens asking for their ideas on how to strengthen Kansas banking. Many, flattered, responded. Some felt that banking should be more competitive; others blamed officers for knowing too little about banking; still others believed that the newer banks were being blamed for the collapse of

the Depositors' Guaranty System when they believed it was the older banks that were failing.<sup>31</sup> One citizen thought that the largest problem in the state was not highways, primary election laws, or cigarette laws but "the biggest question will be stable banking and keeping faith with our citizens of thrifty habits and willingness to work." This friend of Paulen concluded that "if this legislature adjourns without some encouragement to depositors in failed Guaranteed Banks, I would not care to own stocks in either State or National Banks under present conditions."<sup>32</sup>

By 1928, the fund had been exhausted, and depositors of the failed banks were paid from the fund in the order in which the banks were finally liquidated. The question then arose as to when to certify liquidation. Since Bone was reluctant to do this with so many failed banks and so little money with which to repay

29. Kansas State Bank Commissioner, *Eighteenth Biennial Report*, 1926, 4.

30. Charles Moreau Harger, "An Experiment That Failed: What Kansas Learned by Trying to Guarantee Bank Deposits," *Outlook* 143 (June 23, 1926): 278.

31. F. A. Bentley to Paulen, January 19, 1927; James G. Strong to "Gentlemen," April 16, 1927, Records of the Governor's Office, Gov. Ben S. Paulen; "Kansas State Banks," *Kansas Facts: A Yearbook of the State, 1929* (Topeka: Charles P. Beebe, 1929), 1:307.

32. R. W. McGrath to Paulen, February 28, 1927, Records of the Governor's Office, Gov. Ben S. Paulen.

creditors, the matter went to the supreme court which appointed a special commissioner, Schuyler C. Bloss, to hold hearings to determine which banks should be certified and to determine when they were liquidated. All securities of the fund were converted to cash, and depositors were paid in order of bank liquidation.<sup>33</sup>

By August 1 all funds were distributed. All guaranteed banks failing prior to 1921 were paid in full, some failing from 1921 to 1924 were paid, and none failing after 1924 received payment. By 1928 only thirty-nine banks were paying into the system; they were small and their assessment could not even pay the interest on the outstanding certificates.<sup>34</sup>

When the system failed, and Paulen had officially announced its failure to the 1927 legislature, many bankers expressed their understanding of the collapse. Some believed that Depositors' Guaranty encouraged too many banks and that it ranked bankers with little

experience on a par with managers of stronger institutions. Increased deposits, too, increased a sense of financial security, and bankers tended to make loans too freely. When hard times came and collections were difficult, many banks were faced with loans they could not collect. Another criticism of the system was that it tended to tax financially secure institutions to protect the weaker ones.<sup>35</sup> Angell has been more critical in his assessment of the causes of failure. He concluded that the rate of payment into the fund was inadequate; that the maximum reserve was insufficient; that depositors' guaranty insurance did not provide for an uninterrupted flow of payment into a community with a failed bank; that losses to the fund were not recognized until liquidation was complete; that the laws on limitations on loans were inadequate; and that banks were able to withdraw from the system without bearing full responsibility for obligation accrued.<sup>36</sup>

33. Kansas State Bank Commissioner, *Nineteenth Biennial Report*, 1928, 3-4; Arch L. Bell, *Who's Who in the Kansas Legislature Session, 1931* (Great Bend: Howell Printing Co., n.d.), 46.

34. Kansas State Bank Commissioner, *Nineteenth Biennial Report*, 1928, 3.

35. Harger, "An Experiment That Failed," 278; George W. Hamilton to Paulen, April 25, 1928, Records of the Governor's Office, Gov. Ben S. Paulen.

36. Angell, "Century of Commercial Banking," 417-18.



*The Central National Bank, located at Seventh and Kansas in Topeka.*



*The Farmers National Bank in Salina during the 1920s.*

Although the report of the commissioner in 1930 did not mention Depositors' Guaranty, interest in the defunct system remained high, largely because the public still wanted its money refunded. Controversy continued to plague the bankers until the U.S. Supreme Court refused to hear any more cases on the system in 1931.<sup>37</sup> Nevertheless, a large number of Kansans continued to believe that all depositors were entitled to some form of protection for their money. Bankers themselves tended to believe that the best form of protection was the limitation of the number of banks, stringent requirements for capitalization, and rigid bank examinations.<sup>38</sup> At the same time that state banks were having difficulty with failures and the collapse of the guaranty system they were also facing stiff competition from their national counterparts. In 1920, national banks held only one-third of the state's assets. By 1930, they held over one-half. The 246 national banks operating within the state by 1930 were among the more stable and wealthier banks.

The 1920s proved that voluntary cooperation of

bankers to protect the public's money had not worked and that state government was unable to force the bankers to monitor their own system more efficiently. It remained, then, for the federal government in the 1930s to assume control over guaranty of bank deposits. The Kansas experience had proven one thing: that government had the inherent right to protect depositors. Voluntary regulation, by 1930, was no longer an option.

#### Conclusion

The farmers' problems were the major causes of the Kansas banking crisis in the 1920s. Farmers felt they were not getting their fair share of the nation's income. Prior to 1921 the farmers had some financial problems, but these were glossed over by prosperity, particularly during the war years. After the recession of 1921, these problems were exposed and the farmers attempted to solve them in ways they had previously used, primarily through overexpansion. As they had done for years, the farmers turned to their local bankers to secure more credit for more land, machinery, and operating expenses. When crops did not sell for the same high prices of the war years or when the yield was down, the farmers were without resources to repay bank loans. Thus, the small-town bankers who had invested money on long-term notes were unable to recoup, forcing many banks to consolidate or to fail.

37. Francis W. Schruben, *Kansas in Turmoil, 1930-1936* (Columbia: University of Missouri Press, 1969), 8; Mrs. May Morell to Clyde Reed, April 11, 1929; Secretary to Governor to George Hook, April 17, 1929; Secretary to Governor to May Morell, April 12, 1929; H. W. Koenek to O. C. Wasson, June 5, 1930, Records of the Governor's Office, Gov. Clyde Reed, 1929-1931, Archives Department, Kansas State Historical Society.

38. Kansas, *House Journal*, 25th sess., 1927, 15.

The fact of overbanking exacerbated troubled conditions. Bone, a most conscientious commissioner, said that "the records . . . disclosed the fact that the failures were largely due to the low price level of agricultural commodities," a recognition of the long-standing marriage of farming and banking where over thirty-six percent of farm mortgages were held by state banks in 1930. Low farm prices, too many small banks, and the speculative development of the war years created problems throughout the 1920s. The basic questions were never answered: How could the farmer get his "fair share" and who was going to support the bankers? Though some attempts were made to address the problems, the state had neither the resources nor the support of the affected groups to resolve the difficulties. The fact that banking issues were unresolved indicated that the pressures put upon the state were too strong for existent mechanisms to deal with them. The Depositors' Guaranty System was, after all, a voluntary one. The Bankers' Association had not yet developed a strong enough sense of professionalism to allow bankers to cope with bearing full responsibility for de-

positors' insurance. While centralization in other areas had progressed to the point where the state could control most activity, this did not occur in banking. Even Paulen, a vigorous advocate of centralization, never suggested the state assume responsibility for deposit guaranty. Until this basic question of responsibility was resolved, the state's attempts to regulate banking were only stopgap measures. The banking business in Kansas demonstrated the limits of managerial progressivism within the states.

It remained, then, for the New Deal to address itself to both banking and farming problems. When federal legislation was enacted in the 1930s, it meant, among other things, that the national government was the unit most responsible for problem solving and most capable of working out solutions. The end result was that the farmers and the bankers—both bastions of individualism—should have ceased thinking of themselves as such. The farmers should have had to become businessmen and the bankers should have had to become responsible bureaucrats. Neither has been totally accomplished by the 1980s. [KH]