# Little Capitalists:
# The Social Economy of Saving in the United States, 1816-1914

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ABSTRACT

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In the early nineteenth-century United States, many social reformers, public commentators, and legislators argued that workers must engage in prudent financial planning in order to remain independent in a capitalist economy. Their belief that personal mismanagement was the primary cause of poverty led some of them to create the first financial institutions to help Americans of limited means save and invest their earnings: savings banks. From this modest start rose both a widespread ideology that related personal financial practice to personal virtue and a multibillion dollar industry that used the savings of millions of American workers to finance government, business, and personal debt. "Little Capitalists" charts this evolution from the philanthropic savings banks of the early-nineteenth century to the myriad commercial, cooperative, and public financial institutions for the working classes of the early-twentieth century. It shows how conceptions of individual and civic responsibility interacted with actual savings practices to integrate American workers into the national economy, building the financial apparatus that funded the expansion of wage-labor capitalism by harnessing the capital of wage laborers themselves.

American institutional savings pioneers sought to address increased poverty wrought by urban growth and the creation of a wage-earning class in the first half of the nineteenth century. These reformers organized the country's original savings banks on the premise that all workers were capable of saving some of their earnings—no matter how little—so that they could remain financially independent in times of unemployment, injury, or old age. Their institutions tried to teach workers how to save money by providing secure facilities in which they could do so in the

small amounts that no other financial institutions would handle. They also offered depositors a chance to earn a small profit from interest paid on deposits. Because this interest derived from investing those deposits in securities, mortgages, and other loans, savings banks brought millions of nineteenth-century wage earners into the American economy as investors. In this way, these institutions promoted the idea that working-class depositors could be their own "capitalists."

As more Americans saved growing amounts, legislators, political economists, social reformers, and other observers took it as evidence that *any* worker who exercised virtues like thrift and self-denial could save money. Because generations of Americans viewed these personal attributes as the bases of moral civilization, they increasingly looked to savings institutions to foster a better citizenry and nation. The US Congress chartered the Freedman's Savings and Trust Company after the Civil War not only to provide financial services to former slaves but also to train them for a life of citizenship grounded in the principles of free labor ideology. Likewise, a nationwide movement beginning in the late-nineteenth century brought together governments, educators, and bankers to create a system of school savings banks to inculcate virtue in children by teaching them how to save pennies and nickels. In both cases, the point was to mold a working class steeped in the social, political, and moral values that would make them amenable to the emerging system of wage-labor capitalism.

Even as some savings institutions attempted social indoctrination, workers' growing deposits also demonstrated their financial power. From the 1870s to the 1910s, this motivated entrepreneurs and legislators to design and encourage new institutions to collect savings deposits and invest them widely, including: industrial life insurance firms, employee thrift plans, trust company and commercial bank savings departments, and a postal savings system. Meanwhile, organizations like building and loan associations slowly added the extension of working-class credit to the collection of working-class savings. These new institutions gave many Americans increased discretion over how to save (and spend) money. But as they began to utilize them, workers also became a significant component of the nation's for-profit finance economy as both creditors and debtors. In the process, they assumed new financial risk.

"Little Capitalists" outlines this history. It shows how a group of social experiments designed to foster an independent working class in the early-nineteenth century spawned, by the second decade of the twentieth century, both an ideology of saving at the center of popular perceptions about good citizenship *and* a small finance industry that was indispensable to the American economy.

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## Acknowledgments

As with all departing PhD candidates, I take with me a debt to many mentors, colleagues, friends, and institutions that is impossible to calculate or fully express. More than most, my advisors have demonstrated patience far beyond what I deserved. They have allowed me to craft a piece of writing that—while far from perfect—is considerably more nuanced, more substantial, and more insightful than it would have been had I been left to my own devices. None of them deserves any blame for any remaining imperfections. Each of them deserves thanks in general as well as for his or her particular contributions.

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Before coming to Columbia, I was privileged to have as fine an historical education as I can imagine while an undergraduate at the Johns Hopkins University. I owe a particular debt to Jane Dailey, who I first met there as a teacher and advisor and who has subsequently added the titles of colleague and friend. (She also has the distinction of being the first person to supervise research connected to this dissertation, a small portion of which dates to my work as a Woodrow Wilson Undergraduate Research Fellow at Hopkins.) In addition to numerous other teachers, colleagues, and friends who supported my work as an undergraduate, I would also like to recognize Paul Kramer for being an exceptionally encouraging teacher whose example I hope to emulate in my own career. I am also in the exceedingly rare position of having received a secondary school education in history at Sidwell Friends School that could rival that offered by most colleges. It was there that I first learned how to apply a knowledge of historical context to an analysis of social and political belief and it is to Bryan Garman, above all, that I owe the greatest appreciation for that gift.

When I was selecting a graduate school, the best advice that I received was to pay particular attention to the students that I would be joining because although "it's a cliche to say that undergraduates learn more from their peers than from their teachers, it's true in graduate school." While I might instead describe my peers and professors in terms of difference rather than relative merit, I can certainly agree that Columbia is filled with exceptional fellow students who have become cherished critics, friends, and colleagues. Without a doubt, my first thanks on that front go to Elizabeth Hinton, Sarah Kirshen, Robert Neer, Nathan Perl-Rosenthal, and Bryan Rosenblithe. While I look forward to a lifetime of individual relationships with all of them, I also can't help but think that we somehow form a group that is greater than the sum of its parts.

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On a more regular basis, I learned from my mother, Linda, how to write. I learned from my father, Bob, how to read. I learned from my sister, Catherine, how to yell into the wind when a cause is worth fighting for. From all three of them, I received the most varied knowledge that a curious child could ever desire and an exceptionally patient audience for every “fun fact” and “interesting story” I just had to share. Thank you to you all.

For being there before, for being there after, and for thriving in the middle, my last expression of gratitude belongs to Mary Kate Hurley. She's needled me more than a few times for narrowly "being such an historian," yet has always supported that mindset when it is the expression of my sincere belief in what is right. I can't imagine another person that I would so easily make a life with or that would have inspired me to complete this work, imperfect though it may be.

*For my parents*

## Introduction

Writing in the 1930s, W.E.B. Du Bois invoked an historical phenomenon he called the "American Assumption," defined as the belief that "wealth is mainly the result of its owner's effort and that any average worker can by thrift become a capitalist." For Du Bois, this idea was a general fiction that nevertheless seemed true just often enough to be perpetuated in American culture. As he put it, "the curious thing about this assumption was that while it was not true, it was undoubtedly more true in America from 1820 to 1860" than at any other time. During that period, Du Bois argued, "it was a fact that often a poor white man in America by thrift and saving could obtain land and capital; and by intelligence and good luck he could become a small capitalist and even a rich man." Although Du Bois believed that whatever "validity" this outlook held "ceased [to exist] with the Civil War," he also asserted that "its *tradition* lasted down to the day of the Great Depression." At that point, however, "it died with a great wail of despair, not so much from bread lines and soup kitchens, as from poor and thrifty bank depositors and small investors."[1]

1 W.E.B. Du Bois, *Black Reconstruction in America: An Essay Toward a History of the Part Which Black Folk Played in the Attempt to Reconstruct Democracy in America, 1860-1880* (New York: Oxford University Press, 2007; orig. Pub. 1935), 150; emphasis added.

Du Bois advanced the “American Assumption” specifically to explain the reluctance of federal policymakers to support economic reforms such as the redistribution of land to former slaves in the post-Civil War South. As David Levering Lewis explained, "the American Assumption Du Bois described [was] a sort of trapdoor underneath the political and economic projects of Reconstruction.”[2] It undermined arguments that favored programs or actions specific to former slaves in the eyes of anyone who subscribed to its essential premise that the United States offered equal opportunity for upward economic mobility to *all* workers who put forth "effort" and exercised "thrift and saving." To make an exception for former slaves within this rubric would be to acknowledge that the principle of meritocracy that underpinned justifications of capitalism and defined American democratic society was flawed. Protecting the ideology that “thrift” was a universal means to achieve upward economic and social mobility therefore transcended the realm of monetary transactions to become a statement about the premise of American national virtue. It also conveniently precluded many economic and political elites from having to sacrifice the power that came from their social status by prefiguring it as the earned result of merit.

Du Bois's reference to an unbroken "tradition" lasting from the early decades of the nineteenth century to his own time implied that American workers' pursuit of joining the capitalist ranks through saving was a wide-ranging occurrence stretching in both directions from Reconstruction. Although his description should not be taken as wholly correct—the claim that the Great Depression marked the end of this tradition proved to be especially premature—Du Bois's general proposition remains provocative. It suggests that workers' widespread pursuit of

2 David Levering Lewis, *W.E.B. Du Bois: The Fight for Equality and the American Century, 1919-1963* (New York: H. Holt, 2000), 373

institutional saving as a form of “capitalist” endeavor—in other words, as an attempt to profitably invest their money with the hope of ascending above the ranks of wage earners—shaped not only American economic development during the nineteenth and early-twentieth centuries but also a broader set of political and cultural beliefs about the nature of the American economy and its ability to provide general opportunities for social and material advancement. That the prevailing capitalist ideology of this period linked these seemingly distinct elements of American experience into what might be thought of as a guiding national principle—or "assumption"—through an ideology that viewed *saving* money rather than earning more of it as the path to the capitalist class is not obvious, however.

The present work is perhaps best thought of in this light: as an attempt to examine the validity and ramifications of Du Bois's proposition, not about the relative feasibility of upward economic and social mobility for individuals who saved but about the persistence of the belief that it was commonly possible to achieve such an outcome. It argues that he was essentially correct in his assertion about the existence of such a tradition and examines both its ideological origins and the political, cultural, and economic transformations wrought by countless Americans who examined their society within such an analytical framework and then acted on the conclusions they drew over the course of the nineteenth and early-twentieth centuries. In particular, it demonstrates how numerous financiers, policymakers, cultural commentators, political economists, social reformers, and everyday people frequently invoked this or similar ideas in order to justify the creation of a series of initiatives designed to encourage non-wealthy Americans to use financial institutions for what was essentially the first time. As these savings institutions grew in number, variety, and geographic reach, they actively reinforced for many observers the notion that the conditions necessary for the "Assumption" to be valid continued to exist and were perhaps even strengthened by capitalist development.

Because workers controlled growing amounts of potential capital over the course of this period as wage- and salary-earning became more common, any institutions that aggregated that capital also became increasingly more influential features in the American financial landscape. And as these institutions grew in financial influence, they and their promoters broadly influenced economic, political, social, and cultural developments *in the name of* extending opportunities to be self-reliant but *in support of* establishing capitalism as the guiding economic and sociopolitical form of organization in the United States. As a result, both a widespread ideology that related personal financial practice to personal virtue *and* a multibillion dollar industry that used the savings of millions of Americans to finance government, business, and personal debt emerged in a mutually reenforcing manner. The "American Assumption" that Du Bois identified and the institutions that it inspired helped to build the financial apparatus that funded the further expansion of wage-labor capitalism in large part by harnessing the capital of wage laborers themselves.

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It was no accident that Du Bois pointed to the four decades before the Civil War as the origin of the savings tradition. In the early nineteenth-century United States, many social reformers, public commentators, and legislators argued that workers must engage in prudent financial planning in order to remain independent in an economy that increasingly entailed employment paid in wages, market transactions executed with cash, and frequent periods of unemployment.[3] Their belief that failures in personal responsibility were the primary cause of poverty led them to create the first financial institutions to help Americans of limited means save and invest their earnings: mutual savings banks.

American savings pioneers sought to address increased poverty wrought by urban growth and the creation of a wage-earning class in the first half of the nineteenth century.[4] These reformers organized the country's original savings banks on the premise that all workers were capable of saving some of their earnings—no matter how little—so that they could remain financially independent in times of unemployment, injury, or old age. Their institutions tried to teach workers how to save money by providing secure facilities that would manage the small amounts that no other financial institutions would handle (eventually as little as one cent). They also offered depositors a chance to earn a small profit from interest paid on deposits. Because this interest derived from investing those deposits in securities, mortgages, and other loans, savings banks brought millions of nineteenth-century wage earners into the US economy as small investors, if only indirect ones. In this way, these institutions promoted the idea that working-class depositors could be their own "capitalists" in the sense that they earned at least a nominal amount of income by converting surplus savings into invested capital.

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3 For example, see: Paul A. Gilje, ed., *Wages of Independence: Capitalism in the Early American Republic* (Madison, WI: Madison House, 1997); Christopher Clark, *The Roots of Rural Capitalism: Western Massachusetts, 1780-1860* (Ithaca, NY: Cornell University Press, 1990); Seth Rockman, *Scraping By: Wage Labor, Slavery, and Survival in Early Baltimore* (Baltimore: The Johns Hopkins University Press, 2009); Daniel Walker Howe, *What Hath God Wrought: The Transformation of America, 1815-1848* (New York: Oxford University Press, 2007); and Sean Wilentz, *Chants Democratic: New York City & The Rise of the American Working Class, 1788-1850* (New York: Oxford University Press, 1984)

4 For example, see: Thomas Bender, *Toward an Urban Vision: Ideas and Institutions in Nineteenth Century America* (Baltimore: The Johns Hopkins University Press, 1982; originally pub. by the University Press of Kentucky, 1975), Eric H. Monkkonen, *America Becomes Urban: The Development of U.S. Cities and Towns, 1780-1980* (Berkeley, CA: University of California Press, 1988); Bruce Laurie, *Working People of Philadelphia, 1800-1850* (Philadelphia: Temple University Press, 1980); and Kathleen D. McCarthy, *American Creed: Philanthropy and the Rise of Civil Society* (Chicago: University of Chicago Press, 2003)

As more Americans saved growing amounts,[5] legislators, political economists, social reformers, and other observers took it as evidence that *any* worker who exercised virtues like thrift and self-denial could save money. In other words: believing that savings deposits were only possible in equal measure to the “good habits” that enabled their owner to make them, these observers viewed growing deposit figures as a sign of increased virtue on the part of the depositor. Because generations of Americans believed that these personal attributes were the bases of moral civilization,[6] they increasingly looked to savings institutions to foster a better citizenry and nation. The US Congress chartered the Freedman's Savings and Trust Company after the Civil War not only to provide financial services to former slaves, but also to train them for a life of citizenship grounded in the principles of free labor ideology. Likewise, a nationwide movement beginning in the late-nineteenth century brought together governments, educators, social theorists, charity workers, and bankers to create a system of school savings banks to inculcate virtue in children by teaching them how to save pennies and nickels. In both cases, their proponents intended to mold a class of workers steeped in the social, political, and moral values that would make them amenable to working within the emerging system of wage-labor capitalism.

Even as savings institutions aided attempts at social indoctrination, workers' growing deposits demonstrated their increasing aggregate financial power. From the 1870s to the 1910s,

5 See: Appendix 1 and 3; those figures exclude alternative forms of savings institution such as trust companies, national bank savings departments, industrial insurers, and building and loan associations, each of which eventually accounted for a substantial percentage of both savings depositors and aggregate deposits. See Chapter Four concerning that development.

6 For example, see: Joel Schwartz, *Fighting Poverty with Virtue: Moral Reform and America's Urban Poor, 1825-2000* (Bloomington, IN: Indiana University Press, 2000); Viviana A. Zelizer, *The Social Meaning of Money: Pin Money, Poor Relief, and Other Currencies* (Princeton, NJ: Princeton University Press, 1997; orig. 1994); David M. Tucker, *The Decline of Thrift in America: Our Cultural Shift from Saving to Spending* (New York: Praeger, 1991); and Joshua J. Yates and James Davison Hunter, eds., *Thrift and Thriving in America: Capitalism and Moral Order from the Puritans to the Present* (New York: Oxford University Press, 2011)

this recognition motivated entrepreneurs and legislators to design new institutions and to enable old ones to collect savings deposits and invest them widely: industrial life insurance firms, employee thrift plans, trust companies, commercial banks, and a postal savings system all emerged as entrants into the savings business. Meanwhile, organizations like building and loan associations slowly added the extension of working-class credit to the collection of working-class savings. These new institutions gave many Americans increased discretion over how to save (and spend) money. But as they began to utilize them, workers also became a significant component of the nation's for-profit finance economy as both creditors and debtors. In the process, they assumed new financial risk that would help to define their economic experiences for years to follow.

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The financial editor of *McClure's Magazine* claimed in a fashion typical of his contemporaries that savings banks by 1914 comprised "one of the most powerful, if not the most powerful, monetary groups in America."[7] But despite the preeminent importance of savings institutions within the history of the finance industry during this period, there is a general paucity of historiography concerning their development. The notable exceptions are several recent articles and an excellent unpublished dissertation by the historian R. Daniel Wadhwani on the political economic and legal history of savings institutions during the nineteenth and early-twentieth centuries, a provocative comparative study of international savings practices, and a handful of journal articles that are mainly limited to case studies of specific banks in narrowly-

7 Albert W. Atwood, "Your Money and How to Make it Earn: Finance and Insurance," *McClure's Magazine,* vol. XLII, no. 3 (January 1914), 190

defined periods.[8] The last published monograph-length survey of US savings bank history appeared in 1968. Although providing a useful starting point for an overview of the twentieth-century portion of the subject, this work—Weldon Welfing's *Mutual Savings Banks*—confined itself largely to the subclass of savings institutions referred to in the title and dispatched with the eighty-five year history of savings banking before 1900 in a single chapter.[9]

The most exhaustive published survey of the development of savings banks in the nineteenth century remains a product of that century itself: Emerson W. Keyes's two-volume *History of Savings Banks*, a work that provided the inspiration and much of the reference material for Welfling's summary of the period even though Keyes's publication date meant that his history excluded the last two decades of the century.[10] While there are some excellent overviews of savings banking in particular cities (most notably Alan L. Olmstead's *New York City Mutual Savings Banks, 1819-1861)* and case studies of individual institutions (including both Peter Lester Payne's and Lance Edwin Davis's *The Savings Bank of Baltimore* and Carl

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8 See: Rohit Daniel Wadhwani, "Citizen Savers: The Family Economy, Financial Institutions, and Social Policy in the Northeastern U.S. From the Market Revolution to the Great Depression," unpublished diss. (University of Pennsylvania, 2002); R. Daniel Wadhwani, "The Institutional Foundations of Personal Finance: Innovation in U.S. Savings Banks, 1880s-1920s," *Business History Review,* vol. 85, no. 3 (Autumn 2011), pp. 499-528; R. Daniel Wadhwani, "Protecting Small Savers: The Political Economy of Economic Security," *Journal of Policy History,* vol. 18, no. 1 (2006), pp. 126-45; Rohit Daniel Wadhwani, "Banking from the Bottom Up: The Case of Migrant Savers at the Philadelphia Saving Fund Society During the Late Nineteenth Century," *Financial History Review,* vol. 9, no. 1 (April 2002), pp. 41-63; Sheldon Garon, *Beyond Our Means: Why America Spends While the World Saves* (Princeton, NJ: Princeton University Press, 2012), Lance Edwin Davis and Peter Lester Payne, "From Benevolence to Business: The Story of Two Savings Banks," in *The Business History Review,* vol. 32, no. 4 (Winter, 1958), pp. 386-406, and George Alter, Claudia Goldin, and Elyce Rotella, "The Savings of Ordinary Americans: The Philadelphia Saving Fund Society in the Mid-Nineteenth Century," in *The Journal of Economic History,* vol. 54, no. 4 (December, 1994), pp. 735-67

9 Weldon Welfling, *Mutual Savings Banks: The Evolution of a Financial Intermediary* (Cleveland: The Press of Case Western Reserve University, 1968)

10 See: Emerson W. Keyes, *A History of Savings Banks in the United States,* 2 vols. (New York: Bradford Rhodes, 1876 and 1878). For other pre-Welfling works of savings bank history, see: Franklin J. Sherman, *Modern Story of Mutual Savings Banks: A Narrative of Their Growth and Development from the Inception to the Present Day* (New York: J.J. Little and Ives, 1934) and Alan Teck, *Mutual Savings Banks and Savings and Loan Associations: Aspects of Growth* (New York: Columbia University Press, 1967)

Osthaus's *Freedmen, Philanthropy, and Fraud,* about the Freedman's Bank), they are as yet too few in number and their subjects too geographically or chronologically diffuse to provide an adequate basis for a wide-ranging synthetic history of the subject.[11]

While savings *institutions* have been largely understudied, there is a small but recently growing body of historical literature exploring the related history of *thrift*. Though this subject has received some scholarly attention in the past,[12] renewed interest in thrift appears to be largely attributable to recent debates over personal saving in the wake of the 2007-09 worldwide recession. These circumstances inspired first popular[13] and then scholarly[14] treatments of the subject, yet given the lack of a suitable body of case studies or broadly-focused synthetic histories of savings institutions themselves, such work unsurprisingly tends to focus more on the cultural, intellectual, and social history of thrift rather than its economic, political economic, or otherwise structural manifestations.

While utilizing these thrift studies, "Little Capitalists" nevertheless argues that the cultural manifestations of thrift cannot be understood apart from the effects that savings institutions designed to encourage such a virtue had on the economy and political economy of the nineteenth and early-twentieth century United States. This is not to say that certain manifestations of thrift

11 For works concerning individual banks or banks in specific locations, see: Walter L. Fleming, *The Freedmen's Savings Bank: A Chapter in the Economic History of the Negro Race* (Chapel Hill, NC: University of North Carolina Press, 1927; Westport, CT: Negro Universities Press, 1970), Peter Lester Payne and Lance Edwin Davis, *The Savings Bank of Baltimore, 1816-1866: A Historical and Analytical Study* (Baltimore: Johns Hopkins Press, 1956), Alan L. Olmstead, *New York City Mutual Savings Banks, 1819-1861* (Chapel Hill, NC: University of North Carolina Press, 1976), and Carl Osthaus, *Freedmen, Philanthropy, and Fraud: A History of the Freedman's Savings Bank* (Urbana, IL: University of Illinois Press, 1976)

12 For example, see: David M. Tucker, *The Decline of Thrift in America: Our Cultural Shift from Saving to Spending* (New York: Praeger, 1991)

13 For example, see: Lauren Weber, *In Cheap We Trust: The Story of a Misunderstood American Virtue* (New York: Little, Brown and Company, 2009)

14 For example, see: Yates and Davison, eds., *Thrift and Thriving in America*

—such as the avoidance of wasteful spending—could not have existed without savings institutions; the most obvious example of their ability to do so lies in the popular maxims of *Poor Richard's Almanac,* which predated savings institutions by more than half a century. Rather, it is to argue that such acts of thrift took on different meanings in both individual and social senses when combined with their expression in a financial institution that could channel the capital saved through thrifty endeavor into productive investment. In other words, "thrift" became "saving" through the medium of financial institutions and the series of laws and policies that shaped those institutions. In so doing, institutional saving profoundly affected not only the general cultural understanding of why "thrift" was a virtue but also the society and economy in which that cultural understanding developed.

The relative lack of studies of savings institutions also likely accounts for their general failure to appear in histories that are otherwise keenly attuned to the economic lives of working people. Scant if any reference is made to savings institutions in the myriad scholarly works from the past thirty years concentrating on related areas such as the history of wage labor,[15] philanthropy and anti-poverty crusades,[16] consumption and consumerism,[17] and political

15 For example, see: Lizabeth Cohen, *Making a New Deal: Industrial Workers in Chicago, 1919-1939* (New York: Cambridge University Press, 1990), Paul A. Gilje, ed., *Wages of Independence: Capitalism in the Early Republic* (Madison, WI: Madison House, 1997), Daniel Walker Howe, *What Hath God Wrought: The Transformation of America, 1815-1848* (New York: Oxford University Press, 2007), Alice Kessler-Harris, *Out to Work: A History of Wage-Earning Women in the U.S.* (New York: Oxford University Press, 1982), Seth Rockman, *Scraping By: Wage Labor, Slavery, and Survival in Early Baltimore* (Baltimore: The Johns Hopkins University Press, 2008), and Olivier Zunz, *The Changing Face of Inequality: Urbanization, Industrial Development, and Immigrants in Detroit, 1880-1920* (Chicago: University of Chicago Press, 1982)

16 For example, see: Robert H. Bremner, *American Philanthropy* (Chicago: University of Chicago Press, 1960), Michael B. Katz, *Poverty and Policy in American History* (New York: Academic Press, 1983), Kathleen McCarthy, *American Creed: Philanthropy and the Rise of Civil Society* (Chicago: University of Chicago Press, 2003), and Lawrence J. Friedman and Mark D. McGarvie, eds., *Charity, Philanthropy, and Civility in American History* (Cambridge, UK: Cambridge University Press, 2003)

17 For example, see: Dana Frank, *Purchasing Power: Consumer Organizing, Gender, and the Seattle Labor Movement, 1919-1929* (New York: Cambridge University Press, 1994), Lawrence B. Glickman, *A Living Wage: American Workers and the Making of Consumer Society* (Ithaca, NY: Cornell University Press, 1997), Daniel

economic development.[18] Indeed, the general absence of formal financial institutions of *any* kind in such work has in part led to a recent spate of industry-specific surveys in areas including insurance,[19] pawnshops,[20] building and loan associations,[21] and other credit facilities.[22] What these new studies as a whole demonstrate—and what earlier explorations of working-class Americans have largely ignored—is that US workers have actively engaged with formal financial institutions since the early years of the nineteenth century. This participation defined their economic lives and social roles not simply as producers or consumers of material goods but of capital and currency as well. Insight into the ways in which these aspects of everyday economic life have historically interacted and related to each other is one of the most promising areas of exploration in the developing subfield of scholarly inquiry known as the "history of capitalism."

Nineteenth- and early-twentieth century Americans themselves described most of the

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Horowitz, *The Morality of Spending: Attitudes Toward Consumer Society in America, 1875-1940* (Baltimore: The Johns Hopkins University Press, 1985), Meg Jacobs, *Pocketbook Politics: Economic Citizenship in Twentieth-Century America* (Princeton, NJ: Princeton University Press, 2005), and Charles F. McGovern, *Sold American: Consumption and Citizenship, 1890-1945* (Chapel Hill, NC: The University of North Carolina Press, 2006)

18 For example, see: Richard Franklin Bensel, *The Political Economy of American Industrialization, 1877-1900* (New York: Cambridge University Press, 2000), Howard Bodenhorn, *State Banking in Early America: A New Economic History* (New York: Oxford University Press, 2003), and James L. Huston, *Securing the Fruits of Labor: The American Concept of Wealth Distribution, 1765-1900* (Baton Rouge, LA: Louisiana State University Press, 1998)

19 See: Sharon Ann Murphy, *Investing in Life: Insurance in Antebellum America* (Baltimore: The Johns Hopkins University Press, 2010) and Jonathan Levy, *Freaks of Fortune: The Emerging World of Capitalism and Risk in America* (Cambridge, MA: Harvard University Press, 2012)

20 See: Wendy A. Woloson, *In Hock: Pawning in America from Independence through the Great Depression* (Chicago: University of Chicago Press, 2009)

21 See: David Mason, *From Building and Loans to Bail Outs: A History of the American Savings and Loan Industry, 1831-1995* (New York: Cambridge University Press, 2004)

22 For example, see: Lendol Calder, *Financing the American Dream: A Cultural History of Consumer Credit* (Princeton, NJ: Princeton University Press, 1999) and Louis Roland Hyman, *Debtor Nation: The History of America in Red Ink* (Princeton, NJ: Princeton University Press, 2011)

working- and eventually middle-class finance institutions that have garnered the recent attention of historians as facilities for "saving." By this, such contemporaries meant that patronizing these institutions entailed the directed use of money that was not needed for immediate expenditure in order to provide for future wants. That deceivingly simple observation should hopefully suggest that focusing on institutional saving as a category in its own right—as opposed to the constitutive institutions that enabled it—is a productive way to consider how these disparate histories might be assembled into a coherent whole.

Juxtaposing and augmenting each of these areas of historical study, "Little Capitalists" asserts that by approaching saving as an institutional act that was not limited to one type of institution or transaction, one can better see the manner in which nineteenth- and early-twentieth century American capitalism more generally was as much a set of linked cultural, political, and social principles as it was a specific system of economic transactions. It can help to further demonstrate how the developing capitalism of the nineteenth century, in the words of historians Michael Zakim and Gary J. Kornblith, "reached far beyond the purview of capital, and even of the economy, and offered a comprehensive vision of the social order that prescribed new roles for government, family, and the individual while declaring that they now applied to everyone."[23] As one of the primary mechanisms by which many Americans engaged finance capitalism, institutional saving was one of the most important areas in which that vision was forged.

* * * * *

"Little Capitalists" tells the history of American savings institutions and ideologies from the first savings banks of the early-nineteenth century to the establishment of institutional saving

23 Michael Zakim and Gary J. Kornblith, eds., *Capitalism Takes Command: The Social Transformation of Nineteenth-Century America* (Chicago: University of Chicago Press, 2012), 1-2

as a primary element of the US finance economy during the early-twentieth century in two roughly equal parts. The first three chapters trace the development of mutual savings banks from their origins in the second decade of the nineteenth century through their remarkable antebellum growth and contribution to the US Civil War, ending in the early 1870s when the first major institutional competitors for small savings emerged to challenge that class of institutions. The following three chapters pick up the story in the 1870s and take it to the early 1910s. They demonstrate how the increasing economic importance of small savings to the overall ability of US financial institutions to aggregate capital for investment helped to encourage both the growth and diversification of the institutional savings sector while simultaneously strengthening the cultural and political economic association of mass institutional saving with national prosperity.

Chapter One details the origins of the first American financial institutions explicitly aimed at depositors of limited economic means. It shows how social reformers and politicians fearful of a growing impoverished urban working class and inspired by a rich transatlantic reform literature founded the first US savings banks in the 1810s as philanthropies designed to teach basic financial and moral lessons to American workers. It then follows the transformation of savings banks from the relatively modest tools of anti-poverty crusaders in the 1810s and 1820s into some of the most important aggregate sources of investment capital in the national economy (particularly in the Mid-Atlantic and New England states) by 1860. At the same time, the increasingly widespread access to savings banks that Americans enjoyed fueled the belief that these institutions could live up to their promise as tools of mass economic security and education while simultaneously providing the public services of channeling capital into investments and reducing poverty and its attendant social ills. In other words, Chapter One demonstrates how the development of an economy and political economy based on the widespread use of wage labor was inextricably linked to the development of a finance industry aimed at cultivating wage laborers as customers.

While savings banks began as local institutions designed to solve local problems, by the mid-nineteenth century they had attracted attention for their potential to transfer investment capital not only from workers to local or regional governments and businesses but also to the federal government. Chapter Two explores several important implications of this realization. First, it discusses the role that institutional savings played as a fruitful source of finance for the Union government during the Civil War, particularly focusing on the bond issues marketed by Jay Cooke & Co., the increasing attention of governments at both the state and federal level to savings bank deposits as a potential source of tax revenue, and the related emergence of a loosely-knit national savings infrastructure. Secondly, it argues that the success of savings banks up to and during the Civil War as well as the changing financial regulatory environment embodied in the National Banking Act combined to encourage the creation of new financial institutions—most notably, state commercial banks—that tried to provide alternatives to mutual savings banks as an avenue for US workers' productive saving. Lastly, it describes how growing numbers of Americans entered the industrial workforce in a period of increasing economic uncertainty, leading savings advocates to re-double their efforts to portray savings institutions as means to turn capitalist virtues like thrift and self-denial into an effective bulwark against the very risks that workers were exposed to as a result of their growing integration into a capitalist finance economy.

Chapter Three also covers the period during and immediately following the Civil War, but focuses specifically on the history of the Freedman's Savings and Trust Company as a case study in the way that savings advocates in the mid-nineteenth century envisioned their institutions to be tangible expressions of political and social economic ideals. The Freedman's Bank (as it was commonly-known) was the brainchild of a coalition of social reformers, educators, Congressmen, and agents of the Union Army who believed in the power of organized "free labor" and independent petty capitalism to bring about social equality for African Americans in the decade after the Civil War. Their attempt to encourage this development through a privately-run savings institution—rather than a government body or a form of direct aid, such as land redistribution—demonstrated their depth of commitment to the idea that the faithful execution of savings and thrift was sufficient to bring about a wholesale transformation in the social and economic status of wage laborers, even former slaves. When the Freedman's Bank failed during the Panic of 1873, its supporters in the federal government declined to offer aid to the bank's depositors—most of whom were just a few years removed from slavery—lest they dilute the lesson that capitalist investment carries with it a risk equivalent to its promised reward.

Returning to the chronological progression of the development of the savings industry, Chapter Four charts the rapid diversification and growth of small finance institutions from the 1870s to the 1910s. This included the expansion of both mutual and commercial savings banks that had already established a place within the US finance economy. But as the sector continued to grow along with the prevalence of wage labor, increasing deposit figures convinced a wide range of financiers, political economists, and policymakers that the nation's future finance potential rested on the ability to aggregate the small capital contributions of the majority of the US population as much as it did on the large contributions of the wealthy.

Chapter Four argues that one of the main consequences of this realization was to inspire a host of for-profit alternative savings institutions—frequently encouraged by government—that slowly grew to collectively overtake mutual savings banks as the primary way in which ordinary Americans engaged the national finance economy. These innovations ranged from the development of savings departments within national banks and trust companies to the creation of essentially new institutions such as industrial insurance companies and employee stock purchase plans. While many advocates of these initiatives characterized them in the older terms of benevolent participatory capitalism that had long comprised the primary self-image that mutual savings banks promoted, their for-profit nature and overall lack of protective regulation meant that the workers who frequently had no choice but to use one of these new institutions or go without savings facilities of any kind were exposed to increased personal risk in the name of aggregate economic growth.

Having outlined the complicated institutional history of the savings industry from the 1870s to the 1910s, "Little Capitalists" then turns, in its final two chapters, to an analysis of that history's broader cultural, intellectual, and social effects in the context of both related international developments and specific domestic concerns. Chapter Five outlines the development of a body of political and social economic thought that linked a nation's ability to efficiently marshal its capital to its ability to compete with other countries of the world for economic and cultural dominance. It demonstrates how a transition from emphasizing the social benefits that accrued to the individual savings depositor to those that accrued to the nation as a whole emerged out of increased international engagement, the rapid contemporary development of savings facilities in the rest of the world, and perpetual fears that a failure in the field of national investment would augur the end of American “civilization.” Chapter Five suggests that understanding the dynamics of this shift can also help to explain the creation of the final major institutional finance innovation of the era: the establishment of a US postal savings system after nearly four decades of unsuccessful popular and political campaigns to do so.

As with the Freedman's Bank in Chapter Three, the focus of Chapter Six is a case study of one novel expression of savings rhetoric and institutional structure in order to highlight the broader cultural, social, and political issues at stake in the economic developments of the period. In this case, the movement to teach and practically extend institutional savings methods to school children through classroom curricula is followed from its origins in the international social economics movement of the 1870s and 1880s to its expression in the United States as a method for using formal schooling to create a working class defined by its practical and ideological support of capitalism in the twentieth century. While school savings programs both paralleled and helped to fuel the institutional and ideological changes in the savings industry discussed in the previous two chapters, their explicit focus on shaping children's financial beliefs and actions as a way of training future generations for integration into the US finance economy set them apart from most earlier ventures. Not economically significant due to the extremely small average deposits of schoolchildren, the resources that local school districts, banks, and social philanthropists expended on such programs signaled their commitment to the idea that the creation of a body of worker-capitalists through savings was possible—even if extant savings institutions had seemed to only partially fulfill this mission (if they did so at all).

In this respect, the school savings movement was noteworthy for its intersection with a wide range of other reform movements from the late-nineteenth and early-twentieth centuries, including the development of social economics as a field of academic study and government practice, progressive educational reforms touching on the extension of public schooling and the nature of childhood instruction, and the resurgence of the international temperance movement exemplified by the activities of the Woman's Christian Temperance Union. School savings also influenced attempts by “regular” savings institutions to find new ways to reach the depositors that they increasingly had to compete for, including the widespread development of stamp savings programs, growing agitation for a relaxation of branch banking prohibitions, and even the development of the nation's first automated teller machines. As such, the school savings movement's early years illustrate the close connection between ideologies about working-class finance and those concerning social reform in general while demonstrating the degree to which that reform was devoted as much to promoting existing savings institutions and ideals as it was to protecting those Americans that were displaced by the capitalist economy and society they helped to finance.

A brief Epilogue concludes “Little Capitalists” by pointing in a general way to some of the most noteworthy lasting effects of the development of savings institutions and ideologies outlined in the main body of the work.

*     *     *     *     *

American savings institutions began as a group of social experiments designed to foster an independent working class in the early-nineteenth century. By the early-twentieth century, they had spawned both an ideology of saving at the center of popular perceptions about good citizenship *and* a small finance industry that was indispensable to the US economy. Institutional saving thus blurred the conceptual lines between economic and social activity and helped to establish a widely held set of capitalist values that transcended their roots in economic arrangements and frequently justified economic action on the basis of its supposed social value. "Little Capitalists" describes how that transformation occurred.

**Chapter One**

# Saving Capitalism: The Rise of Savings Banks, 1816-1860

## *Introduction*

Writing in 1828, the American political economist Willard Phillips claimed that "the establishment of savings banks ought to be celebrated as a great event in the world." As he explained, "a bank of this sort . . . by alluring small deposits from those becoming small capitalists out of their surplus wages, encourages them to economy, and secures them from loss by the injudicious investment of their savings." Following the example set by the first pioneering small savers, "all the members of the community . . . are brought into the class of capitalists." As a result, Phillips asserted, "such an institution must have a great moral as well as economic influence."[1] Nearly thirty years later, Connecticut printer George Beckwith broadly agreed. Publishing a book of tables illustrating the results of applying compound interest to a wide range of principal balances over periods extending from six months to fifty years, Beckwith wrote that "the country abounds in savings banks." He insisted that financial security could therefore be attained by *"any person* who has comfortable health, . . . is reasonably industrious," and who

1 Willard Phillips, *A Manual of Political Economy* (Boston: Hilliard, Gray, Little, and Wilkins, 1828), 158. On Phillips's generally overlooked role in early US political economic thought, see: James H. Thompson, "Willard Phillips: A Neglected American Economist," *History of Political Economy,* vol. 16, no. 3 (Fall 1984), pp. 405-21

used these institutions.[2]

Phillips and Beckwith each anticipated savings banks' national reach before such a development had fully come to pass. For his part, Phillips only cited one specific US savings bank—located in Boston—even though he referred generally to "the [significant] number of these institutions in the country, and the . . . great effect in promoting the industry and augmenting the resources of the community by the addition thus made to active capital."[3] Even though savings banks had further multiplied and spread geographically by the time that Beckwith wrote, they were still primarily limited to states north of Virginia and east of the Mississippi River. Yet both evaluations correctly suggested that savings banks had achieved a critical role in economies of both personal and regional scales in the areas in which they operated. They were the only common financial institutions anywhere in the country that handled small deposit transactions of a dollar or less and paid interest on them. As a result, savings banks occupied a substantial and crucial niche in an economy increasingly based on cash payments for both wages and ordinary expenses. This was especially true in the New England and Mid-Atlantic states where savings banks first spread widely. In Massachusetts, for example, these institutions held just more than $45 million in deposits at the end of 1860, a respectable amount compared to the $67 million issued in commercial bank stock within the state.[4]

Even as Phillips and Beckwith asserted the importance of savings banks, however, they also felt compelled to explain and promote their further use. This fact betrayed how novel these

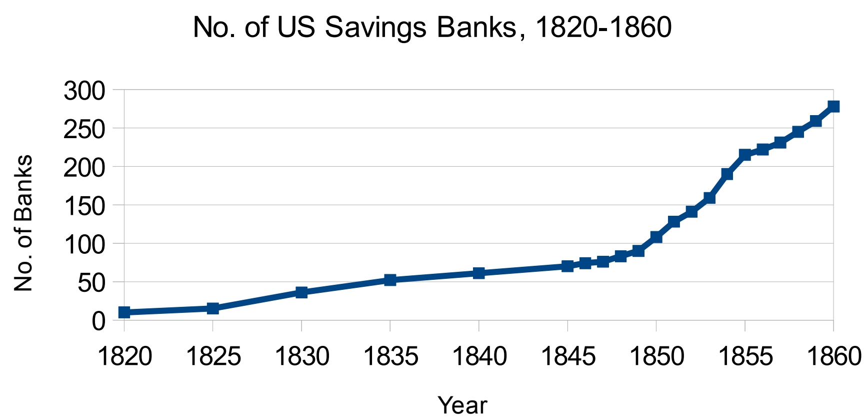
2 George Beckwith, *The Fruits of Economy; or Interesting Tables, Showing the Amount of Different Sums. . .Saved Daily* (New Haven, CT: George Beckwith, 1857), 3-4; emphasis in original

3 Phillips, *Manual of Political Economy,* 252-53

4 Massachusetts. Bank Commissioners. *Annual Report of the Bank Commissioners, September 30, 1861* (Boston: William White, 1861): 4-5 and 106. The figure is even more impressive considering that bank stock accounted for approximately 18% of the total assets declared by the Massachusetts savings banks that submitted statements of their condition to the Bank Commissioners in 1861. See: *Annual Report* (1861), 108-33

institutions still were in the antebellum United States. The first two American savings banks opened in 1816, but only seventy operated throughout the country as late as 1845. Fifteen years later, that number had jumped to 278.[5] [See: Figure 1.1 and Appendix 1] The total number of

Figure 1.1




open savings accounts nationwide grew from about 145,000 to near 700,000 over the same period, with many more depositors opening and closing accounts before being included in aggregate figures. Total deposits increased at an even faster rate, from about $25 million in 1845 to roughly six times that figure in 1860.[6] [See: Figures 1.2-3 and Appendix 1]

Contemporaries described this growth as a necessary response to several changes in the antebellum economy and society. Some felt that rising industrial wages simply demanded new outlets for the productive use of money by the working classes. But many more saw savings banks as a way that social reformers could combat rising rates of poverty, crime, intemperance,

5 US Comptroller of the Currency, *Annual Report* (1920), I, 241

6 The growth rates of both current and inflation-adjusted aggregate deposits were comparable. Savings bank figures are from: US Comptroller of the Curreny, *Annual Report* (1920), I, 241. Estimated inflation is based on the consumer price index derived in: Paul A. David and Peter Solar, "A Bicentenary Contribution to the History of the Cost of Living in America," *Research in Economic History* 2 (1977), 16

Figure 1.2

No. of Open Accounts in US Savings Banks, 1820-1860

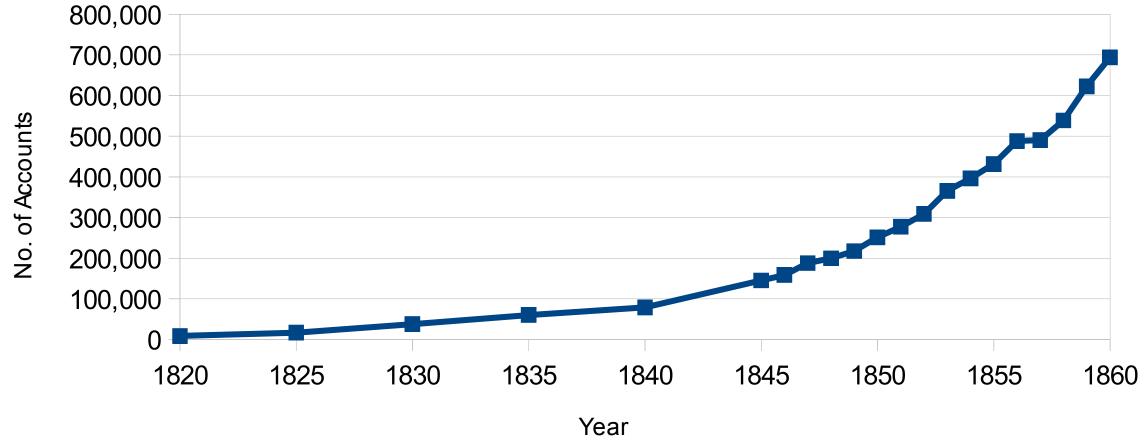
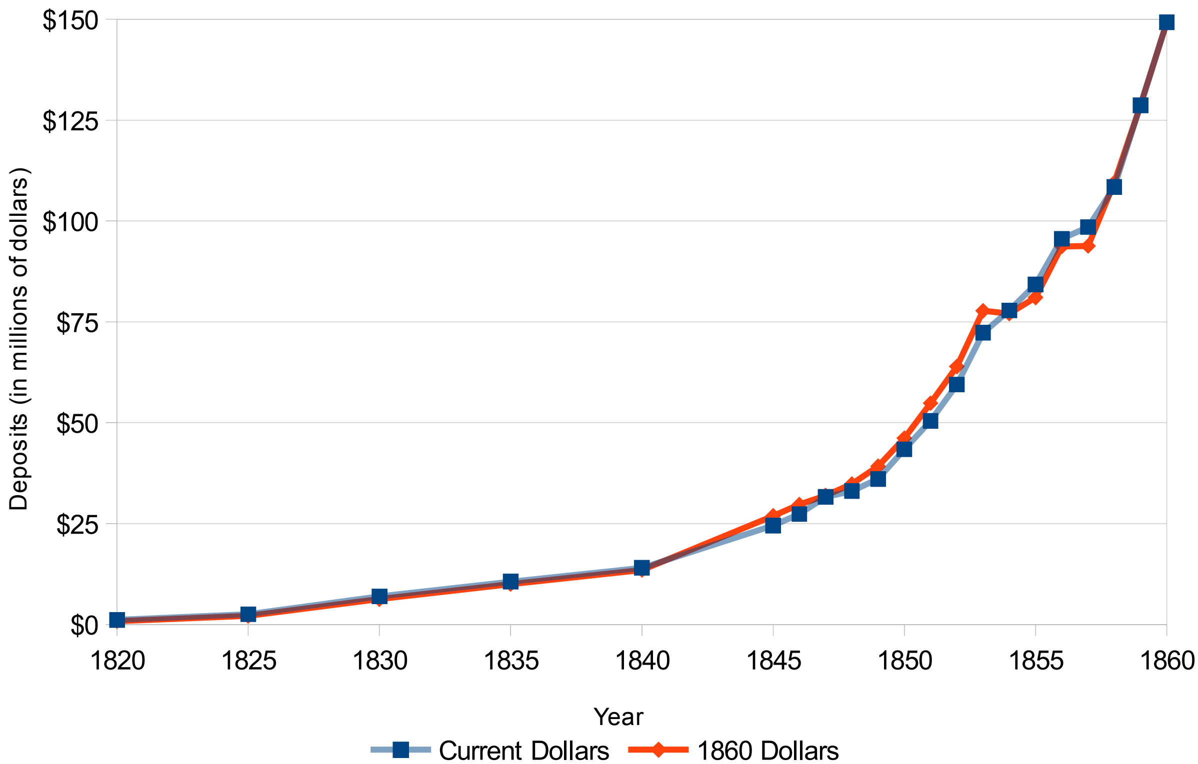



Figure 1.3

Aggregate Deposits in US Savings Banks, 1820-1860



and other ills that they associated with urban development. These explanations portrayed savings banks as tools to control workers rather than services demanded by them. For example, the initial report of the first New York City savings bank explained in 1820 that these institutions could reduce "the public burdens . . . inspire a spirit of independence, and in their moral operation lessen crime, poverty and disease."[7] Over the course of the antebellum period, state governments similarly pointed to the connection between "the condition of the poorer classes" and "the material welfare of the State" in order to justify the number of savings bank charters they granted.[8]

While these and related explanations frequently motivated the organizers and directors of savings banks, the hundreds of thousands who used these institutions before the Civil War likely did so in large part because they were by far the most common financial institutions available to people with relatively little money. In a cash and wage-labor economy, it wasn't only bankers and businessmen who earned surplus income and sought security for or profit from it. Savings banks were the first and most widespread of such institutions to provide these benefits for people without enough money, financial knowledge, or inclination to execute their own investment transactions. As a result, many contemporaries viewed savings bank depositors as "little capitalists" because the institutions transformed their deposits from plain money into productive *capital* as a result of the interest they generated through investment, an outcome they considered to be a first step towards greater worker participation in capitalist financial practices.[9] Repeating

7 Bank for Savings in the City of New-York, *First Report of the Bank for Savings in the City of New-York* (New York: Clayton & Kingsland, 1820), 10

8 Massachusetts. Bank Commissioners, *Annual Report of the Bank Commissioners, September 30, 1861* (Boston: William White, 1861), 155

9 Commentators frequently described savings bank depositors as "capitalists" throughout the nineteenth century, though they often either implicitly or explicitly distinguished them from people whose *primary* source of income was their capital or other property. For example, writings as varied as the excerpt from Willard Phillips that

this process millions of times over the course of the nineteenth century, savings banks helped to integrate their depositors more fully into capitalist society than they otherwise would have been.

The implications of antebellum savings banks for the development of American society were therefore profound. As capitalist arrangements defined by consolidated investor ownership and wage employment became more common in certain areas of the country—particularly the northeastern states—workers in these regions increasingly lost control over the conditions of production. But by providing a secure outlet for surplus wages, savings banks could theoretically help workers assert more control over their financial lives in a cash-based economy. In so doing, they provided a potent example to those who wished to refute the argument that a loss of control over production would eliminate opportunities for advancement as a result of individual merit. By potentially allowing anyone to be his or her own "capitalist"—in the common nineteenth-century sense of "a person who owns and invests capital" rather than the narrower connotation of someone who makes his or her *primary* income from returns on investment—savings banks complicated any attempt to distinguish neatly between the interests of economic classes.[10] According to savings bank promoters, these new institutions provided every hard worker with the necessary tools to succeed by merit in a new economic system predicated on wage labor and capital accumulation.

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opens this chapter and an 1876 short story encouraging savings bank patronage utilized the phrase "small capitalists" or "little capitalists" to describe savings bank depositors. See: Phillips, *Manual of Political Economy*, 158, and "The First Deposit," in *Safeguard Almanac for the Year 1876* (New York: Bradford Rhodes, 1876), 20

10 The power of such an argument to appeal to antebellum workers is evident in Sean Wilentz's description of the many artisans in the trade union movement of the 1830s and 1840s who felt threatened by their loss of inidividual proprietorship but were "cognizant of economic inequality" and held "ideas on political economy [that] differed little from those popular in entrepreunerial circles." Above all else, they viewed themselves as "small producers looking out for their 'self-interest and self-preservation,'" who believed in the promise of capitalism so long as they felt that they weren't structurally excluded from its benefits. See: Sean Wilentz, *Chants Democratic: New York City & The Rise of the American Working Class, 1788-1850* (New York: Oxford University Press, 1984), 238-39

Just as many contemporaries observed the emergence of a large sustained wage-earning class—and the problems they associated with its growth—in social and political terms as well as economic ones,[11] early savings bank promoters claimed a broad social mission for their institutions. They insisted that savings banks served as forums for learning virtuous habits that were as beneficial in terms of civic service and personal health as they were financially. All depositors did not endorse such views and several prominent voices criticized their essential logic. But if only for narrow economic purposes, depositors flocked to the banks. As a result, these institutions became key elements in pro-capitalist efforts to associate money with virtue. Numerous observers believed that they could therefore measure abstract qualities such as morality based on the amount of money a person or group deposited in a savings bank. The history of antebellum institutional savings thus illustrates one key medium through which the idea that social value is indistinguishable from economic value came to be a central tenet of nineteenth-century social thought. That these institutions fostered such an idea at the same time that they integrated a new class of wage earners into the national finance economy is far from coincidental.

### *Founders and foundations*

Beginning in the 1790s, expanded domestic manufacturing and increased long-distance trade contributed to urban growth throughout the United States. This was especially true in Atlantic port cities including New York, Philadelphia, Boston, and Baltimore.[12] Yet this rapid

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11 For two surveys of this phenomenon, see: Charles Sellers, *The Market Revolution: Jacksonian America, 1815-1846* (New York: Oxford University Press, 1991) and Daniel Walker Howe, *What Hath God Wrought: The Transformation of America, 1815-1848* (New York: Oxford University Press, 2007)

12 Eric H. Monkkonen, *America Becomes Urban: The Development of U.S. Cities and Towns, 1780-1980* (Berkeley, CA: University of California Press, 1988), 62-66

growth almost always bred a set of specific crises. Epidemic diseases such as yellow fever and cholera seemed to concentrate in overcrowded cities.[13] Urban areas with comparatively larger transient populations saw increased reliance on public and charity relief than did rural communities where family members or neighbors might otherwise be relied upon.[14] And whether or not drinking, gambling, prostitution, and crime were more common in cities than elsewhere, the density of an urban environment certainly made these activities more apparent.[15] Famously appearing in Thomas Jefferson's writings as a counterpoint to virtuous country life, the ill-health, vices, and poverty that seemed to thrive in cities were popular themes in commentaries of the early national period.[16]

Contemporary critics generally viewed these problems as the inherent products of urban life. As Jefferson wrote to Benjamin Rush in 1800, "I view great cities as pestilential to the morals, the health and the liberties of man."[17] Such ills could be contained within city limits but could not be fundamentally resolved there. Yet as cities increased in both number and size, so too did the chorus of commentators and activists who believed that urban renewal was both possible

13 See: Charles E. Rosenberg, *The Cholera Years: The United States in 1832, 1849, and 1866* (Chicago: University of Chicago Press, 1987)

14 Robert A. Gross, "Giving in America: From Charity to Philanthropy," in *Charity, Philanthropy, and Civility in American History*, Lawrence J. Friedman and Mark D. McGarvie, eds. (New York: Cambridge University Press, 2003), 34-44

15 For two good overviews of how contemporaries understood these problems to be concentrated in cities, see: Christine Stansell, *City of Women: Sex and Class in New York, 1789-1860* (Urbana, IL: University of Illinois Press, 1982), 3-10, and Kathleen D. McCarthy, *American Creed: Philanthropy and the Rise of Civil Society* (Chicago: University of Chicago Press, 2003), 79-92

16 See: Bender, *Toward an Urban Vision: Ideas and Institutions in Nineteenth Century America* (Baltimore: The Johns Hopkins University Press, 1982; originally pub. by the University Press of Kentucky, 1975), 3-7, 21-26*;* Paul Boyer, *Urban Masses and Moral Order in America, 1820-1920* (Cambridge, MA: Harvard University Press, 1978), 3-6

17 Quoted in: Bender, *Toward an Urban Vision,* 21

and necessary for further growth.[18] These reformers based their faith on the assumption that the myriad problems associated with cities arose from a set of complex but identifiable causes that the urban environment developed and mediated but that were not endemic to it. For example, growing numbers of city-dwellers in the early- to mid-nineteenth century understood epidemic disease as a consequence of stagnant or otherwise contaminated water supplies rather than the inevitable result of urban crowding. The solution to the problem of disease therefore became simple: by improving the cleanliness of water sources and the availability of sewage drainage, a city could be made as healthy as the low-density countryside.[19]

Because an improvement in one area of urban life might lead to an improvement in many others, promoters of particular projects tended to make expansive claims for them. Access to clean water supplies again serves as a good example. As Walter Channing, an antebellum Boston doctor, explained: poor people's "wretched, dark ill-ventilated rooms are scarce ever washed. Their persons are foul. Their clothing dirty." More than simply being a case of hygiene, a lack of proper access to water was the source of a panoply of evils. In Channing's mind, "every thing about them is most wretched . . . most unfit to minister to self-respect, or to promote physical health, or moral progress." As a result, "they become—are they not made—intemperate by such hard trial of virtue." As Michael Rawson has shown, such logic played a role in encouraging

18 Boyer, *Urban Masses,* 6-21 and throughout. Historian Richard L. Bushman has demonstrated a trend of people associating "refinement and polish" with cities and "coarseness" with rural areas that gained strength as large cities grew in the early nineteenth century. See: Richard L. Bushman, *The Refinement of America: Persons, Houses, Cities* (New York: Alfred A. Knopf, 1992), 353-65; quotation on p. 353. Of course, the same commentators that praised urban life also specified that cities were often home to particular districts that were "beyond the bounds of civilization." See: Bushman, *The Refinement of America,* 365-70; quotation on p. 365

19 See: Letty Anderson, "Hard Choices: Supplying Water to New England Towns," in *The Journal of Interdisciplinary History,* Vol. 15, no. 2 (Autumn, 1984), pp. 211-34: 214-16. This theory became particularly popular by the 1840s and 1850s, but even then incited prominent skeptics. See: Maureen Ogle, "Water Supply, Waste Disposal, and the Culture of Privatism in the Mid-Nineteenth Century American City," in *The Journal of Urban History,* Vol. 25, no. 3 (March 1999), pp. 321-47: 321-26

Boston's construction of a municipal water system in the 1840s as reformers such as Channing implicated the water supply in everything from health to "self-respect" to morality to temperance to poverty.[20] Taking similar attitudes, many antebellum urban reformers expressed a belief that addressing or alleviating any single cause could lead to both direct and indirect improvements for a variety of urban problems.

One flaw in this assessment was that multiple causes might exist for any particular problem. As reformers pointed out, disease could also be the result of impure air emanating from businesses such as tanneries. Poverty could also stem from immoral tendencies amongst the poor. Theft and other crime could also be the effect of intemperate alcohol consumption. Because of this caveat, urban reformers in the early nineteenth century often advocated multiple solutions to the same problem even while attempting to approach multiple problems at the same time. Commonly operating as members of social or philanthropic organizations, these reformers proposed a vast assortment of solutions designed to combat issues such as disease, crime, poverty, intemperance, prostitution, and violence. These included the organization of hospitals, public dispensaries, tract societies, schools, prisons, orphanages, work-houses, asylums, and, eventually, savings banks.[21]

It was within this context that essayist James Mease asserted that "one of the first duties of a great city is to apply the remedies that may be in its power, to the evils necessarily arising from

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20 See: Michael Rawson, "The Nature of Water: Reform and the Antebellum Crusade for Municipal Water in Boston," *Environmental History,* vol. 9, no. 3 (July 2004), pp. 411-35: 417-22; Channing quotation on p. 419

21 See: Boyer, *Urban Masses*; W. David Lewis, *From Newgate to Dannemora: The Rise of the Penitentiary in New York, 1796-1848* (Ithaca, NY: Cornell University Press, 1965); Charles E. Rosenberg, *The Care of Strangers: The Rise of America's Hospital System* (Baltimore: The Johns Hopkins University Press, 1995); David Rothman, *The Discovery of the Asylum: Social Order and Disorder in the New Republic* (Boston: Little,Brown, 1971); and Christine Stansell, *City of Women: Sex and Class in New York, 1789-1860* (Urbana, IL: University of Illinois Press, 1982)

its own extensive population."[22] Mease knew firsthand about the evils that a large concentrated population could produce. A medical doctor and a native of Philadelphia, he had helped shepherd the city through annual outbreaks of yellow fever from 1793-1799 and again in 1802. He had even contracted the disease during his first year of treating patients.[23] But despite the high mortality rates of these epidemics, the city's booming economy helped it acquire a population second only to New York City's in 1810. As Mease explained elsewhere, people migrated to Philadelphia because "whatever be the calling of the man, he can easily make more [here] than will support his family." Additionally, "the great encouragement given to every class of mechanics, induces more of them to settle here than in other cities."[24]

But along with population and economic production came unrest. As Mease understood it, one of the most troubling issues facing Philadelphia was the presence of a large working population who "squander [their wages] in useless and perhaps vitious gratifications, creating factitious wants, and inducing habits of idleness, which lead to misery, then to crimes, and finally to punishment." What some might consider the result of personal weakness, Mease saw as a problem that threatened the stability of the entire city because this population was "augmenting the poor-rates, rendering property insecure, and thus multiplying the evils, and diminishing the benefits of a dense population."[25]

If those were the branches of the problem, its less obvious roots lay, paradoxically, in the

22 James Mease, *Archives of Useful Knowledge,* Vol. 1, No. 2 (October, 1810), pp. 125-27: 125

23 William Snow Miller, "James Mease," *Annals of Medical History* 7 (1925), pp. 16-30; James Mease, *The Picture of Philadelphia: Giving an Account of Its Origin, Increase and Improvements. . .* (Philadelphia: B. & T. Kite, 1811), 37-38

24 Mease, *The Picture of Philadelphia,* 38. Historian Bruce Laurie has posited a roughly similar explanation for Philadelphia's large population growth, particularly after the War of 1812. See: Bruce Laurie, *Working People of Philadelphia, 1800-1850* (Philadelphia: Temple University Press, 1980), 7-11

25 Mease, *Archives of Useful Knowledge,* 125

favorable economic conditions and attendant population growth that Philadelphians had lately enjoyed. According to Mease, the city had attracted a "great class of improvident people, who are honest and willing to earn their living, but who do not readily see the means of saving what they earn." As a result, these people "often fall into distress for want of some easy and familiar method of placing their surplus earnings, at one season, in such a situation as to be safe and always within their reach in times of need." In a year during which a single share of the city's Bank of North America traded at an average price of $586, Mease had a point.[26] Luckily, the situation was "not without an obvious remedy."[27]

Mease suggested the creation of a corporation known as a "Chest of Savings," in which deposits—or "credits"—might be treated "with the same formalities as bank shares" even thought they could be made in amounts as little as "one sixteenth of a dollar." In addition to a low minimum deposit, "every credit of five dollars and upwards should entitle the creditor to an interest, at the rate of five per cent. per annum, for any period over sixty days." Withdrawals could be made on demand "without any other formalities except that of presenting" a valid bank-book.[28] With that outline, Mease presented what was likely the first published proposal to create a savings bank in the United States. Although Mease himself appears never to have been directly involved in the operation of such an institution, two groups of reformers in Boston and Philadelphia independently organized the first savings banks in American history just six years later. They did so for many of the same reasons, under much the same plan, and in a similar context to that which Mease described.

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26 Robert E. Wright, "Bank Ownership and Lending Patterns in New York and Pennsylvania, 1781-1831," in *The Business History Review*, Vol. 73, no. 1 (Spring 1999), pp. 40-60: 43

27 Mease, *Archives of Useful Knowledge,* 125-26

28 Ibid., 126

The circular letter announcing a meeting to organize one of these original American savings banks, the Provident Institution for Savings in the Town of Boston, declared that "it is generally thought that the young and industrious in all the occupations of life, especially if unmarried, the domestic servants, the journeymen, all classes of artisans, sailors, widows, and others, whose income or earnings at regular intervals exceed their <u>necessary</u> disbursements . . . would thereby be induced to save what now is often squandered."[29] In strikingly similar language, the founders of the first Philadelphia savings bank explained that it would "afford a secure and profitable mode of investment *for small sums* (returnable at the will of the depositor on a short notice) to mechanics, tradesmen, labourers, servants *and others,* who have no friends competent or sufficiently interested in their welfare, to advise and assist them, in the care and employment of their earnings." This was particularly necessary because many of these people "frequently, from a total ignorance of the accumulating power of money, neglect to provide beyond the wants of the day." Recalling Mease's pronouncement about the "duties of a great city," the organizers of the Philadelphia Saving Fund Society (PSFS) explained that their institution was necessary because "to promote economy and the practice of saving amongst the poor and labouring classes of the community . . . is a duty incumbent upon all, who by their services or advice have it in their power to effect so desirable an end."[30]

With these nearly identical intentions, the founders of the PSFS and the Provident Institution organized their savings banks on lines similar to each other and to Mease's proposal. According to their initial by-laws, both institutions would be open one day a week for several

29 "Circular Invitation to a meeting re formation of the Inst., 1816 Nov. 18," Provident Institution for Savings in the Town of Boston Records, Boston Athenæum, Series II: Administration, Subseries A: Planning and Bylaws; emphasis in original

30 Philadelphia Saving Fund Society, *Articles of Association of the Saving Fund Society, with an Explanation of the Principles of the Institution and Its Objects* (Philadelphia: W. Fry, 1817), 3; emphases in original

hours during which they would take deposits in amounts as small as one dollar. After accumulating a minimum of five dollars, an individual account would earn interest derived from the conservative investments the bank directors would make from deposited funds. This interest would be payable in semi-annual installments on money that had been deposited for the entire six months prior to the fixed day of payment. If not claimed within a few weeks, the interest would be added to the principal balance of any given account. Rules barred the institutions' officers and directors from receiving direct or indirect compensation for their services, though they were allowed to hire paid clerks or bookkeepers to aid in day-to-day operations. In both banks, part or all of the money in an account could be withdrawn with two weeks' notice by the depositor. (In practice, both institutions customarily waived this requirement and allowed depositors to withdraw their money on demand.)[31]

Nearly every variation between the operating plans of the PSFS and Provident Institution was minor. The PSFS set its initial rate of interest at 4.8 percent per year, for example, while the Provident Institution paid five percent. While both savings banks featured at least twenty-four "managers" from which they elected officers, the duties of those officers were delineated in slightly different ways. More importantly, the organizers of each bank listed different acceptable investments for their depositors' funds. While the Provident Institution limited its purchases to "stock bearing interest, either of the United States, State of Massachusetts, or some bank in the town of Boston," the PSFS gave itself more latitude. It declared only that it would seek

31 The description of the Provident Institution is drawn from its initial Massachusetts charter, but the description of the PSFS is drawn from its initial articles of association and by-laws because Pennsylvania did not grant it incorporation until 1819, two years after it began accepting deposits. Both initial plans included the requirement of two weeks' notice for withdrawal of funds. See: Philadelphia Saving Fund Society, *Articles of Association of the Saving Fund Society, with an Explanation of the Principles of the Institution and Its Objects* (Philadelphia: W. Fry, 1817), 5-9; the Provident's charter is reprinted in James Hilton Manning, *Century of American Savings Banks* (New York: B.F. Buck & Company, 1917), 92-93

investment "in Government Securities, or other substantial Public Stock." Although such distinctions were extremely important for determining what each savings bank financed with its depositors' money, they represented a difference of opinion as to what constituted a prudent and available investment rather than in how they conceived of their overall investment mission.[32]

Each of these rules and methods of operation reflected the attitudes of the institutions' founders. Both savings banks explained that they were open for only a few hours once a week in order to hold down costs. But such a limit was also necessary due to the voluntary status of the bank managers. Because most of them had busy schedules and viewed their savings banks as part-time philanthropies rather than full-fledged businesses, they could not devote sufficient time to keep the institutions open longer. The large number of directors—the Provident had one president, twelve vice presidents, and twenty-four managers—further reflected this attitude, as did the fact that they took no pay. The requirement of giving two weeks' notice to withdraw funds was both a concession to the banks' limited hours of operation and to the time it might take to sell off investments in which deposits were tied up. The fact that savings bank founders deemed this a reasonable requirement—rather than also explicitly allowing demand deposits[33] such as those that commercial banks handled for a wealthier clientele—suggests just how rudimentary the small-value financial system was in the mid-1810s. Depositors accepted the burden of limited access to their funds in order to reap the benefits of the only financial institution available to them.

The model that the Provident Institution and the PSFS established is important not only

32 See: Philadelphia Saving Fund Society, *Articles of Association*, 5-9, and Manning, *Century of American Savings Banks*, 92-93

33 "Demand" deposits are those deposits that can be withdrawn on demand. Savings deposits under such requirements were technically "time deposits" (or "deposits on time"), reflecting the fact that the bank could impose a time gap between a depositor's request to withdraw and his or her receipt of funds.

because they were the pioneering savings banks in the United States, but also because nearly all subsequent antebellum organizers patterned their savings banks on the charters and by-laws of these two institutions. In this sense, the rules of the Provident and PSFS amounted to a short-hand definition of a savings bank prior to 1860. Any depositor could expect that: (1) deposits could be made in very small amounts; (2) deposits accrued interest at regular intervals; (3) withdrawals could be made in any amount up to the balance of deposits plus interest (although sometimes there was a minimum withdrawal), usually at the demand of the account holder (although sometimes advance notice was required); and (4) all deposits would be received and withdrawals paid by a clerk acting without direct interest in the disposal of the funds.

From the management side, these early savings banks were distinguished by: (1) a lack of payment to the officers of the institution; (2) the absence of owners with subscribed working capital; (3) a reliance on a conservative (often legislatively-regulated) investment strategy; and (4) the insistence that all profits from investment ultimately return to the depositors, even if they exceeded an advertised rate of interest. The lack of shareholding investors and the ultimate distribution of all profits to depositors themselves (on a pro-rated basis according only to their total eligible deposits) influenced contemporaries to rapidly adopt the term "mutual savings bank" to describe these institutions. Rather than implying any mutual responsibility for running the bank, the term simply meant that all depositors would mutually share in its investment returns. This drew a stark contrast between these institutions and commercial banks, the investment returns of which accrued solely to shareholders.

It was no coincidence that both the PSFS and Provident Institution opened at nearly the same time on nearly the same model and ultimately inspired hundreds of other examples (including eight in the next four years in cities stretching from Baltimore to Portland, Maine). The organizers of all of these banks drew on their knowledge of a series of proposals and experiences that went back decades. Even James Mease, who was apparently the first American to publish his idea for a savings bank, acknowledged being inspired by institutions recently opened in England as well as an experimental bank that the Comte de Mirabeau organized during the French Revolution.[34] It would not be surprising had Mease also read Thomas Malthus' *Essay on the Principle of Population,* which from its first edition in 1798 had included a lament that "the labouring poor . . . seldom think of the future . . . [and] even when they have an opportunity of saving they seldom exercise it."[35] In the 1803 edition of his widely-read book, Malthus added a suggestion that "country banks" be created to help address this shortcoming. In these institutions, "the smallest sums would be received, and a fair interest paid for them." Malthus also asserted that "it would probably be essential to the success of any plan of this kind, that the labourer should be able to draw out his money whenever he wanted it," much as Mease would agree a few years later.[36]

In turn, earlier experiments in group thrift had inspired Malthus. Mutual benefit or "friendly" societies were common in England since the late-seventeenth century and had a history that went back at least as far as the Incorporation of Carters of Leith in 1555. Generally organized along occupational lines, such societies took their name from the regular "friendly" meetings—often held in taverns—at which members would pay dues and socialize. Although

34 Mease, *Archives of Useful Knowledge,* 126

35 T.R. Malthus, *An Essay on the Principle of Population, as it Affects the Future Improvement of Society. With Remarks on the Speculations of Mr. Godwin, M. Condorcet, and Other Writers* (London: Printed for J. Johnson, 1798), 86-87

36 T.R. Malthus, *An Essay on the Principle of Population; or, A View of Its Past and Present Effects on Human Happiness; with an Inquiry into Our Prospects Respecting the Future Removal or Mitigation of the Evils which It Occasions* (London: Printed for J. Johnson, 1803), 589-90

benefits varied depending on the rules of a particular society, many of them aided members who were temporarily ill or out of work. Some provided a small payment to a member's widow in the event of his death. The idea in all cases was that members could in specified times of need draw upon a central fund composed of contributions made during prosperous times.[37] Friendly societies therefore operated in a manner akin to mutual insurance companies rather than to banks in the nineteenth-century sense.

Small-scale attempts at institutional thrift organized along similar lines appeared in England, Switzerland, Germany, and France at various times throughout the eighteenth century. In some cases, these "banks" would make payments to their dues-payers during times of personal hardship, much as friendly societies did. In other instances, they paid annuities after a depositor in good standing had reached a certain age.[38] In what many historians frequently cite as one of the immediate predecessors to the modern savings bank, the Reverend Joseph Smith organized a "Sunday Penny Bank" in 1799 at his parish in Wendover, England. His congregants deposited pennies at worship during the harvest months and at Christmas received their sums in total with an added bonus—supplied by Smith and two others—of one-third as a reward for their thrift.[39] But in neither the friendly societies nor these more formal institutions could deposits and withdrawals be made at the whim of the account holder, as was the case in later savings banks. Nor—with the exception of Smith's Christmas fund—was a fixed rate of interest guaranteed as a

37 H. Oliver Horne, *A History of Savings Banks* (London: Oxford University Press, 1947), 4-5; David T. Beito, *From Mutual Aid to the Welfare State: Fraternal Societies and Social Services, 1890-1967* (Chapel Hill, NC: University of North Carolina Press, 2000), 5-8

38 Weldon Welfling, *Mutual Savings Banks: The Evolution of a Financial Intermediary* (Cleveland: The Press of Case Western Reserve University, 1968), 6-18; Kathleen McCarthy, *American Creed: Philanthropy and the Rise of Civil Society* (Chicago: University of Chicago Press, 2003), 87-9; Gareth Stedman Jones, *An End to Poverty? An Historical Debate* (London: Profile Books, 2004), 114, 131, and 168

39 Horne, *History of Savings Banks,* 24; William Lewins, *A History of Banks for Savings in Great Britain and Ireland* (London: Low, Son, and Marston, 1866), 18-20

return on deposited savings. Even in the case of Smith's bank, there was no pretense that this interest derived from prudent investment. Instead, it was a charitable reward given to thrifty workers whom their social and economic betters determined to be worthy.

The first institutions that added the essential elements of counter service for transactions and regular interest derived from investment had their tentative starts in the United Kingdom in the first decade of the nineteenth century. By the mid-1810s, however, these small and often rural savings banks had difficulty finding suitable investments with which to produce their interest payments. At the same time, increasing numbers of influential politicians began to point to the savings bank experiment as one that offered hope of providing increased resources to a class that otherwise might find itself on government-subsidized poor rolls. In the context of bitter debates concerning how best to aid the working poor that characterized early nineteenth-century British political economy, the UK Parliament passed an act in 1817 to guarantee interest payments to all savings bank depositors by requiring those institutions to invest their deposits solely in the stocks of the Bank of England.[40]

A healthy transatlantic reform literature and the attention generated by this Parliamentary debate publicized savings banks in the United States, particularly to a body of reformers who voraciously consumed information about all manner of social experiments. For example, Thomas Eddy, an active member of New York City's Society for the Prevention of Pauperism—which founded the Bank for Savings in the City of New-York in 1819—corresponded with Jeremy Bentham, George Rose (who wrote the 1817 British law), and Patrick Colquohoun (another early British proponent of savings banks). He likely borrowed the idea for a savings bank directly from

40 For the early history of British savings banks, see: Horne, *History of Savings Banks,* 39-46, 71-91. For the context of poor relief debates in the early nineteenth century, see: E.P. Thompson, *The Making of the English Working Class* (1963; repr., New York: Vintage Books, 1966)

Colquohoun. In Philadelphia, lawyer and ambassador Condy Raguet was the main organizer of the PSFS. At the time, he was president of the Pennsylvania Life Insurance Company and an oft-published theorist of political economy. The latter interest no doubt accounted for his possession of British pamphlets describing English and Scottish savings banks that he brought to the PSFS's organizational meetings.[41]

In addition to an operational framework, these men borrowed from their British inspirations a tendency to avoid the word "bank" in the names of their institutions. This choice was not incidental. Both the PSFS and Provident Institution sought incorporation at a time when winning a charter for a new bank was a politically volatile issue, often featuring bitter debate, intense lobbying, and even bribery or blackmail.[42] As one of the main organizers of the PSFS remembered some years after the fact: "I suggested the idea that as the name of 'Bank' had become so unpopular with the Legislature, it would be expedient to call the Institution by some other name in order to secure a Charter."[43] Despite the support of influential sponsors such as DeWitt Clinton, the Bank for Savings in the City of New-York's organizers had to fight for three years from 1817 to 1819 to win their charter because of similar aversion to new banks in the New York legislature. The institution even temporarily changed its name to the "Saving Corporation of the City of New York" in an attempt to win over the opposition. As historian Alan Olmstead pointed out, three of the first four savings banks chartered in the United States did not include the word "bank" in their names, in part because of confusion over the difference between

41 Rohit Daniel Wadhwani, "Citizen Savers: The Family Economy, Financial Institutions, and Social Policy in the Northeastern U.S. From the Market Revolution to the Great Depression," unpub. diss. (University of Pennsylvania, 2002), 50-52; James M. Willcox, *A History of the Philadelphia Saving Fund Society, 1816-1916* (Philadelphia: J.B. Lippincott Company, 1916), 11-21

42 Howard Bodenhorn, *State Banking in Early America: A New Economic History* (New York: Oxford University Press, 2003), 12-18

43 Willcox, *History of the Philadelphia Savings Fund Society,* 18

the new *savings* banks and the more established banks of investment and discount.[44]

Apart from politics, early US savings bank founders also distanced themselves from the word "bank" for technical reasons. Unlike commercial banks, the mutual savings institutions modeled on the Boston and Philadelphia examples raised no money through the sale of capital stock and claimed no power to issue or discount bank notes. They also specifically barred their directors from taking any pay or making any profit from their operations. Naming practices continued to reflect these distinctions well into the middle of the nineteenth century. Of the eighteen savings banks operating in New York City in 1861, for example, only half included the word "bank" in their names. Of those, four opened their doors before and four after 1850. (The others favored the word "institution," including the East River Savings Institution, the Institution for the Savings of Merchant Clerks, and the Manhattan Savings Institution.)[45] Even after the Civil War, the widely accepted legal distinction between savings and commercial banks based on the three elements of capital stock, bank notes, and profit persisted in states such as New York and Massachusetts in which it was forged.

### *"To encourage the poor in frugality by the hope of profit"*

Despite avoiding the name, early savings banks such as Boston's Provident Institution and the PSFS claimed one attribute of commercial enterprise for themselves and their depositors: the ability to pay money derived from investment. Many antebellum savings banks even borrowed the term used to describe these payments from their stock-issuing commercial counterparts: "dividends." More than any other factor, the payment of regular interest on deposits that could be

44 Alan L. Olmstead, *New York City Mutual Savings Banks, 1819-1861* (Chapel Hill, NC: University of North Carolina Press, 1976), 9

45 Ibid., 162-81

withdrawn without penalty distinguished savings banks from most older organized savings outlets. Since many contemporary friendly societies reviewed applications for benefits on a case-by-case basis rather than guaranteeing a particular level of financial assistance to members,[46] the flexibility to withdraw funds essentially at will—and with no more than a few weeks notice—coupled with a chance for a small profit made savings banks a particularly attractive option to those of small means. It also somewhat distinguished American savings banks from their British counterparts. As the PSFS advertised: "in England . . . a *specific interest* is not allowed, but in place thereof, such interest is calculated as will be produced from the Government Stocks at the prices of the days upon which deposits are made, and the depositor has at his risk the occasional fluctuations." The explanation proudly concluded that "to avoid such uncertainty, as well as to facilitate the calculation of interest . . . it has in this Institution been deemed most advisable to stipulate the rate of interest whereby all may derive a *similar revenue."*[47]

Early savings banks frequently advertised the regular nature of their interest payments by distributing tables that illustrated the amount of money that could be accumulated through regularly saving a quarter or fifty cents per week and applying compound interest over long periods of times. These displays featured prominently in the promotional material for both the PSFS and Provident Institution, among other savings banks.[48] The emphasis on interest also characterized many of the earliest attempts of savings bank founders to explain their mission to their peers. For example, the first annual report of the Bank for Savings in the City of New-York

46 Beito, *From Mutual Aid to the Welfare State,* 7-9

47 Philadelphia Saving Fund Society, *Articles of Association of the Saving Fund Society, with an Explanation of the Principles of the Institution and Its Objects* (Philadelphia: W. Fry, 1817), 4; emphases in original

48 See: Philadelphia Saving Fund Society, *Articles of Association of the Saving Fund Society, with an Explanation of the Principles of the Institution and Its Objects* (Philadelphia: W. Fry, 1817), 16-18; *Provident Institution in the Town of Boston* (broadside dated February 19, 1817), "Advertisement Posters for Prov. (w/ changes), c. 1816," Provident Institution for Savings in the Town of Boston Records, Boston Athenæum, Series I

explained that many of its depositors had previously lost their money to "the idle, the profligate, the designing, or the unfortunate" who they had chosen to lend their savings to "from their want of some secure place of deposit, and their ignorance how to [otherwise] improve what they had laid up." Other depositors "understand how to invest their money in public funds, yet, anticipating an early use for it, or fearing a loss from the fluctuations of the funds, they preferred letting it lie useless." For both groups, the ability to pay a regular guaranteed interest on a demand deposit made savings banks "almost the only remedy."[49] The act incorporating the PSFS explained more directly that its purpose was "affording to industrious persons the advantages of security and interest."[50] In a private circular letter inviting people to participate in the first planning session for the Provident Institution in Boston, the author did not mince words when he described "its design, to encourage the poor in frugality by the hope of profit."[51]

The Provident Institution further promoted the idea that earning interest from savings could help any diligent worker amass a sufficiency with an 1823 morality play titled *The Brothers, or Consequences*. The script—which the bank published along with a lengthy explanation of the still-novel savings banks—followed the lives of two brothers through courtship and marriage. While Robert immediately spends all of his earnings and marries before first saving enough money to provide a proper home, William saves diligently for seven years before marrying comfortably. Later, when improvident Robert tries to correct his bad habits by depositing in a savings bank, his wife scoffs and asserts that "I cannot see why we should not

49 Bank for Savings in the City of New-York. "First Report of the Bank for Savings in the City of New-York," (New York: Clayton & Kingsland, 1820), 7-8

50 The quotation is from the 1819 charter of the PSFS. See: *An Act Incorporating the Philadelphia Saving Fund Society* (Philadelphia: Philadelphia Saving Fund Society, 1819), 1

51 "Circular Invitation to a meeting re formation of the Inst., 1816 Nov. 18," Provident Institution for Savings in the Town of Boston Records, Boston Athenæum, Series II: Administration, Subseries A: Planning and Bylaws

keep our own money as safe as other people can keep it for us." In contrast, frugal William answers the question of how he "could save so much money in seven years," by explaining that "to be sure, if I had kept it in my box, it would have come to much less, but I put it out to interest in the *Savings Bank,* and that's the way I made it grow so fast."[52]

If earning interest acted as the proximate inducement to use savings banks, it was not the only or even the main benefit that their advocates hoped these institutions would provide to depositors. On the contrary, many early promoters felt savings banks had the power to teach poor people how to make good financial decisions. This view of savings banks drew on a rationale that poverty was usually the result of poor people indulging their own bad "habits"—most commonly by spending beyond their means on alcohol, tobacco, or fancy clothes and furnishings—rather than the result of ill fortune or the unavailability of remunerative employment. Thus, New York City's Society for the Prevention of Pauperism—which organized the Bank for Savings in the City of New-York—explained in an 1819 pamphlet "that poverty is perpetuated, not so much for the want of an opportunity to rise into respectability and property, as from an improvident habit of spending all their earnings; for, notwithstanding the poor are generally dependent on the labor of their own hands, they know very little of the value of money, and less of the ratio of increase, by an accumulating interest upon it."[53] Likewise, the PSFS explained shortly after opening that through savings banks, "habits of needless expenditure, wasteful of health and morals, as such habits are ever, shall be abandoned for those of temperance and

52 *The Brothers, or Consequences, a Story of What Happens Every Day. With an Account of Savings Banks* (Boston: Printed for the Trustees of the Publishing Fund, by Hilliard and Metcalf, 1823), 27 and 41; emphasis in original

53 Society for the Prevention of Pauperism, in the City of New-York, *Documents Relative to Savings Banks, Intemperance, and Lotteries* (New York: E. Conrad, 1819), 4

frugality; and [then] . . . poverty and its attendant vices and miseries shall become strangers."[54]

The assumption that poverty resulted from poor people making poor choices was by no means limited to the founders of early savings banks. The idea lay at the heart of most American charitable organizations—both private and public—in the 1820s and 1830s. Far from taking all comers, these groups often required an extensive investigation into the "worthiness" of an applicant for relief before providing any assistance. Temperance campaigns, for example, similarly alluded to the idea that all money spent on alcohol could be better-spent elsewhere, a common theme in the evangelical sermons of the Second Great Awakening. The idea was not even limited to the working classes: as historian Edward Ballesein has demonstrated, many antebellum observers attributed the frequent bankruptcy filings of merchants and other businessmen to a personal failing on the part of the bankrupt, rather than an inevitable by-product of business cycles.[55] But while this view spawned a number of solutions to the "improvident habits" problem—including visiting societies, temperance societies, work houses, and a large library of self-help literature—savings banks were the only contemporary attempt to inculcate good financial habits in poor people by having those people *actually use financial institutions*.

The importance of this innovation cannot be overemphasized. While previous reformers who sought to inculcate good financial habits in working-class people had focused almost uniformly on the long-term benefits of self-denial, savings bank founders tangibly connected the

54 Philadelphia Saving Fund Society, *Articles of Association of the Saving Fund Society, with an Explanation of the Principles of the Institution and Its Objects* (Philadelphia: W. Fry, 1817), 13

55 See: McCarthy, *American Creed,* 166-72; Monique Bourque, "Poor Relief 'Without Violating the Rights of Humanity': Almshouse Administration in the Philadelphia Region, 1790-1860," in *Down and Out in Early America,* Billy G. Smith, ed. (University Park, PA: The Pennsylvania State University Press, 2004),189-212; Paul E. Johnson, *A Shopkeeper's Millennium: Society and Revival's in Rochester, New York, 1815-1837* (New York: Hill and Wang, 1978); and Edward J. Balleisen, *Navigating Failure: Bankruptcy and Commercial Society in Antebellum America* (Chapel Hill, NC: University of North Carolina Press, 2001), 49-66

savings achieved by that denial to a more immediate gain.[56] Prior to savings banks, a penny saved was merely a penny earned. With the interest offered by a savings bank, it became the seed fund for productive investment. Because having a dollar to one's name was the only requirement necessary to become a depositor in the early savings banks, virtually anyone could become a productive "capitalist" in this (albeit limited) sense. The fact that early US savings banks invested their pooled capital in many of the same securities that commercial banks and private investors did—particularly government bonds and bank stocks—only served to highlight the idea that depositors were active contributors to their own improvement rather than passive participants in a paternalistic scheme. The many depositors in early savings banks who had both the financial acumen and resources to avail themselves of commercial banks, the stock markets, or other speculative investments and yet instead chose to deposit their funds in a savings bank illustrated the successful nature of the attempt to portray savings banks as reliable profit-returning financial institutions. Nevertheless, the response of many antebellum savings bank founders to these well-heeled depositors clearly demonstrates that they still envisioned their service as an introduction to capitalism for poor workers rather than as a general financial business.

As early as 1820, for example, a committee of the managers of the Provident Institution became "convinced . . . that the benefits of the institution had been extensively claimed + enjoyed by persons for whom it was never designed, to the great + manifest injury of others for whose security + moral improvement, the members of this society have cheerfully without the hope of any other reward than w/ consciousness of doing good, offered + afforded their time +

56 For the persistence of "self-denial" rhetoric throughout the antebellum period, see: Wendy Gamber, "Antebellum Reform: Salvation, Self-Control, and Social Transformation," in *Charity, Philanthropy, and Civility in American History*, Lawrence J. Friedman and Mark D. McGarvie, eds. (New York: Cambridge University Press, 2003), 129-53

exertions." As evidence of this conclusion, the committee reported that "of the whole number of depositors within the year, which was 4819, 1790 deposited at one time one hundred dollars and upwards, so that 179,000 out of 269,000 dollars were deposited by a number not exceeding three eighths of the whole number of depositors."[57] Savings bank directors in Baltimore, New York, and elsewhere voiced similar concerns throughout the antebellum period.[58] As a result, savings bank by-laws regularly included limits on either the maximum deposit allowed to a single person or the maximum amount that could earn interest.

As the Provident Institution's committee explained, the problem in these cases was that "it is an evil of incalculable magnitude to society to <u>offer to do that for others which they might learn to do as well for themselves</u>." Such actions would raise "up a class of <u>dependent</u> beings, who if permitted to exert their own faculties would soon acquire skill + talent in the management of affairs which such facilities tend to depress + render inert." Nevertheless, "<u>there are</u> classes of society who from poverty + defect of education or natural powers require the beneficent aid of others . . . to encourage them to frugality, the best security for their morals—to foster in them a sense of the importance of property + thus protect their old age from the calamities + humiliations to which this portion of society are too often exposed." In the eyes of the committee, it was "sound philanthropy" for savings banks to help their depositors "learn to do as well for themselves" what the savings bank did for them, but only to a point. Once depositors learned those lessons, they had to leave their teacher, the savings bank, behind.[59]

57 "Report Mr. Lowell, Decem. 1821," in folder: "Correspondence, discussion on a bill setting the limit for deposits in savings banks, 1818-1854," Provident Institution for Savings in the Town of Boston Records, Boston Athenæum, Series II: Administration, Subseries B: Government Regulations

58 Peter Lester Payne and Lance Edwin Davis, *The Savings Bank of Baltimore, 1818-1866: A Historical and Analytical Study* (Baltimore: The Johns Hopkins Press, 1956), 38; Olmstead, *New York City Mutual Savings Banks,* 50-66

59 "Report Mr. Lowell, Decem. 1821," in folder: "Correspondence, discussion on a bill setting the limit for deposits

Despite the presence of "inappropriate" depositors, the first savings banks did successfully attract large numbers from precisely the classes they were hoping to help. Even the Provident Institution's committee implicitly acknowledged that more than half of their depositors were members of the working classes—or at least people with less than $100 to deposit. Although the Savings Bank of Baltimore—which opened in 1818—regularly returned deposits to those "not entitled to make deposits according to the original object of the Institution," they only determined that eight per cent of the total value of their deposits held in 1828 belonged to depositors of this type.[60] The average savings bank deposit in the United States in 1825 was only about $125, a figure that was no doubt skewed upwards by the large accounts of a small minority of depositors. This fact suggests that many depositors devoted only limited resources to savings banks in their early years.[61]

Meanwhile, these savings banks did almost nothing else to restrict their depositor bases. For example, there was striking diversity in the occupations of depositors in many early savings banks. In the first eleven years during which the Bank for Savings in the City of New-York operated, it had depositors who claimed to be engaged in well over two hundred and fifty distinct occupations. Even one "bond-servant" was listed among the bank's first depositors.[62] One study of the PSFS depositor base from 1836-39 (the earliest sampled) classed eleven percent of its

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in savings banks, 1818-1854," Provident Institution for Savings in the Town of Boston Records, Boston Athenæum, Series II: Administration, Subseries B: Government Regulations

60 Payne and Davis, *The Savings Bank of Baltimore,* 34

61 US Comptroller of the Curreny, *Annual Report* (1920), I, 241

62 Bank for Savings in the City of New-York. "First Report of the Bank for Savings in the City of New-York," (New York: Clayton & Kingsland, 1820), 4; Bank for Savings in the City of New-York. "Sixth Report of the Bank for Savings in the City of New-York," (New York: E. Conrad, 1825), 4; Bank for Savings in the City of New-York. "Eleventh Report of the Bank for Savings in the City of New-York," (New York: Thomas Snowden, 1830), 4-6

depositors as unskilled workers, thirty-eight percent as semiskilled workers, and seventeen percent as skilled workers. Clerks, merchants, peddlers, businessmen, and professionals made up an additional twenty percent, while widows and children composed the final thirteen percent.[63]

The same study of the PSFS also revealed that forty-seven percent of its depositors were women, a figure roughly consistent with many savings banks which eagerly sought both female and male depositors from the very beginning. As one of the earliest advertisements for the Provident Institution put it: "A young man, intending to marry at a future day, and young women, who may expect to change their condition, can here safely lay up a sum against a time when they may want it more."[64] Ethnic diversity also seems to have been part of the savings bank world from the beginning, at least in some cases. For example, New York's Bank for Savings identified 12 percent of its original depositors in 1820 as 'coloured persons,'[65] a figure which remained roughly constant in the years that followed. This number is particularly impressive considering that free African Americans constituted only about 8 percent of New York City's population according to the 1820 Census.[66]

### *The idea catches on*

Paying such close attention to the organization and operation of the PSFS, the Provident Institution, and the Bank for Savings is worthwhile because the founders of these three savings

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63 Wadhwani, "Citizen Savers," 394

64 *Provident Institution in the Town of Boston* (broadside dated February 19, 1817), "Advertisement Posters for Prov. (w/ changes), c. 1816," Provident Institution for Savings in the Town of Boston Records, Boston Athenæum, Series I

65 Bank for Savings in the City of New-York, "First Report" (1820), 4

66 The 1820 United States Census, among others, is available as recorded by the Inter-University Consortium for Political and Social Research run by the University of Michigan and in a searchable format maintained by the University of Virginia Library. See: <http://mapserver.lib.virginia.edu/php/start.php?year=V1820> (accessed 17 April 2014)

banks self-consciously tried to position their institutions as inspirations for a wider movement. That movement spread in the years that followed, as the founders of most antebellum US savings banks based their institutions on these three pioneers. Despite containing no overlapping membership in their boards of directors, even these three savings banks borrowed freely from each other. For example, the Committee on the Subject of a "Savings Bank" of the Society for the Prevention of Pauperism in the City of New-York wrote to the secretary of the Provident Institution in 1819 in order to better understand the workings of that "successful operation in Boston."[67] Meanwhile, the Provident Institution referred to the "similar benevolent institutions" that "are now contemplated in Philadelphia and New York" when it sought its charter in 1816 and it continued to observe its co-pioneers after it opened.[68] Among the Provident Institution's records is an 1826 copy of the PSFS charter and by-laws that the bank furnished with handwritten notes detailing its current state.[69] Early savings banks in places as far flung as Baltimore and Newport, Rhode Island had charters they directly modeled on those of the Provident or PSFS.[70]

The similarities between the pioneering savings banks and their descendents were not limited to operational guidelines. As the nineteenth century progressed, savings bank promoters continued to portray their institutions as philanthropic responses to the problems associated with

67 Society for the Prevention of Pauperism in the City of New-York, *Documents Relative to Savings Banks, Intemperance, and Lotteries* (New York: Printed by E. Conrad, 1819), 5-6

68 William Phillips, et al., "To the Honourable, the Senate and House of Representatives, in General Court Assembled," n.d., in folder: "Copy of Letter to Congress [sic] from founders of the Provident Institution, not dated," Provident Institution for Savings in the Town of Boston Records, Boston Athenæum, Series II: Administration, Subseries A: Planning and Bylaws

69 See: "By-Laws of the Philadelphia Saving Fund Society, 1826," Provident Institution for Savings in the Town of Boston Records, Boston Athenæum, Series II: Administration, Subseries A: Planning and Bylaws

70 Payne and Davis, *The Savings Bank of Baltimore,* 18

urban development and the difficulties that wage-earners who wanted to plan for their financial security faced. When Philadelphia publisher Matthew Carey compiled a list in 1830 of "benevolent societies" in his home city, the PSFS made the list.[71] Similarly, Boston's Society for the Prevention of Pauperism began operation in 1835 "to prevent street beggary, to afford information and assistance to needy applicants for trades and honest labor; and to prevent imposture and pauperism." Its first outreach office was located "in the rear of the Savings Institution, in Tremont Street."[72] Savings bank charters frequently barred most directors from receiving "any pay or emolument" for their services until after the Civil War (although they often granted compensation to a few particularly labor-intensive positions such as president and treasurer).

While most antebellum savings bank founders continued to hew to the philanthropic "mutual" model, a few began to experiment with for-profit financial institutions aimed at the small saver. This was particularly true in places that never had non-profit mutual savings banks, such as Richmond, Virginia.[73] But operators who organized such attempts in states steeped in the philanthropic tradition often faced governments and other commentators who decried efforts to make a profit from small savings for anyone other than the depositors themselves. A special committee of the Pennsylvania Assembly made this distinction clear in 1836: "in a Saving Fund institution there is . . . no capital stock on which a profit is to accrue to the stockholder . . . [and] the capital subscribed, as well as the deposits, are invested in permanent securities." It further explained that "the impulse which leads to their [mutual savings banks'] formation is an enlarged

71 Matthew Carey, *Essay on the Benevolent Societies of Philadelphia* (Philadelphia: Matthew Carey, 1830), 2

72 *The Boston Almanac, for the Year 1838,* No. 3, Vol. 1 (Boston: S.N. Dickinson, 1838), 86

73 Emerson W. Keyes, *A History of Savings Banks in the United States,* vol. II (New York: Bradford Rhodes, 1878), 386-92

charity, and the effect is the perfect and unsuspected security of the depositors."[74]

In contrast, the report described several "miscalled 'Savings institutions'" in which "there is a capital stock subscribed, on which the holder makes his profit and receives his dividend." The committee explained that "the professed object of the two species of institution is the same, the accumulation of the earnings of poor people, by affording a secure place of deposit for small sums and paying interest thereon." But because the "new savings institutions" engaged in risky investments as "a source of profit . . . the great primary object of a saving fund, *security,* is lost sight of and the stockholder and the depositor, the rich and the poor, the adventurous speculator and the cautious economist, embark in the same delusive scheme, which usually leads to the injury of him who is least able to bear it," the small saver.[75]

The rise during the 1830s of joint-stock companies in Pennsylvania that fashioned themselves as savings institutions was likely a reaction to the fabulous success of the PSFS at pooling large amounts of money from small depositors. R. Daniel Wadhwani has convincingly demonstrated that speculators could often win charters for institutions that were essentially banks of investment or discount by claiming their primary function was to provide financial services to the class of depositor commonly associated with savings banks. The founders of these institutions exploited a loophole made possible at that time by confusion over the definition of a "savings" bank. In particular, Wadhwani cited the case of Thomas W. Dyott, a manufacturer who claimed that his Manual Labor Bank and Saving Fund would inspire "the industrious Mechanic . . . to practise [sic] the virtue of economy, by having a safe depository where his surplus earnings will silently accumulate at *Compound Interest.*" This masked Dyott's actual

74 *Report of the Committee Appointed to Investigate the Affairs of the Philadelphia Savings Institution* (Harrisburg: Theo Fenn, 1836), 8

75 Ibid., 8

intent to create a source of funding for his own glass factory independent of Philadelphia's politically-connected and expensive established banks. When Dyott's business failed, so too did his savings bank. This resulted in the loss of all deposits, many of them owned by Dyott's employees.[76]

Speculative ventures such as Dyott's reveal how quickly a widespread sense of the collective financial power of small savers caught on after savings banks first appeared. When Dyott became frustrated by the terms that traditional financiers offered, he felt it feasible to obtain financing from his own industrial workers—a situation that would have been nearly unthinkable fifteen or twenty years previously. By the 1830s, however, there was a growing cultural recognition that members of the working classes had enough surplus income to invest some of it in a savings bank deposit and a willingness to do so. The original practice of explaining savings bank functions in terms of capital, investment, and profit was thus reenforced as an appropriate form of outreach to working-class depositors, not as a theoretical proposition but as an established reality.

For example, the act that incorporated the Beneficial Saving Fund Society of Philadelphia in 1853 claimed that "experience has demonstrated the beneficial results to the industrious and the careful, of having a place of investment for their earnings, where the deposits of tradesmen, mechanics, labourers, servants and others shall be perfectly secure, and be increased by an allowance of interest on the same."[77] Or as the rules and regulations of the Manhattan Savings Institution explained in 1856, "this Institution being by the provisions of its charter *a Mutual*

76 Wadhwani, "Citizen Savers," 85-97. For the quotation, see: Manual Labor Bank, *Exposition and Terms of the Manual Labor Bank, and Six Per Cent. Saving Fund* (Philadelphia: Manual Labor Bank, 1836), 5; emphasis in original

77 *The Act to Incorporate the Beneficial Saving Fund Society of Philadelphia* (Philadelphia: T.H. Town, 1853), 3

*Savings Bank,* all depositors . . . are mutually interested in the profits, and will receive their ratable share."[78] Because savings banks continued to sell themselves as fundamentally *capitalist* institutions—offering a return that they frequently called a "dividend" on small deposits that they described as a form of "investment"—the distinction between themselves as philanthropies and the for-profit "miscalled 'Savings Institutions'" such as Dyott's was not nearly as neat as many contemporary commentators suggested.

The creation of profit-oriented institutions under the name of "savings banks" did not end with the 1836 report of the Pennsylvania Assembly special committee, but they likely helped to spur more widespread—and increasingly legally-codified—attempts to enforce the distinctions between these two types of organizations. In the same year, Maryland formally converted several institutions that either issued capital stock or discounted bank notes from savings banks to commercial banks, thereby bringing them under a different set of regulatory statutes.[79] A year after that, the scientist and social commentator C.S. Rafinesque proposed a class of savings banks he called "Divitial Banks"—so-named because they divided one hundred percent of their profits amongst the depositors—that would make loans to poor workers in addition to the regular duties of a savings bank. He did so with the assertion that "*Safety, utility and profit* will be their motto . . . while other Banks only mind *Profit.*"[80]

Even before the Pennsylvania example, the government of Massachusetts pushed to distinguish savings banks from other financial institutions. In 1834, its legislature passed the first

78 Manhattan Savings Institution, *Fifth Annual Report of the Manhattan Savings Institution* (New-York: Van Norden and King, 1856), 8

79 A similar phenomenon happened in Maryland, where the state legislature eventually converted several of the "savings" banks into banks of investment or discount. See: Keyes, *History of Savings Banks,* II, 377-85

80 C.S. Rafinesque, *Safe Banking, Including the Principles of Wealth* (Philadelphia: The Divitial Institution of North America, 1837), 34

general statute in any state designed to regulate savings banks. Among its stipulations was that "the income or profit of all deposits shall be divided among the depositors, their executors, administrators, assigns or other legal representatives."[81] Building on this legacy as late as 1852, the Bank Commissioners of Massachusetts reiterated that "Savings Banks are charitable institutions: disinterested benevolence and the 'luxury of doing good' should ever be the guiding principle [of] . . . the trustees." Unlike the "trust company with a capital stock, managed for the interest of the stockholders," the commissioners explained that savings banks "have no capital stock: it is intended that their only assets should be the deposits of the hard-earned fruits of the toil of poor mechanics and laborers of various occupations of both sexes, for whose benefit they are conducted: all the profits which accrue after paying the necessary expenses of the institution belong to them."[82]

Others soon followed Massachusetts' example. Beginning in the 1830s, states including Rhode Island and Connecticut passed general laws requiring that savings banks submit regular reports of their financial condition to specific state regulators. This requirement standardized savings bank supervision by replacing the previous practice of including these clauses in individual savings bank charters, a situation that had led to variations in both the type of information required and the state body responsible for reviewing it. Such attempts to control and render safe the business of savings banks were not always successful. For example, many savings banks in upstate New York simply ignored laws designed to keep their deposits out of commercial banks' control and therefore safe from the unstable commercial banking sector. An 1863 report from the state legislature detailed how some savings banks shared directors with

81 Keyes, *History of Savings Banking,* I, 48

82 Moses Wood, *Commonwealth of Massachusetts. In Senate, February 3d, 1852* (Boston: Commonwealth of Massachusetts, 1852), 5

commercial banks, while others placed anywhere from half to all of their deposits in commercial banks at low interest—in both cases, contrary to the law. Yet the very fact that these laws existed to be broken suggests that governments increasingly asserted the same right to regulate the business of saving in order to protect the public welfare that they did in other economic areas during the same period.[83]

In addition to their desire to protect the poor and working classes, state legislatures also appear to have been motivated to strengthen their regulation of savings banks due to their recognition of how important the institutions had become to both personal and state economies. When the treasurer of the South Scituate Savings Bank explained in 1850 why increasing continuity in that institutions' board of managers was essential to its future success, he noted that "this business of investing to advantage large sums of money, is as much a trade as any other, and the maxim 'that practice makes perfect,' applies with no greater force to any class of persons, than to the money lender."[84] As savings banks grew, they pooled ever-increasing amounts of investment capital. While the first institutions had relatively vague by-laws guiding their investments, "practice" had led many savings banks by the 1850s to invest most of their funds in a particular set of securities authorized by state legislatures.

The evolution of New York laws regulating legal investments for savings bank deposits reveals the changing attitudes about what constituted a "safe" investment at various times over the course of the first half of the nineteenth century. In 1819, the charter of the Bank for Savings

83 For the general push to better regulate savings, see: Wadhwani, "Citizen Savers," 88-158; for the general trend to regulate the economy, see: William Novak, *The People's Welfare: Law and Regulation in Nineteenth-Century America* (Chapel Hilll, NC: University of North Carolina Press, 1996); for the case of illegal savings activity in New York, see: John Van Etten, *Report of the Select Committee of the Assembly, appointed April 23, 1862. . .* (Assembly Doc. No. 201, 1863), 37-39

84 Ebenezer T. Fogg, *South Scituate Savings' Bank* (South Scituate, MA: South Scituate Savings' Bank, 1850), broadside

restricted its investments to New York state and US bonds, as well as deposits in commercial banks. Shortly thereafter, New York City debt was added to the list. With an expanding national market for securities developing in the late 1820s, first Ohio and Pennsylvania, and then all other state bonds became acceptable investments for savings banks operating in New York state. Beginning in the mid-1830s, they could invest in mortgage loans secured by real estate valued well in excess of the loan. In the 1840s, the last innovations of the period included the bonds of other large cities and loans on personal security.[85] Though the timing varied according to the whims of state legislatures and individual savings banks, the investment portfolios of most savings banks expanded in a similar manner.[86]

Economists Peter Payne and Lester Davis argued that the Savings Bank of Baltimore undertook such market diversification partly due to "the desire . . . for greater safety" and partly because of "increasing investment opportunities."[87] But savings banks' expanding investment pursuits also seem likely to have been motivated by savings bank directors, legislatures, and business owners who recognized how much money savings banks had to invest. In some places, this lesson was learned relatively early: New York City savings banks were among the largest purchasers of the bonds that financed construction of the Erie Canal in the 1820s and Croton Aqueduct in the 1830s.[88] The Society for Savings in Hartford, Connecticut, developed a business discounting notes as early as 1821, with par values generally ranging from $100 to $1,000 and

85 Olmstead, *New York City Mutual Savings Banks,* 75

86 See: Payne and Davis, *The Savings Bank of Baltimore,* 93-114. A comparison of Massachusetts savings bank return abstracts from 1840, 1849, and 1861 reveals a similar trend.

87 Payne and Davis, *The Savings Bank of Baltimore,* 108-09

88 Olmstead, *New York City Mutual Savings Banks,* 81-83 and 86-87

even occasionally exceeding $3,000.[89] Between 1820 and 1840, the officers and trustees of Boston's Provident Institution grew increasingly interconnected in both personal and business terms with the area's prominent textile manufacturers; as the period wore on, the bank invested roughly a quarter of its assets in that industry.[90]

Not only did savings banks command substantial sums, the absence of stockholders demanding large profits meant that they generally offered their money on relatively favorable terms that were only sufficient to cover their target rates of interest for depositors, plus expenses. For example, one study of commercial lending to textile mills throughout New England from 1840-1860 revealed that the average interest rate charged by savings banks was only 5.8 percent compared to the 6.6 percent average from commercial banks and the 6.9 percent extended by merchants.[91] Combined with the situation of states like Massachusetts—where the state bank commissioners lamented in their 1861 annual report that "the funds [in savings banks] have accumulated faster than the channels for their employment"[92]—these boons to both government and business investment pushed state legislatures to open up the field for savings bank investment as the antebellum years wore on.

Savings banks had so much money to invest because their collective growth was nothing short of extraordinary. This was true when measured in terms of the number of operating institutions, the number of depositors using them, and the amount of money they handled. As

89 "Register of Notes Discounted, Society for Savings, Hartford, Conn., 1821-1827," Records of Banks of New England and New York, 1803-1915 (inclusive), Baker Library, Harvard Business School

90 Betty Farrell, *Elite Families: Class and Power in Nineteenth-Century Boston* (Albany, NY: State University Press of New York, 1993), 50-51

91 Lance E. Davis, "The New England Textile Mills and the Capital Markets: A Study of Industrial Borrowing 1840-1860," *Journal of Economic History,* vol. 20, no. 1 (March 1960), pp. 1-30: 9

92 Massachusetts. Bank Commissioners, *Annual Report* (1861), 163

Appendix 1 demonstrates, national aggregate increases in the number of savings banks, the number of open accounts, and the amount of money deposited all were substantial over the first five decades of the institution's existence in the United States. In 1820, there were ten mutual savings banks operating in the entire country, holding slightly more than $1.1 million distributed over 8,635 accounts. By 1860, there were 278 of these institutions, handling accounts for nearly one million depositors worth just over $240 million. The earliest institutions described similar trajectories of development. Deposits in Boston's Provident Institution grew from $67,677 at the end of their first year of operation in 1817 to $6.5 million at the end of 1860.[93] New York City's Bank for Savings grew from total deposits of $148,195 in 1819 to $10 million in 1860.[94]

This aggregate data is made more impressive by the fact that although a few savings banks did close throughout the period, enough new ones opened to allow for no overall annual decline in the total number of banks or open accounts in the United States over any two-year spread. The story is nearly the same for the aggregate of deposits. While the value of all deposits measured in current dollars increased in *every* year prior to the Civil War, the inflation-adjusted value decreased only *once* in back-to-back years: from 1853 to 1854, national aggregate deposits (measured in 1860 dollars) declined by less than 1 percent. [See: Appendix 1] Remarkably, excluding only the account figures from New York's Bank for Savings from the total would have more than erased even that slight downturn. But the Bank for Savings was a special case: worried depositors led a severe run on the institution after the city's Knickerbocker Savings Bank failed during the Panic of 1854—the first New York savings bank to ever fail, a situation that resulted from its close connection to the commercial Knickerbocker Bank whose failure set off

93 "Letters relat. 100th Anniversary of Prov. Inst., 1916," Provident Institution for Savings in the Town of Boston Records, Boston Athenæum, Series I

94 Keyes, *History of Savings Banks,* II, 176-77

the broader economic crisis.[95] In other words, savings bank usage grew significantly and steadily throughout the antebellum period without a single general reversal.

But it did not grow evenly at all times and in all places. Instead, an examination of annual nationwide savings bank returns reveals two noteworthy trends. First, growth significantly increased after about 1849 compared to the three decades of savings bank usage before that year. Second, a more fine-grained analysis reveals several periods of diminished rates of savings bank growth during this overall period of expansion. [See: Figure 1.3 and Appendix 1] Taken together, these trends suggest an increasing overall reliance on and desire for savings banks, but use that was not immune from short-term social and economic effects in particular places and times. The local effect of the Panic of 1854 was one of these cases. Another occurred from 1856 to 1857, the only other two-year period that aggregate US savings bank deposit growth was significantly retarded during the antebellum period. While aggregate deposits increased by roughly 3 percent in current dollars from one year to the next, they were essentially unchanged in inflation-adjusted terms. This declining growth rate corresponded roughly with the Panic of 1857, again suggesting that savings banks were becoming integrated into the broader financial landscape of the day—a hypothesis encouraged by the fact that contemporary reports noted the spread of bank runs from commercial institutions to savings banks in New York City as the panic developed.[96] The Massachusetts Bank Commissioners in 1861 confirmed the principle in a wider sense, noting that

95 The inflation-adjusted decline in the Bank for Savings aggregate totals was a little more than $1.35 million while the national decline was less than $700,000. For an overview of the bank run, see: Cormac Ó Gráda and Eugene N. White, "The Panics of 1854 and 1857: A View from the Emigrant Industrial Savings Bank," *Journal of Economic History,* vol. 63, no. 1 (March 2003), pp. 213-40: 218-29. For the Bank for Savings figures and information concerning the Knickerbocker's failure, see: Keyes, *History of Savings Banks,* II, 177 and 535-6. For the national figures, see: Appendix 1. The Bank for Savings figures were adjusted on the same basis (the David-Solar index) as the national figures.

96 For an overview of the connection between commercial and savings bank runs in New York City, see: Ó Gráda and White, "The Panics of 1854 and 1857," 221-24 and 234-36. For the national figures, see: Appendix 1.

long-term savings bank deposit statistics "are an 'annual register' of the business condition of the country. Their periods of rapid growth, or of stagnation or decline, indicate a corresponding prosperity or depression in commercial affairs affecting the whole people."[97]

Also noteworthy in the period was that the steady creation of new savings banks apparently reflected an equivalently growing demand for their services. The number of depositors per savings bank—measured roughly by open accounts—rose steadily from 1840 to 1847, suggesting that demand during these early years was outstripping bank capacity. Yet as the total number of savings banks grew in every year from 1847 to 1860, the number of depositors per bank first declined and then fluctuated until regaining its 1847 level in 1860.[98] This indicates that institutions opened at a rate just slightly ahead of their depositor bases during this second period of increased growth. But it also shows that those depositor bases expanded almost as quickly. In other words, new savings bank founders apparently not only anticipated demand for greater savings bank capacity by the late 1840s but were proven correct by depositors. State legislatures acknowledged this situation by significantly expanding the number of charters they granted to new savings banks, lending their imprimatur to the now-entrenched institutions.[99]

In fact, increases in savings bank usage were likely much higher than those revealed by national aggregate figures alone. For one thing, these totals only refer to the number of accounts open at the end (or near the end) of the year they measure, so depositors who opened and closed accounts within the space of any given year are not included. This turnover could be substantial.

97 Massachusetts. Bank Commissioners, *Annual Report* (1861), 160

98 From 1840 to 1847, the ratio of total depositors to total savings banks rose from 1,290 to 2,470; in 1848 and 1849 it was 2,406 and 2,414, respectively; the figure found a local minimum at 2,165 in 1851. The ratio then fluctuated between 2,000 and 2,200 depositors per savings bank throughout the 1850s until finally regaining its 1847 level in 1860. These ratios are extrapolated from the data in Appendix 1.

99 For a discussion of increased legislative activity relating to savings banks, see: Wadhwani, "Citizen Savers," 105-25

For example, one study of all accounts opened at the PSFS in 1850 revealed that depositors closed 42 percent of them within two years.[100] Figure 1.4 shows the number of accounts opened and closed at the Bank for Savings in the City of New York in every year from 1819 to 1865.

Figure 1.4
Accounts Opened and Closed, Bank for Savings in the City of New York, 1819-1860[101]

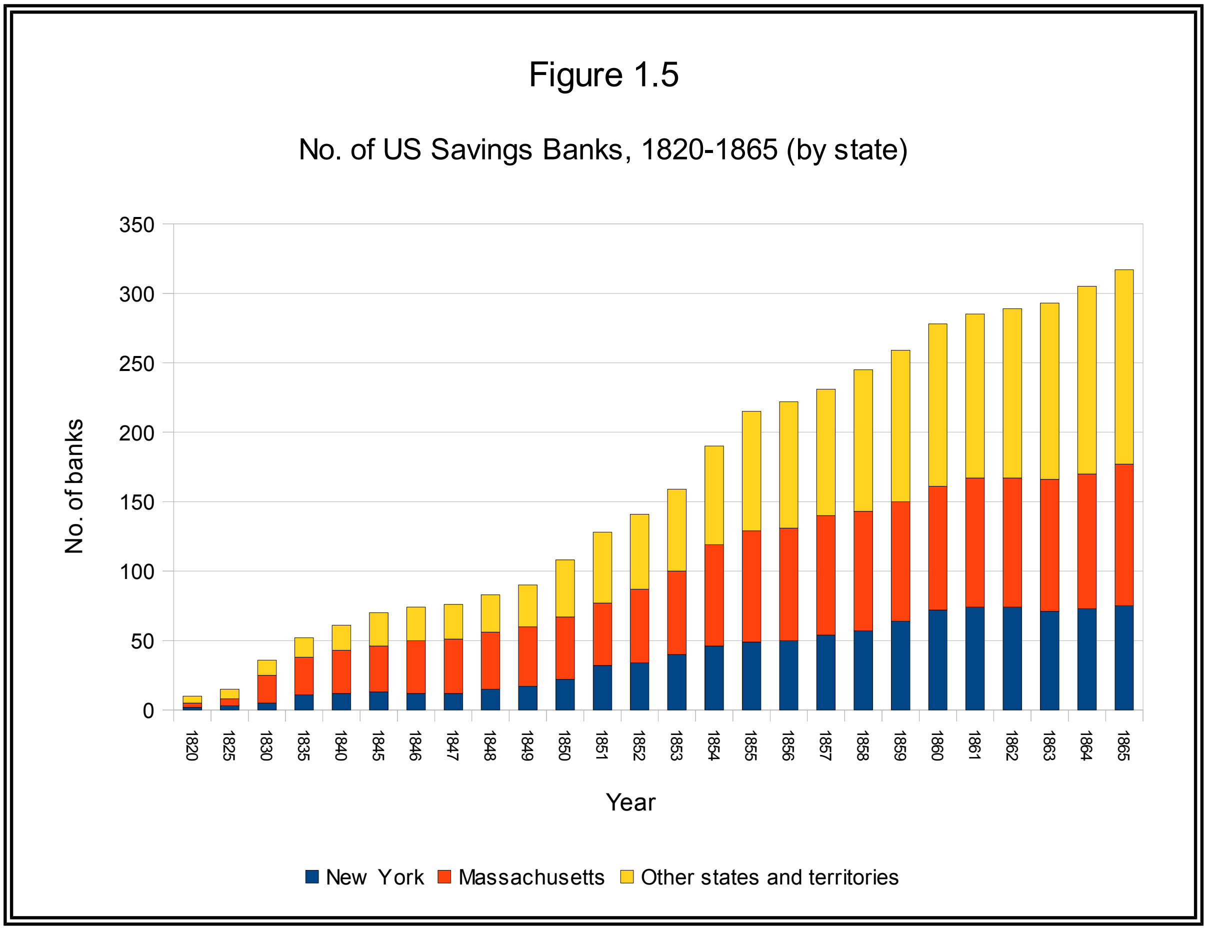
| Year | Opened | Closed | Open Accounts | Ratio of accounts closed to accounts opened | Year | Opened | Closed | Open Accounts | Ratio of accounts closed to accounts opened |
|---|---|---|---|---|---|---|---|---|---|
| **1819** | 1527 | 46 | 1481 | 0.030 | **1840** | 4007 | 2921 | 27962 | 0.729 |
| **1820** | 2015 | 393 | 3103 | 0.195 | **1841** | 4577 | 3567 | 28972 | 0.779 |
| **1821** | 1671 | 239 | 4535 | 0.143 | **1842** | 3908 | 4491 | 28389 | 1.149 |
| **1822** | 1539 | 272 | 5802 | 0.177 | **1843** | 4727 | 3389 | 29727 | 0.717 |
| **1823** | 1832 | 213 | 7421 | 0.116 | **1844** | 6516 | 3309 | 32934 | 0.508 |
| **1824** | 2422 | 381 | 9462 | 0.157 | **1845** | 6649 | 4290 | 35293 | 0.645 |
| **1825** | 2195 | 1674 | 9983 | 0.763 | **1846** | 5851 | 5206 | 35938 | 0.890 |
| **1826** | 2383 | 1446 | 10920 | 0.607 | **1847** | 6850 | 2643 | 40145 | 0.386 |
| **1827** | 3201 | 1433 | 12688 | 0.448 | **1848** | 7215 | 6286 | 41074 | 0.871 |
| **1828** | 2752 | 1601 | 13839 | 0.582 | **1849** | 7038 | 6456 | 41656 | 0.917 |
| **1829** | 2995 | 1708 | 15126 | 0.570 | **1850** | 8819 | 6251 | 44224 | 0.709 |
| **1830** | 3428 | 1629 | 16925 | 0.475 | **1851** | 8978 | 7523 | 45679 | 0.838 |
| **1831** | 3769 | 1783 | 18911 | 0.473 | **1852** | 9403 | 8121 | 46961 | 0.864 |
| **1832** | 3169 | 2240 | 19840 | 0.707 | **1853** | 11199 | 7939 | 50221 | 0.709 |
| **1833** | 5027 | 2534 | 22333 | 0.504 | **1854** | 8651 | 11510 | 47362 | 1.330 |
| **1834** | 4190 | 3510 | 23013 | 0.838 | **1855** | 8630 | 8162 | 47830 | 0.946 |
| **1835** | 6021 | 3320 | 25714 | 0.551 | **1856** | 9821 | 6482 | 51169 | 0.660 |
| **1836** | 5578 | 4445 | 26847 | 0.797 | **1857** | 8345 | 8375 | 51139 | 1.004 |
| **1837** | 2646 | 5136 | 24357 | 1.941 | **1858** | 7449 | 6751 | 51837 | 0.906 |
| **1838** | 3971 | 2689 | 25639 | 0.677 | **1859** | 8276 | 5848 | 54265 | 0.707 |
| **1839** | 4419 | 3182 | 26876 | 0.720 | **1860** | 7647 | 6208 | 55704 | 0.812 |

100 George Alter, Claudia Goldin, and Elyce Rotella, "The Savings of Ordinary Americans: The Philadelphia Saving Fund Society in the Mid-Nineteenth Century," in *The Journal of Economic History,* vol. 54, no. 4 (December, 1994), pp. 735-67: 748

101 Keyes, *History of Savings Banks,* II, 176

While there is no readily available information about account length, the fact that accounts frequently closed at a rate between half and three-quarters of that at which they were opened—and occasionally faster—suggests that depositor turnover there was also quite significant.

Insight into the source of this depositor demand can be gained by analyzing the specific locations where savings banks flourished. As indicated in Figure 1.5, savings bank growth was driven throughout the first two-thirds of the nineteenth century by New York and Massachusetts: these two states accounted for at least half of the savings banks in the country in every year after 1820. Not coincidentally, these were two of the areas that were largely responsible for fostering the industrial labor and long-distance trade that helped develop a cash-based economy. As these labor and financial arrangements spread nationally, the two states' share of all US savings banks



fell from roughly two-thirds in 1849 to just over half by 1865.[102] The fact that the growth outside of Massachusetts and New York was concentrated in other New England and Mid-Atlantic states that saw increases in both urban populations and the percentage of workers receiving wages is not coincidental. It suggests a further correlation between the creation of savings banks and the creation of a wage-labor and cash-based economy. In contrast, the relatively rural and non-industrial Southern states boasted few equivalent institutions throughout the antebellum period.[103]

The connection between savings banks and an economy defined by wage labor, regular merchant activity, and urban development is even more apparent when one examines savings bank growth at the state level. Even though New York and Massachusetts were the two states where savings banks spread most widely during the antebellum period, they demonstrated striking variation in the geographic distribution of these institutions *within* state lines. Figures 1.6-9 illustrate savings bank growth in New York at ten-year intervals from 1830-1860. Figures 1.10-12 represent the same for Massachusetts in 1840, 1849, and 1861. Each map illustrates the location and, if more than one, total number of savings banks in operation at each location *during the year listed.* Therefore, savings banks that both opened and closed within a single decade do not appear. Nor do these maps illustrate openings of new banks in a given location, but rather the balance of openings and closings over all years prior to the year listed.[104]

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102 The actual figures were 67% in 1849 and 56% in 1865. See: Keyes, *History of Savings Banks,* II, folded sheet inserted between pp. 532 and 533

103 For Massachusetts and New England, see: Bender, *Toward an Urban Vision,* 27-51; for New York, see: Martin Bruegel, *Farm, Shop, Landing: The Rise of a Market Society in the Hudson Valley, 1780-1860* (Durham, NC: Duke University Press, 2002); for the more general antebellum bias towards Mid-Atlantic and New England industrialization, see: Walter Licht, *Industrializing America: The Nineteenth Century* (Baltimore: The Johns Hopkins University Press, 1995), 21-45

104 I compiled the dates and locations of savings bank openings and closings in New York from: Keyes, *A History of Savings Banks,* II, 174-274. Information was also gleaned from: New York (State) Banking Department, *Annual Report* (1870), 58-62. The Massachusetts figures are compiled from the abstracts of state savings banks in the Massachusetts Bank Commissioners' *Annual Reports* for 1840, 1848, 1849, 1860, and 1861.

Figure 1.6
Cities in New York State with
One or More Savings Banks, 1830

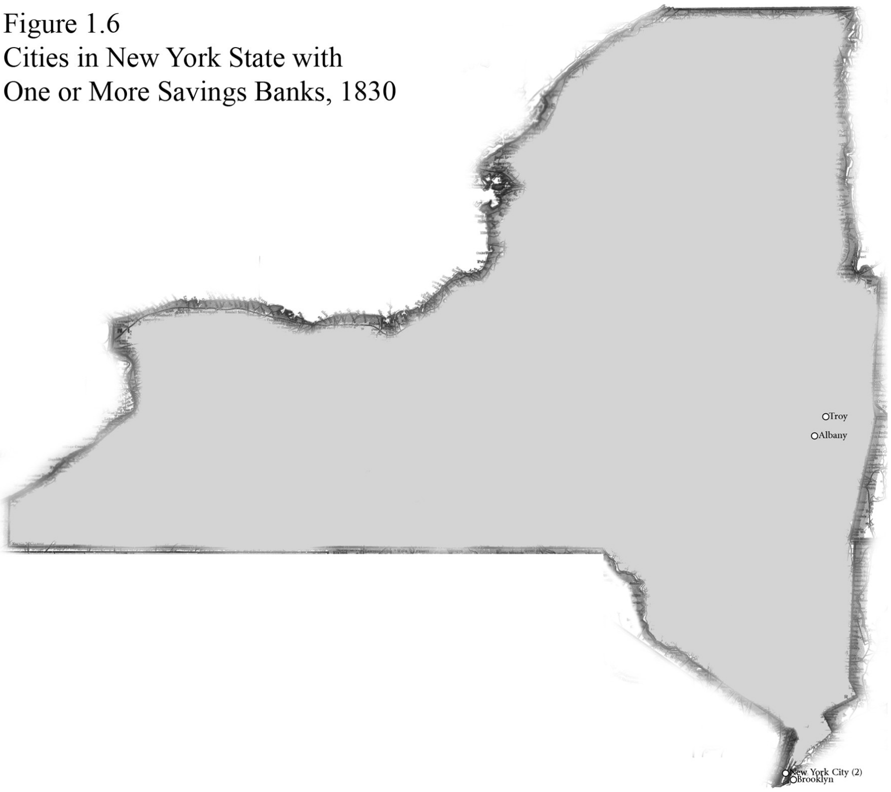



Figure 1.7
Cities in New York State with
One or More Savings Banks, 1840

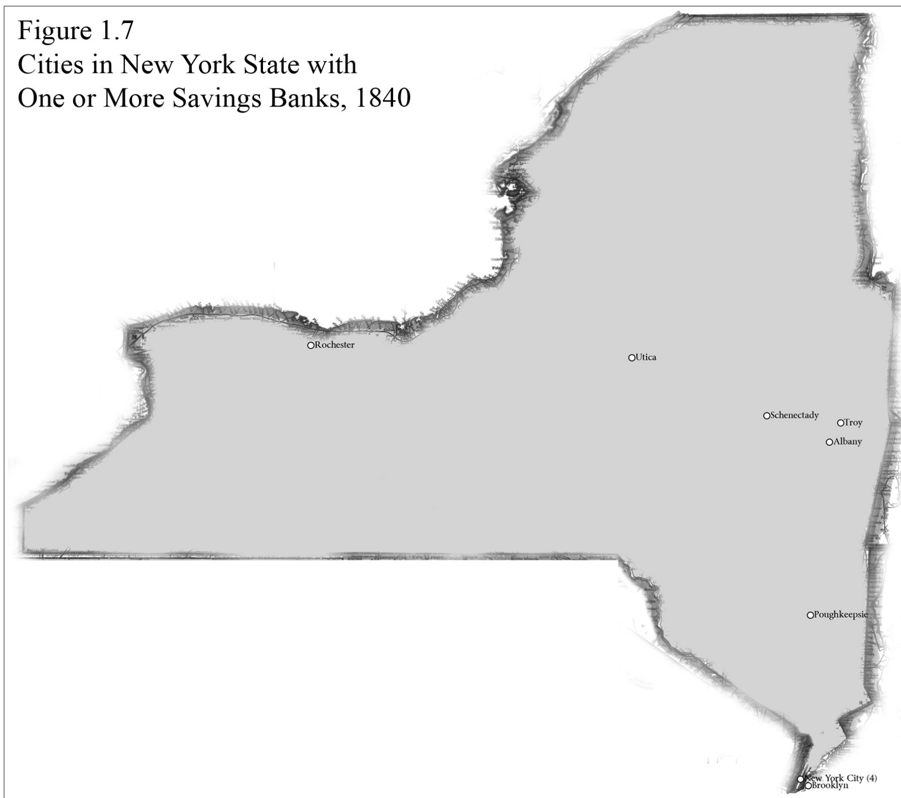


Figure 1.8
Cities in New York State with
One or More Savings Banks, 1850

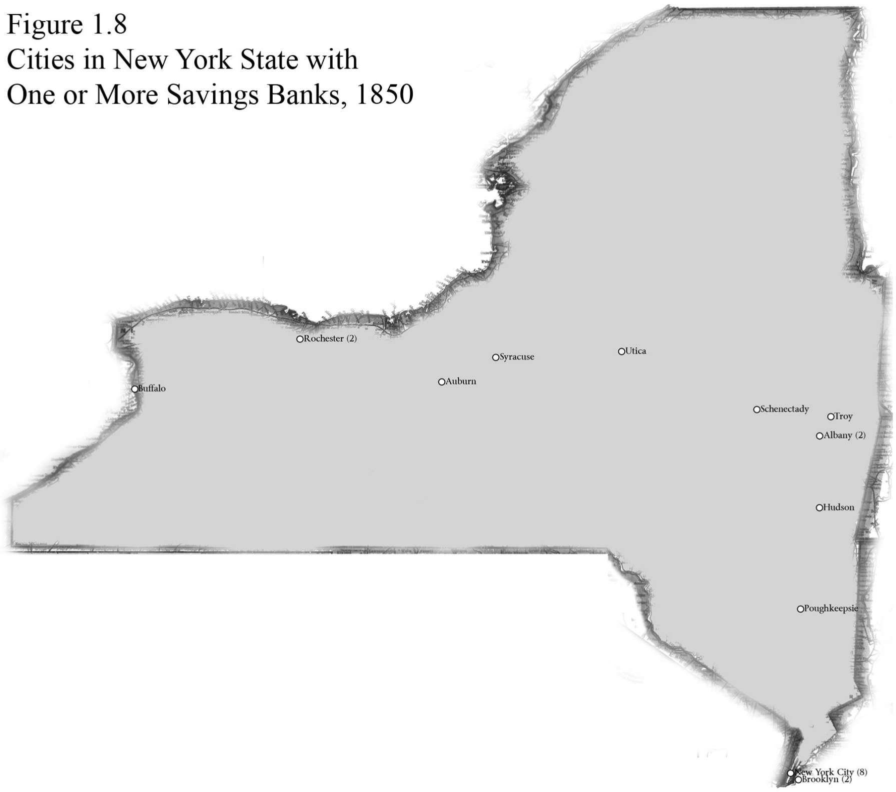



Figure 1.9
Cities in New York State with
One or More Savings Banks, 1860

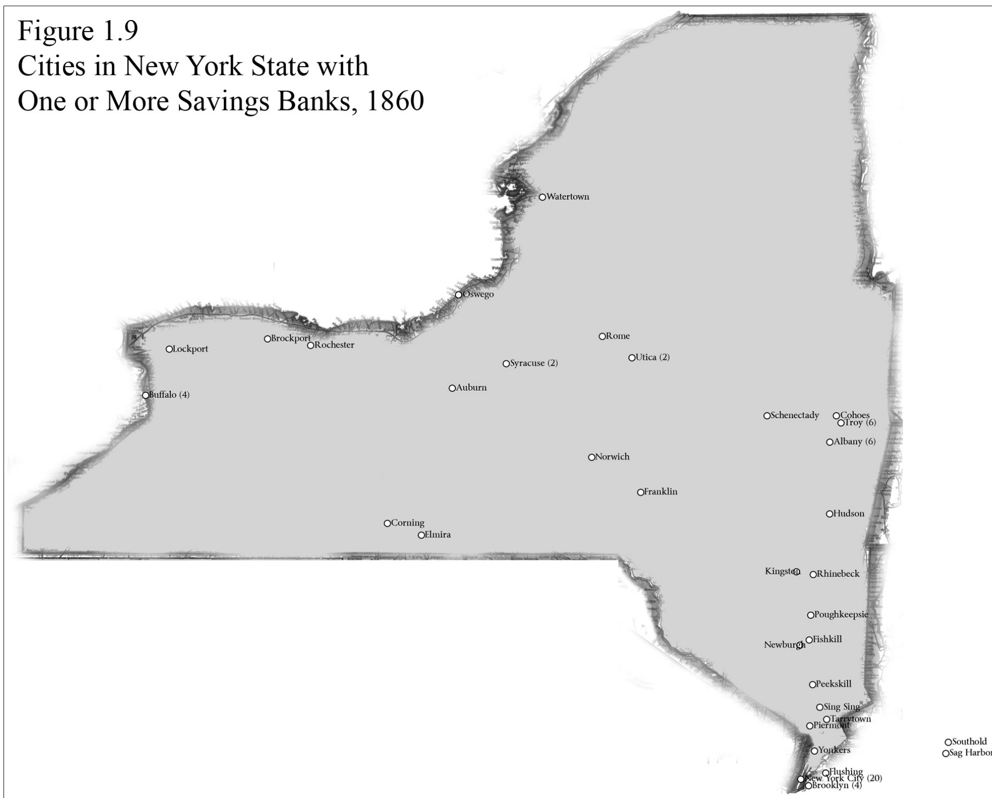


Figure 1.10
Cities in Massachusetts with One or More Savings Banks, 1840

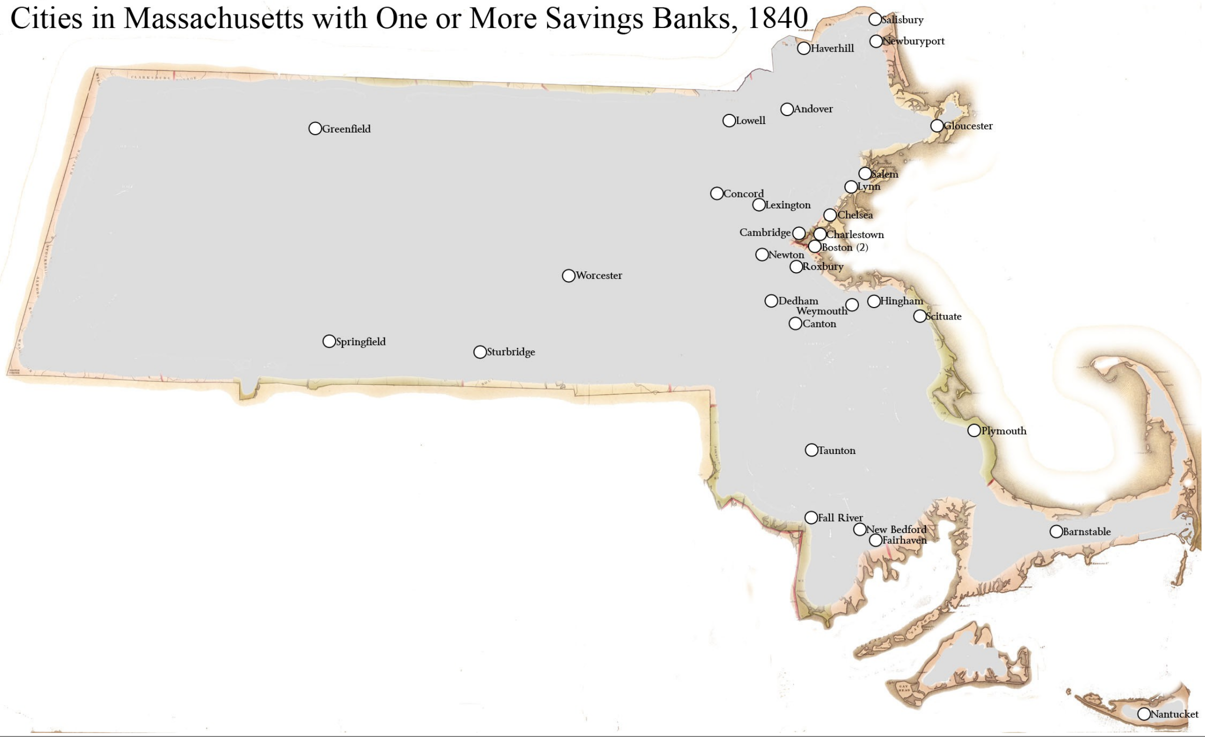



Figure 1.11
Cities in Massachusetts with One or More Savings Banks, 1849

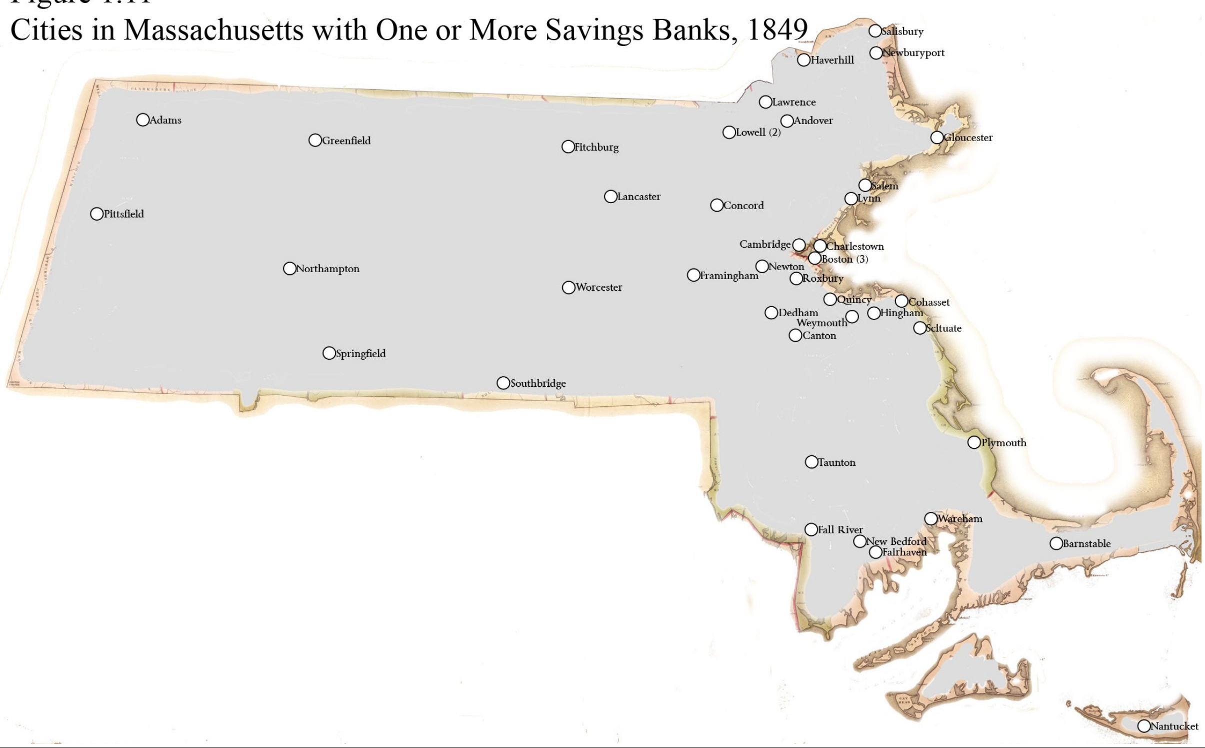
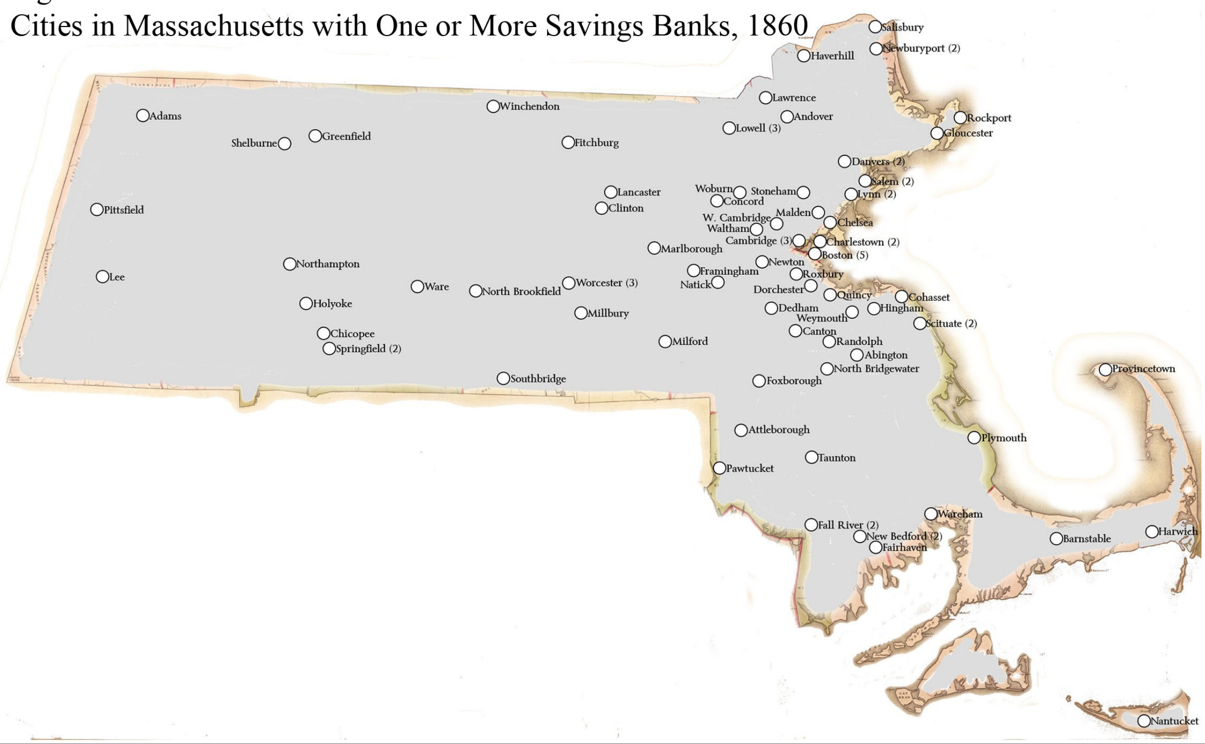


Figure 1.12
Cities in Massachusetts with One or More Savings Banks, 1860




Consistent with the national trend, these maps demonstrate an explosion in the number of savings banks in both states during the 1850s. Such growth was evident not only at the state level, but also in individual cities, such as New York, Albany, Troy, and Buffalo in New York State, and Boston, Cambridge, and Lowell in Massachusetts. But while savings banks favored certain cities in both states, they also clearly favored certain regions from an early point. While only four cities in New York State had savings banks in 1830, they were the two major trading cities (New York and Brooklyn), an early industrial leader and shipping depot for the Erie Canal (Troy), and another trading center (Albany). The 1840 and 1850 maps of New York reveal the movement of savings banks to the western parts of the state—most notably to Utica and Rochester, both regional hubs for the shift towards industrial production and the relative decline in agriculture as the basis of the regional economy.[105] Similarly, the 1840 and 1849 maps of Massachusetts show that its first savings banks were almost exclusively located in and around Boston or elsewhere on the state's eastern coast, where maritime industries such as merchant shipping and commercial fishing were cornerstones of the economy. Cities such as Lowell and Springfield that were associated with some of the first large-scale American industrial enterprises also had savings banks, ranking them among the few inland cities in Massachusetts that did.[106]

The geography of savings banking suggested by comparing the circa 1850 maps to those from 1860 is perhaps most significant for understanding the dynamics of savings bank expansion in both states. In New York, the state's western portion continued to develop its savings bank sector. The expansion south into Corning and the cities and towns ringing Lake Erie is especially noteworthy because these areas were increasing their reliance on manufacturing and long-distance shipping. But the spread of savings banking in the corridor between Albany and New York City on the Hudson River far outstripped this western expansion, more strongly suggesting the correlation between the rise of industrial manufacturing and shipping. As each of these areas of the economy grew significantly in the Hudson Valley during these periods, so too did the region's savings banks.[107]

In Massachusetts, savings banks developed far more evenly than they did in New York.

105 On Utica during this period, see: Mary P. Ryan, *Cradle of the Middle Class: The Family in Oneida County, New York, 1790-1865* (New York: Cambridge University Press, 1981); on the changes occuring in Rochester just prior to this period, see: Paul E. Johnson, *A Shopkeeper's Millennium: Society and Revivals in Rochester, New York, 1815-1837* (New York: Hill and Wang, 1978); for Troy, see: Daniel J. Walkowitz, *Worker City, Company Town: Iron and Cotton-Worker Protest in Troy and Cohoes, New York, 1855-84* (Urbana, IL: University of Illinois Press, 1978); for Albany, see: Brian Greenberg, *Worker and Community: Response to Industrialization in a Nineteenth-Century American City, Albany, New York, 1850-1884* (Albany: State University of New York Press, 1985)

106 See: Christopher Clark, *The Roots of Rural Capitalism: Western Massachusetts, 1780-1860* (Ithaca, NY: Cornell University Press, 1990), and Bender, *Toward an Urban Vision,* 27-51

107 Bruegel, *Farm, Shop, Landing,* 64-89 and throughout

Although they were still clearly dominant in the Boston and coastal areas, savings banks had populated most of the state by 1860. Savings banks served manufacturing cities on the eastern fall line, such as Lowell, Lawrence, and Fall River, but also considerably more rural towns—albeit ones with burgeoning manufacturing industries of their own—in the Connecticut River Valley, such as Holyoke, Chicopee, and Shelburne. Savings banks surely opened in these towns in part because of the enthusiasm of social reformers who sought to emulate the success of savings banks in the eastern part of the state. But their presence in the agricultural region historian Christopher Clark described as increasingly relying on "permanent wage workers, [who were] . . . employed to grow and process an unprecedented quantity of cash crops" through the 1840s and 1850s suggests that structural changes in the rural economy that paralleled those in the industrial and merchant areas also played a role in the expansion of savings banks to this part of Massachusetts.[108]

*Depositors and their deposits: the social meaning of mass savings*

Since savings banks were supposed to provide security and profit for small investments, it is hardly surprising that they grew apace with the incidence of wage labor. They also adapted to meet the needs of a wider demographic cross-section of American workers. For example, typical savings banks gradually lengthened their hours over the course of the antebellum period. By the 1860s, many savings banks were open five, six, or even seven days a week and they often added some evening hours so that depositors could transact their business after work. Meanwhile, newer banks tended to have lower minimum deposits than their original predecessors: ten or even five cents, figures intended to extend access to both poor workers and children.

108 Clark, *Roots of Rural Capitalism,* 17

Among other distinctions, savings banks differed from commercial institutions by pursuing business with one particularly important demographic in the context of antebellum industrial development: women. Several studies of individual savings banks reveal that women made up roughly half of all savings bank depositors from the start.[109] This was likely correlated with the prevalence of wage-earning women in antebellum cities, but it was also the product of a self-conscious effort on the part of many savings banks to attract a female clientele. For example, the Bank for Savings in the City of New York added two hours to its regular schedule in 1825 that were reserved only for female depositors.[110]

The common law of coverture meant that handling women's deposits could potentially expose savings banks to legal challenges, however. Peter Wainwright, the treasurer of Boston's Provident Institution, received an ominous letter on this topic in late 1845 from the bank's lawyer, George Hillard. "In the case of Mary Harding alias Lefavor," Hillard wrote, "I observe that you have paid money, deposited by an unmarried female, to the order of the same female, when married, without evidence of knowledge or assent on the part of her husband." Hillard opined that "this seems to me to be a dangerous practice," because "by the common law, the husband becomes entitled to all the wife's personal property and he may reduce it into possession at any time during the Coverture."[111]

While Hillard asserted a widely-accepted legal theory to advise that the bank "not . . . pay money, under these circumstances, without evidence of apeal [sic] on the part of the husband,"

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109 For the PSFS, see: Wadhwani, "Citizen Savers," 394

110 Olmstead, *New York City Mutual Savings Banks,* 32

111 Geo. S. Hillard to Peter Wainwright, 3 November 1845, in folder "Report of the Committee on deposits by married women, 1845 Nov. 6-15," Provident Institution for Savings in the Town of Boston Records, Boston Athenæum, Series IV, Subseries G: Customer Records

Wainwright's response revealed the importance the bank placed on providing its services to as many potential depositors as it could. After first asking whether or not the Provident Institution could safely pay deposits on demand to women whom they didn't *know* were married, Wainwright went on to explain that "from the Commencement of our Institution, it has been our custom to receive deposits from married women, in many cases doubtless with, and many without the knowledge of their husbands . . . stating to the depositor at the time of receiving such deposits that they could withdraw the same at their pleasure." He then bluntly asked Hillard "how can deposits be received from married females, so that they, the said females, shall have the control of their funds?"[112] In other words: rather than simply accepting Hillard's initial assessment and altering the bank's practices, Wainwright instead sought ways to circumvent the common law. Savings banks had always treated women as depositors like any others and Wainwright wanted to see that practice continue regardless of its apparent illegality.

The same issue arose in New York in 1850, when the state legislature passed an act protecting the right of married women to savings bank deposits made in their own names. As Norma Basch argued, this legislation clarified general protections for married women's property rights that the state had already codified in 1848.[113] But by specifically extending them to savings banks, the legislature acknowledged the important role that these institutions had already cultivated by handling women's money for decades. In 1847, for example, *Godey's Lady Book* reported on the opening of a New Jersey savings bank that planned to include "the provision that

112 Ibid., and: Peter Wainwright to Geo. S. Hillard, 6 November 1845, in folder "Report of the Committee on deposits by married women, 1845 Nov. 6-15," Provident Institution for Savings in the Town of Boston Records, Boston Athenæum, Series IV, Subseries G: Customer Records

113 Norma Basch, *In the Eyes of the Law: Women, Marriage, and Property in Nineteenth-Century New York* (Ithaca, NY: Cornell University Press, 1982), 136-37, 144-61. Basch also points out that the savings bank statute was motivated largely by a desire to indemnify savings bank directors from any liability related to paying deposits to married women. See: Basch, *In the Eyes of the Law,* 160

any married woman may in her own name deposit money earned by her own labor" under the headline "Rights of Married Women."[114] New York savings banks soon capitalized on the newly-won protection for both themselves and their female depositors in advertisements, such as one bank that explained in 1856 that "married women under the present laws can deposit money in their own names, and have control of it."[115] In the same year, the Greenwich Savings Bank prominently announced the following at the top of an advertisement: "this Institution receives the deposits of ONE DOLLAR and UPWARD from all classes of persons, including MINORS and MARRIED WOMEN."[116] In Pennsylvania, savings banks began to shield married women's assets from not only their husbands, but their husbands' creditors as well.[117]

Women were a large portion of many savings bank depositor bases not only because they could find special protections in these institutions but also because they composed a significant percentage of the new wage-earning classes, particularly in larger cities such as New York and industrial towns such as Lowell, Massachusetts. Women were especially likely to be engaged in unskilled factory work, "put-out" piecework, and above all domestic service throughout the period, placing them squarely in the economic class that savings banks sought out.[118] To be sure, many banks still emphasized their service to practitioners of trades dominated by men. The incorporators of the Sixpenny Savings Bank, for example, explained that the bank's "general

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114 "Rights of Married Women," *Godey's Lady Book,* May 1847

115 Institution for the Savings of Merchants' Clerks, *Eighth Annual Report of the 'Institution for the Savings of Merchants' Clerks'* (New York: M.B. Wynkoop, 1856), 2

116 Greenwich Savings Bank, *Annual Report of the Greenwich Savings Bank to the Depositors* (New York: Greenwich Savings Bank, 1856), 8

117 *An Act Incorporating the Six-Penny Saving Fund of Philadelphia* (Philadelphia: Six-Penny Saving Fund of Philadelphia, 1854), 6

118 See: Alice Kessler-Harris, *Out to Work: A History of Wage-Earning Women in the United States* (1982; repr., New York: Oxford University Press, 2003), 22-72, and Stansell, *City of Women,* 105-129 and 156-63

business . . . shall be to receive on deposit such sums . . . offered . . . by mariners, tradesmen, clerks, mechanics, laborers, minors, servants, and others, and investing the same."[119] The fact that savings banks frequently linked their acceptance of deposits from "minors" to those from women likewise betrayed the persistence of the cultural and legal marginalization of women's economic status. But these institutions still accepted female depositors in large numbers.

The relative inclusiveness of antebellum savings banks marks them in stark contrast to many other contemporary economic institutions. In many cases, savings banks displayed a measure of racial and ethnic equity alongside gender equity. Even as racial segregation—in both *de jure* and *de facto* forms—intensified throughout the Northern United States during the first half of the nineteenth century,[120] African Americans in places as geographically-dispersed as Baltimore, Philadelphia, and New York all accumulated some money in savings banks throughout the period. In the case of Philadelphia, their deposits were "stated on good authority to exceed two hundred thousand dollars."[121] As with women, the general trend did not always reflect individual circumstances: in Maryland, many individual savings bank charters restricted black people from depositing, even though there was no general law prohibiting it.[122] Still, at least some African Americans continued to use savings banks during the antebellum years. Participants in the 1855 National Negro Convention pointed to the fact that they controlled "Six Hundred Thousand Dollars invested in Savings Banks in and around New York and its vicinity

119 Sixpenny Savings Bank, *The Act of Incorporation and By-Laws of the Sixpenny Savings Bank of the Empire City* (New York: W.H. Arthur & Co., 1853), 5

120 See, for example: Leon F. Litwack, *North of Slavery: The Negro in the Free States, 1790-1860* (Chicago: University of Chicago Press, 1961)

121 Quoted in: Leonard P. Curry, *The Free Black in Urban America, 1800-1850: The Shadow of the Dream* (Chicago: University of Chicago Press, 1981), 43

122 Keyes, *History of Savings,* II, 383

and also similar amounts around other cities" in order to illustrate African Americans' collective financial power.[123]

The circa 1820-1860 period also saw the emergence of new debates over the role of economic and social class in American society that framed contemporary analysis of this savings bank usage. In particular, trade unionists in the 1830s and 1840s often pointed to increasingly stark class stratification as a justification for their political activity.[124] At the same time, historian Sven Beckert has described the emerging elite class of manufacturers and bankers in the decades before the Civil War as a group that frequently bristled at such notions and argued against the existence of social and political differences rooted solely in economic class (even as they effectively sharpened them by consolidating both economic power and sociopolitical influence).[125] By opening up the financial industry to many American workers—including members of otherwise marginalized groups such as women, children, and African Americans—savings banks helped make such obfuscation plausible in a way that it wouldn't have otherwise been. The heroic stories of people like Peter Cooper, John Jacob Astor, and A.T. Stewart who supposedly turned meager possessions into fantastic fortunes by exercising the virtues of thrift, self-restraint, and prudence—precisely the lessons that savings banks claimed to teach—gave further support to the lie. Even wage earners in the antebellum economy took in an income that they could at least *theoretically* convert into capital, so the thinking went, if only by depositing it

123 Quoted in: Juliet E. K. Walker, *The History of Black Business in America: Capitalism, Race, Entrepreneurship, Volume 1 to 1865* (Chapel Hill, NC: University of North Carolina Press, 2009), 116

124 For representative works examining this phenomenon, see: Paul E. Johnson, *A Shopkeeper's Millennium: Society and Revival's in Rochester, New York, 1815-1837* (New York: Hill and Wang, 1978), Bruce Laurie, *Artisans into Workers: Labor in Nineteenth-Century America* (New York: Hill and Wang, 1989), and Sean Wilentz, *Chants Democratic: New York City & the Rise of the American Working Class, 1788-1850* (New York: Oxford University Press, 1984)

125 Sven Beckert, *The Monied Metropolis: New York City and the Consolidation of the American Bourgeoisie, 1850-1896* (New York: Cambridge University Press, 2001), 60-68

in a savings bank.

As already demonstrated, savings banks themselves spared few words in emphasizing this aspect of their operations. Scattered evidence does show that at least some prominent voices arose to criticize it, however. For example, the labor advocate and newspaper editor George Henry Evans denigrated savings banks in 1834 by calling them instruments run by those "who wish to speculate on the industry of the useful classes."[126] More obliquely, one proponent of alternative working-class financial institutions argued that "nearly all the [other] modern projects of social reform . . . [make] constant reference to some probably impracticable, possibly unattainable, but always far-distant result," a description that might well be applied to the savings banks whose interest calculation tables often stretched decades into the future.[127] Even Karl Marx weighed in on the matter, though he was likely influenced by the British example, rather than the American. As he explained, "by *counting* the *lowest* possible level of life . . . as the standard . . . political economy, this science of *wealth,* is therefore simultaneously the science of denial, of want, of thrift, of saving . . . [and] its moral ideal is the *worker* who takes part of his wages to the savings-bank."[128]

Nevertheless, other working-class voices clearly supported savings banks. The newspaper of New York's Working Man's Party, the *Workingman's Advocate,* ran a lengthy letter in 1832 providing advice to "emigrants" to the United States—which included the recommendation that "persons on their arrival here . . . should immediately invest all their spare money in government

126 Quoted in: Joshua R. Greenberg, *Advocating the Man: Masculinity, Organized Labor, and the Household in New York, 1800-1840* (New York: Columbia University Press, 2007)

127 T. Thomas, *The Working-Man's Cottage Architecture* (New York: R. Martin, 1848), 3

128 Karl Marx, "[The Meaning of Human Requirements]. . .," in *Economic and Philosophic Manuscripts of 1844,* by Karl Marx, edited and translated by Martin Milligan (1961; repr., Mineola, NY: Dover Publications, Inc., 2007), 118

security, or place small amounts in the Savings Bank."[129] In the same year, it also ran a reprint from its partner newspaper, the *Daily Sentinel*, that praised savings banks for the egalitarianism present in "that rule . . . which requires all persons, without distinction, to wait their turn for the transaction of business."[130] The mill-workers who wrote and edited the *Lowell Offering* also praised savings banks, running fictional stories with heroines whose virtue hinged on their use of these institutions. In a sentiment that might have served as copy for a savings bank advertisement, the protagonist of one of them "felt that the only safe place for her earnings was the savings bank, and there they were regularly deposited, that it might be out of her power to indulge in momentary whims."[131]

Rhetorically, antebellum savings banks stood for the tools of meritocratic capitalism. Endorsements of this view by at least some workers may not have been typical of savings bank depositors as a whole, but they do indicate that many workers were at least aware of the message. The case of the Emigrant Industrial Savings Bank in New York City demonstrates another prominent instance of this awareness. A group of prosperous and socially prominent Irish-Americans organized the bank in 1850 at the suggestion of Bishop John Hughes, exhibiting the same pretension to teaching virtue and the same class distinction between its directors and depositors as other savings banks of the era. Yet the ethnic connection between the ninety percent of the bank's depositors that were born in Ireland and its directors suggests that its depositors understood its communal social function as well as its economic one.[132] As Tyler Anbinder

129 Joseph Jennings, "A Letter," *Workingman's Advocate,* 10 Novermber 1834, p. 3

130 "For the New York Daily Sentinel," *Workingman's Advocate,* 22 September 1832, p. 3

131 Lucinda, "Abby's Year in Lowell," *The Lowell Offering,* 1 April 1841, p. 5. See also: S.G.B., "Tales of Factory Life, No. 1," *The Lowell Offering,* 1 April 1841, pp. 65-68

132 Morgan Kelly and Cormac Ó Gráda, "Market Contagion: Evidence from the Panics of 1854 and 1857," *American Economic Review,* vol. 90, no. 5 (December 2000), pp. 1110-1124

demonstrated, the demographics of the bank's depositors closely mirrored those of New York's mid-nineteenth century Irish immigrant population as a whole,[133] indicating that the bank's ideological message did not significantly discourage the community's lower-class depositors.

Even if some depositors looked forward to the intangible benefits that savings banks might offer, it seems likely that many if not most others heard and then simply disregarded that message as they sought only the practical benefits of having a secure and profitable place to store accumulated income. In the context of antebellum savings bank rhetoric, however, such choices did have cultural consequences beyond depositors' intentions. While the dearth in the historical record of depositors' opinions about savings banks makes it difficult to make any general claims about them, social commentators of a higher class widely embraced the assumption of savings bank founders that the institutions fostered the "good" behavior of self-denying thrift required to avoid poverty. For example, the writer and political operative Mordecai Noah painted a portrait of savings bank depositors for the respectable audience of his 1847 essay collection, *Gleanings from a Gathered Harvest,* that termed one servant girl a "little philosopher" for her thrifty outlook and praised a formerly profligate clerk as "turn[ing] over a new leaf" by depositing his earnings in the saving bank instead of "spending [his] money in pleasure."[134] For many of these observers, this questionable assumption quickly led to a tautology: because savings banks reflected particular habits, savings bank deposits must accrue in direct proportion to the achievement of those habits. As a result, according to this line of reasoning, deposited money

133 Tyler Anbinder, "Moving Beyond 'Rags to Riches': New York's Irish Famine Immigrants and Their Surprising Savings Accounts," *Journal of American History,* vol. 99, no. 3 (December 2012), pp. 741-70: 746-51. Anbinder did note that the bank's depositors "were a fairly close, but not perfect, cross-section of the New York Irish American community" that did slightly underrepresent unskilled workers relative to their economically better-off peers. Still, more than one-third of the bank's male depositors were unskilled workers and another 40 percent were skilled manual workers—the latter figure almost identical to that group's proportion in the general population.

134 M. M. Noah, *Gleanings from a Gathered Harvest* (New-York: H. Long & Bro., 1847), 85-87

actually measured the abstract virtue of the depositor.

Savings banks promoted this view themselves. A particularly telling 1855 advertisement for the Seaman's Bank for Savings in New York City answered the question of "what benefit [a sailor] would derive from depositing his money" with the statement that "it will always be a recommendation to a man that he has some money in the Bank; and would often secure him a good birth [sic] where trustworthy and responsible men are wanted." Only after this assertion did the bank add the more traditional claim that "a fund in this Bank would be a good reliance in sickness or old age" and that "a small deposite [sic] at the termination of every voyage, would, in a few years, be a sum of some magnitude."[135] The 1861 Annual Report of the Bank Commissioners of Massachusetts extended such a claim to the entire body of depositors, explaining that "the savings of the industrial classes are a fair index of the prosperity, and indeed of the *moral condition* of any people."[136]

In a more general sense, an 1875 report from a Boston bank remembered the situation of twenty years earlier when "the public interest in the matter of frugality and economy had been fully discussed in the journals of that day." The author recalled that it had been shown "conclusively that money deposited, 'being the fruit of toil, was also the evidence of power, as well as of industry and independence.'"[137] An 1854 treatise suggested in a similar vein that "Manchester, the *Lowell of England,* contrasts very unfavourably with the Lowell of the United States," because "Manchester with *ten times* the population of Lowell, has only a little more than

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135 Seaman's Bank for Savings, *The Seaman's Bank for Savings, in the City of New-York* (New York: John C. Beale, 1855), 4

136 *Annual Report of the Bank Commissioners, September 30, 1861* (Boston: William White, 1861), 155; emphasis added

137 Boston Five Cents Savings Bank, *Twenty-first Annual Report* (Boston: J.A. Cummings & Co., 1875), 7

double the money in its savings banks!" The English author of this tract explained the discrepancy as the direct result of the propensity of Manchester factory "operatives" to frequent public-houses, in contrast to their sober Lowell counterparts.[138]

The connection between the amount of savings bank deposits and the inherent virtue of the depositor reflected a cultural current that ran at least as far back as *The Brothers, or Consequences,* the 1823 play that Boston's Provident Institution produced. But at that early date in the development of US savings banks, this idea was an as-yet-untested theory. More than four decades of steady growth offered hope to many that it might be proven true. The expanding savings bank sector also demonstrated that American workers of nearly all circumstances would willingly participate in the country's financial system, despite the often disturbing changes—such as increases in poverty, unemployment, and a shift from skilled to unskilled labor—which that system was encouraging. Both of these developments would prove extremely important in the years during and following the Civil War, encouraging the further expansion and eventual diversification of the institutional small finance sector as the prevalence and economic influence of wage labor continued to spread throughout the country while the capital demands of American governments and businesses grew.

138 Charles Williams Sikes, *Good Times: or, The Savings' Bank and the Fireside* (London: Groombridge & Sons, 1854), 44-5

# Chapter Two

## Savings in War and Peace: The Multiple Meanings of Thrift, 1861-1877

### *Introduction*

As demonstrated in Chapter One, savings bank growth was strong but uneven in the fifteen years prior to the Civil War. While they gained a substantial presence in New England and the Mid-Atlantic region, these institutions failed to emerge in large parts of the southern, midwestern, and western United States. Even in places such as Massachusetts and New York where savings banks were common, their status was to a certain degree ill-defined. On the one hand, they were the only significant financial institutions that catered to a working-class clientele. On the other, they were usually regulated as philanthropies rather than banks. Looking back on this situation at the 1877 annual meeting of the American Bankers' Association (ABA), one of the organization's officers observed that "in 1864, when the National Bank Committee formed an association out of which ours has sprung, the claims of Savings Banks to a recognized position and a definite status [within the association] were not sufficiently accepted." Yet thirteen years of expansion in both geographic and economic terms had changed this view. "In our present organization," the speaker continued, "the Savings Banks, the State Banks, the Private

Banks, and the National Banks, all stand on a common platform as equal factors in our financial system, and as independent, closely related members of the great banking and financial organism of the country."[1] By the start of the Civil War, there were a great and growing number of individual savings banks; by the end of the 1870s, there was a recognizable, expanding, and intractable savings bank *system*.

As the ABA official suggested, the accelerated integration of savings banks into the broader US economy played a key role in this transition. Extant savings banks continued to grow while organizers founded new ones at increasing rates, pushing the aggregate figures of usage even higher. As part of this process, savings institutions started to outgrow their largely eastern confines to become a more extensive feature of the national economic landscape. Besides growing in size and geographic reach, savings banks' operations also changed in subtle ways that tied them more closely to the country's general development. Most notably, many savings banks diversified their portfolios, ensuring that a wider swath of the US economy depended on savings bank finance. Lastly, the ABA official's comment suggested an important shift in the *perception* of savings banks in relation to other financial institutions. While many still held them apart from commercial banks, even they nevertheless understood savings banks to be powerful financial intermediaries rather than simply—or even primarily—philanthropies. As wage laborers became a more important feature of the US production economy, the savings banks so thoroughly identified with them also increased in importance as financial intermediaries.

*The growth of savings at mid-century*

If any observer in 1860 had failed to realize the immensity of the money supply that

1 American Bankers' Association, *Proceedings of the Convention of the American Bankers' Association . . . 1877* (New York: American Bankers' Association, 1877), 98

American workers held, four years of civil war served to open their eyes. From 1861 to 1865, aggregate US savings bank deposits grew by more than two-thirds in current dollars, from about $147 million to more than $240 million. While the rampant inflation of the period meant that this later figure actually amounted to roughly 17 percent *less* purchasing power than savings bank deposits comprised at the outset of the war, contemporary observers exclusively focused on the nominal figures and viewed them as evidence of substantial growth.[2] In 1864, for example, political economist David A. Wells marveled at "the accumulation of industrial savings" in Massachusetts from 1850 to 1860 and then praised the fact that "in 1861, when the loyal portion of the United States was entering upon a struggle growing out of an attempt to destroy the whole future of their government . . . [and] the trade, industry, and commerce of the country were everywhere extremely depressed . . . the withdrawal of deposits from the American savings banks were so small as to be hardly worthy of notice." He was particularly impressed at this history when he compared American savings bank depositors to their British counterparts, who supposedly had led runs on their institutions in similar times of crisis in the United Kingdom.[3]

The importance of the enduring savings bank capital accumulation during the Civil War was explained by another political economist, Henry Carey, a major intellectual influence on the early Republican Party's economic policy. Writing shortly after the conclusion of the war, Carey rhetorically asked "whence . . . has the National Treasury obtained the means by which it has been enabled to pay its troops and buy their food . . . required for fitting out our present

2 The raw figures are from the US Comptroller of the Currency's 1920 Annual Report (pp. 241-42) and the adjustment for inflation is based on 1860 dollars as calculated by the David-Solar index. For more details, see: Appendix 1

3 David A. Wells, "Our Burden and Our Strength: A Comprehensive and Popular Examination of the Debt and Resources of Our Country, Present and Prospective," in *The Bankers,* Vol. 14, No. 4 (October 1864), 269. Aggregate deposits declined from $149,277,504 to $146,729,882 between 1860 and 1861. See: Apendix 1

enormous fleets . . . [and] required for constructing roads in Illinois and the other Western States?" Answering his own question, he asserted that the reason "that the people have been, in time of war, enabled to do so much when in the previous time of peace they could do so very little," was that rising industrial wages led to rising savings deposits which then increased investment in both government and industry. Carey proudly noted that "the whole country has become one great savings' bank." Because savings banks invested a healthy percentage of their deposits in government bonds, "the State and Federal Governments have been enabled to collect thousands of millions where before they could scarcely obtain hundreds."[4]

Apart from expanding industrial development, the Civil War also necessitated the recruitment of millions of soldiers who were paid wages that they were often unable to spend immediately due to severe shortages and frequent travel. Home-front groups such as the Massachusetts Soldiers' Fund organized almost immediately to coordinate soldiers' remittances to northern banks, including savings banks.[5] Through such mechanisms, soldiers such as William Brennan of the New York Volunteers' 131st Regiment used savings banks during the war years. As he wrote to Rhode Island's Providence Institution for Savings in 1862, "I shall send you a check for twenty Dollars every pay day more or less according to how we get paid." Brennan emphasized that such deposits would continue throughout the war, adding that "If I dont Return be fore my tree yers expires probely [sic] I may want you to send me a few dollars some time or other," but otherwise he or his next of kin would withdraw the bulk of his money only on his

4 Henry Carey, "The Farmers' Question. Letter Tenth," in *The Way to Outdo England Without Fighting Her. Letters to the Hon. Schuyler Colfax* (Philadelphia: Henry Carey Baird, 1865), 99

5 Massachusetts Soldiers' Fund, *Massachusetts Soldiers' Fund. . .* (Boston: 1861). Readex. *Archive of Americana. American Broadsides and Ephemera, Series 1.* Record Number: 10F45455C2AEBCB0

return or death.[6] It's difficult to know how many soldiers were new mutual savings bank depositors, but the total number of open accounts rose substantially during the war, from just under 700,000 at its outset to just under one million by its end. [See: Appendix 1]

Such growth accelerated in the decade after the Civil War, as the number of depositors more than doubled and the amount of aggregate deposits more than tripled (in current dollars) between 1865 and 1875. In the same years, the number of mutual savings banks throughout the country grew from 317 to 674.[7] As was true before the Civil War, states such as Massachusetts and New York that featured well-developed antebellum savings bank systems continued to dominate this expansion. The number of New York savings banks more than doubled between 1865 and 1874, when it reached a peak. Massachusetts nearly kept pace with that rate of growth, increasing from 102 to a high mark of 180 institutions by 1875. Their savings banks' shares of both depositors and aggregate deposits showed similar upward movement.[8]

Despite this continued Northeastern dominance, the states and territories of the Midwest, West, and South also showed signs of a burgeoning savings industry. Even as Massachusetts and New York substantially increased their savings bank sector, their combined share of the nation's total institutions fell from 55.8 to 43.3 percent in the decade after the Civil War. While other New England and Mid-Atlantic states were the primary alternative areas of growth, they were only part of the story. One survey of savings institutions throughout the country found that in 1875,

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6 William Brennan to "the presedent [sic] of the Providence Institution for Saving," 23 November 1862, Rhode Island Historical Society, Old Stone Bank Records, Series 6: Correspondence, Subseries 2: incoming correspondence, Folder: Jan.--Feb.--March, 1863

7 Inflation-adjusted growth in aggregate savings banks between 1865 and 1875 deposits was from roughly $124 million to almost $680 million in 1860 dollars, an even more remarkable increase of nearly 550 percent. For 1865 figure, see: Appendix 1; for 1875 figure, see: US Comptroller of the Currency, *Annual Report* (1875), xcvi

8 Emerson W. Keyes, *A History of Savings Banks in the United States,* 2 vols. (New York: Bradford Rhodes, 1876, 1878), II, see folded sheet inserted between pp. 532 and 533

nine savings banks operated in Indiana, twelve in Michigan, twenty-one in Ohio, and nine in Chicago (with perhaps more in the rest of Illinois). Such places had fostered at most a few small and scattered savings institutions in the antebellum years, but the survey author's inability to find significant information about them despite combing legislative records for charters and writing to hundreds of government officials, banks, and local newspapers throughout the country suggests their lack of local significance compared to the postbellum institutions.[9]

Figures that the American Bankers' Association compiled in 1875 show that a similarly small but important share of the aggregate money controlled by "savings banks without capital"—mutual institutions like those that had their origins in Boston and Philadelphia in the 1810s—was held outside of New England and the Mid-Atlantic states. According to the ABA, the Eastern (New England) and Middle (New York south to Maryland, plus the District of Columbia) portions of the country still dominated the savings bank industry with $396 and $369 million in deposits, respectively. By comparison, savings banks in Southern states only held about $2 million in deposits (nearly all of it in Louisiana). But Western states (ranging from the Midwest to the Pacific) commanded a respectable $48 million in savings. Although three-quarters of that was held in California savings banks—many of which had been operating since the 1850s—Ohio, Indiana, and Illinois all showed indications that they were supporting significant numbers of savings depositors where twenty years earlier there had been hardly any. And if the relatively new category of for-profit "savings banks with capital" was included, these "western" states increased their aggregate savings bank deposit figures by more than sixty percent. Between the geographic growth and the advent of a new class of savings institution—which will be discussed below in more detail—the geographic and organizational landscape of

9 Keyes, *A History of Savings Banks,* II, folded sheet between pp. 532 and 533 and throughout

Figure 2.1[10]

Deposits of Savings Banks With and Without Capital, By State, Average for the Six Months Ending May 31, 1875 (in dollars)

| | Savings Banks Without Capital | Savings Banks With Capital | | Savings Banks Without Capital | Savings Banks With Capital |
|---|---|---|---|---|---|
| State or Territory | Average Deposits | Average Deposits | State or Territory | Average Deposits | Average Deposits |
| **Eastern States** | | | **Western States** | | |
| Maine | $30,109,339 | ------ | Ohio | 7,904,131 | 411,907 |
| New Hampshire | 29,498,479 | $259,265 | Indiana | 1,526,058 | ------ |
| Vermont | 5,666,088 | ------ | Illinois | 944,012 | 8,147,236 |
| Massachusetts | 212,296,085 | 4,474,090 | Michigan | ------- | ------ |
| Rhode Island | 46,907,666 | ------ | Wisconsin | 53,748 | ------ |
| Connecticut | 71,189,365 | ------ | Iowa | 60,167 | ------ |
| *Total* | *395,667,022* | *4,733,355* | Minnesota | 8,582 | ------ |
| | | | Missouri | 594,480 | ------ |
| **Middle States** | | | Kansas | ------- | ------ |
| New York | 301,257,339 | 687,655 | Nebraska | ------- | ------ |
| New Jersey | 30,662,100 | 721,954 | Oregon | ------- | ------ |
| Pennsylvania | 19,059,016 | 53,609 | California | 37,301,863 | 24,519,529 |
| Delaware | 123,861 | ------ | Colorado | ------- | ------ |
| Maryland | 17,921,442 | ------ | Utah | ------- | ------ |
| District of Columbia | ------- | 797,253 | New Mexico | ------- | ------ |
| *Total* | *369,023,758* | *2,260,471* | Wyoming | ------- | ------ |
| | | | Idaho | ------- | ------ |
| **Southern States** | | | Dakota | ------- | ------ |
| Virginia | 11,731 | 529,225 | Montana | ------- | ------ |
| West Virginia | ------- | ------ | Washington | ------- | ------ |
| North Carolina | ------- | ------ | Nevada | ------- | ------ |
| South Carolina | 61,361 | ------ | *Total* | *48,393,041* | *33,078,672* |
| Georgia | ------- | ------ | | | |
| Florida | ------- | 15,441 | | | |
| Alabama | ------- | ------ | | | |
| Mississippi | ------- | ------ | | | |
| Louisiana | 1,783,783 | ------ | **Recapitulation** | | |
| Texas | ------- | ------ | Eastern States | 395,667,022 | 4,733,355 |
| Arkansas | ------- | ------ | Middle States | 369,023,758 | 2,260,471 |
| Kentucky | ------- | ------ | Southern States | 1,930,191 | 575,586 |
| Tennessee | 73,316 | 30,920 | Western States | 48,393,041 | 33,078,672 |
| *Total* | *1,930,191* | *575,586* | **Total in U.S.** | **$815,014,012.00** | **$40,648,084.00** |

10 American Bankers' Association, *Proceedings . . . 1877,* 100-101

the US savings bank sector showed clear signs of transformation in the 1860s and 1870s from the half-century that had preceded these years. [See Figure 2.1]

*A national body of local associations*

As impressive as it was, this expansion in the numerical, financial, and geographic reach of savings banks did not wholly account for the emergence of a savings bank "system" after the Civil War. With the exception of the federally chartered Freedman's Bank (see Chapter Three), savings banks throughout the country remained state institutions that often operated under individual charters and were subject to the rules of their individual states.[11] Furthermore, general prohibitions against branch banking meant that even within a given state, each savings bank operated independently.[12] Despite these barriers, many savings banks in the 1860s and 1870s took steps to connect with their compatriot institutions and to integrate themselves more fully with the national economy. Even accounting for the persistence of individual differences and a lack of formal connections, these institutions were more like each other than they were like any other financial or business enterprise. This recognition combined with their growing importance throughout the country to create a sense that just as savings banks themselves aggregated the small savings of many individuals for a collective purpose, so too did the institutions have a collective effect that was somehow greater than each local contribution. By the 1870s, this collective power grew to be so great that it rivaled that of other classes of financial institution, many of which sought for the first time to find common ground with savings banks on the basis

11 For a thorough accounting of antebellum savings bank charters, see: Keyes, *A History of Savings Banks,* I and II

12 For a brief overview of branch banking restrictions in the immediate postbellum period, see: Charles W. Calomiris, *U.S. Bank Deregulation in Historical Perspective* (New York: Cambridge University Press, 2000), 9-10 and 46-47. Calomiris notes that many Southern states had encouraged branching before the Civil War, but the dismantling of much of their banking system during and immediately after it included a general restriction on branching.

of their shared business sector rather than attempt to stand apart because of differences in ownership structure or avowed mission.

The creation of professional associations to formalize inter-bank relations was one of the first tentative steps towards linking the savings banks of the country into a single system and linking that system to the broader finance economy. Though occasional conferences were held throughout the antebellum period, the germ of the first permanent national association of bankers was an 1865 convention held in New York City. Yet that meeting was limited to representatives of the newly-created national banks. In contrast, when the American Bankers' Association finally coalesced a decade later it also included savings, state, and private banks among its member institutions. This change suggests just how far the concept of viewing all financial institutions as sharing some important features and concerns had come during the postbellum years. Financial institutions of all kinds began to recognize a shared purpose and collective interest and they included savings banks in that vision. In particular, taxation of bank assets was among the biggest issues that finally brought these institutions into the ABA. It was, after all, an organization designed for the purpose of "securing the proper legislation" to end banks' "grievances" on this and similar fronts and deposit taxation was an issue that affected savings and non-savings banks alike.[13]

The question of bank taxation came to the fore as a result of the pressing demands for government revenue that the Civil War generated. On a state level, Massachusetts passed a law in 1862 that imposed a tax on all savings banks based on the amount of their deposits.[14] The trend

13 American Bankers' Association, *History of the Organization and Annual Conventions of the American Bankers' Association: Report of the Secretary of the Association at the Convention Held at Cincinatti, Ohio, October 3d and 4th, 1888* (Cincinatti: American Bankers' Association, 1888), 3-5

14 Boston Five Cents Savings Bank, *Twenty-First Annual Report of the Treasurer of the Boston Five Cents Savings Bank. . .Also the Act of Incorporation and By-Laws of Said Institution. . .and the General Statutes Relating to*

continued just after the war in 1866, when New York instituted a tax on savings banks' "surplus funds" (the profits they held in reserve after paying expenses and interest).[15] But the federal government's need for money during the 1860s far outstripped even that of the states. So it was that the Internal Revenue Act of 1864 contained a host of new taxes, including those on the deposits, capital, and issued circulation of organizations "engaged in the business of banking." Notably, the 1864 act included an exception to this rule for "any Savings Bank having no capital stock, and whose business is confined to receiving deposits, and loaning the same on interest, for the benefit of the depositors only." The act's authors seem to have adhered to the still-current notion that the working-class status of many savings bank depositors entitled them to special government protection. Yet Congress's decision to remove the savings bank exemption less than a year later suggested that such an attitude was starting to become less prevalent in the national consciousness—at least among cash-hungry policymakers who noticed the large source of capital represented by savings bank deposits.[16] It also provided an issue that brought together savings bankers in a manner never before seen.

Congress allowed taxation of savings banks based on their accumulated deposits in March 1865; by August, a "meeting of Savings Banks of the City of New York" issued a lengthy report outlining a legal argument about the impropriety of taxing these "purely charitable institutions."[17] The same "associated Savings Banks in the City"[18] helped craft a form letter in

*Savings Banks* (Boston: J.A. Cummings & Co., 1875), 17

15 New York State. Banking Department. *Annual Report* (1871), 223

16 S.A. Banks, M.D. Van Pelt, and W.B. Harison, *Report on Application of Section 110 of United-States Internal-Revenue Law to Savings Institutions* (New York: s.n., 1865), 3-5

17 Ibid., 6 and throughout

18 Thos. Somerset to Charles J. Holmes, Esq., 19 October 1865, Boston Athenæum, Provident Institution for Savings in the Town of Boston Records, Series II: Administration, Subseries B: Government Regulations,

October that petitioned Congress to exempt savings bank deposits from taxation, in part because of their belief "that Congress did not intend to tax the small savings of the poor, when they do not tax the accumulated property of the rich." This petition was signed by banks at least as far away as Boston.[19] A similar meeting of numerous savings bank directors in Connecticut recommended that all savings banks in their state withhold payment of the tax until Congress clarified whether or not it really intended the burden to fall on these institutions. The Connecticut meeting further resolved that "the Savings Banks of this State unite in paying the cost to which any Bank may be subjected by conforming to the recommendations of this meeting."[20] Such a decision to defer payment was also popular in Massachusetts, where individual savings banks paid close attention to the actions their counterparts were taking.[21]

The question of whether savings banks' philanthropic mission exempted them from taxes had arisen occasionally before the 1860s. For example, the directors of Rhode Island's Providence Institution for Savings had "a full and free interchange of opinion" about whether to challenge the municipal Board of Assessors decision to "Tax the Capital of this Bank" in 1855, ultimately deciding to pay the tax only under official protest.[22] But because the federal tax on

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Folder: Letters re/ Deposit Tax, 1835-1882 (various dates)

19 "To the Honourable the Senate and House of Representatives in Congress assembled," Boston Athenæum, Provident Institution for Savings in the Town of Boston Records, Series II: Administration, Subseries B: Government Regulations, Folder: Letters re/ Deposit Tax, 1835-1882 (various dates)

20 Alcott Allen to Peter Wainwright, Esq., 4 November 1865, Boston Athenæum, Provident Institution for Savings in the Town of Boston Records, Series II: Administration, Subseries B: Government Regulations, Folder: Letters re/ Deposit Tax, 1835-1882 (various dates)

21 James Ritchie to Hon. E.A. Rollins, 6 June 1866, Boston Athenæum, Provident Institution for Savings in the Town of Boston Records, Series II: Administration, Subseries B: Government Regulations, Folder: Letters re/ Deposit Tax, 1835-1882 (various dates)

22 "At the Quarterly meeting of the Board of Trustees" (17 October 1855) and "At a Special Meeting of the Board of Trustees" (26 December 1855), Rhode Island Historical Society, Old Stone Bank Records, Series 1: Trustees Minutes, Volume 2: 1852-1875

savings bank deposits was the first measure that affected every savings institution in the country, it made what had earlier been an isolated issue for only a few savings banks one that could draw all of them into formal associations that began to supplant the informal ties of the antebellum years. The fact that the federal tax on bank deposits helped bring into existence the first permanent association of bankers in the country during the mid-1870s was particularly momentous. This act foreshadowed the eventual creation of state-level banking and savings banking associations that would become a significant lobbying force in coming years. National organizations other than the ABA would also follow, including the formation just after World War I of an interstate organization to solely represent the interests of mutual savings banks.[23]

*The bonds that bind*

The tax code was not the only issue that increased the collective prominence of savings banks in the national economy during the 1860s and 1870s. As already noted, the amount of money they commanded for investment increased dramatically during this period. The fact that more sophisticated bond markets and brokerages enabled more-detailed assessments of a wider variety of securities—even those issued out-of-state—pushed many state legislatures to continue the movement already underway to expand the list of acceptable investments for their savings banks. An 1863 Massachusetts law is typical of this trend: for the first time, it authorized savings banks to invest in "the public funds of the State of New York, the bonds or notes of the cities of the New England States, the first-mortgage bonds of any railroad company, incorporated under the authority of this State . . . or in the bonds of any such railroad company which is

23 Representatives from mutual savings banks in the seventeen states that had these institutions met for the first time as the National Association of Mutual Savings Banks in 1920. The oldest formal association representing only the interests of mutual savings banks appears to be the Savings Banks Association of the State of New York, organized in 1894. See: Frederic B. Stevens, *History of the Savings Banks Association of the State of New York: 1894-1914* (New York: Doubleday, Page & Company, 1915)

unincumbered [sic] by mortgage."[24]

The balance sheets of Rhode Island's Providence Institution for Savings illustrate how increased opportunities for investment combined with changing perceptions of what constituted safe investments to alter savings banks' relationship with the broader economy. In 1857, well over half of the bank's investments were in loans secured by mortgage or other collateral, with the balance spread entirely amongst bonds issued by the Providence and New York City municipal governments, the state of Ohio, the US government, and the Providence and Worcester Railroad, along with bank stock and deposits in the local Providence Bank (a commercial institution). The comparison with its 1865 investment profile is striking. Although mortgage lending remained an important aspect of the Providence Institution's investment—as was true of most savings banks during this period—the bank now held bonds from the US government as well as the cities of Providence, New York, Boston, Brooklyn, Newport, and North Providence (or their municipal departments). At the state level, its investments included bonds from Rhode Island, New York, Massachusetts, Ohio, Illinois, Iowa, and Maine. All of this was in addition to loans on personal security plus stocks from banks and railroad companies based in several locations outside of Providence.[25] While the Rhode Island-based savings bank had invested almost exclusively in local concerns or the federal government before the Civil War, by the time the conflict ended it was financing governments, railroads, and banks throughout the nation.

In the fiscal year 1875-1876, figures compiled by the American Bankers' Association revealed that nationwide, 39 percent of the more than $950 million in savings bank assets were

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24 Boston Five Cents Savings Bank, *Twenty-First Annual Report* (Boston: J.A. Cummings & Co., 1875), 18

25 "At the Annual Meeting of the Corporation" (4 October 1858) and "Annual Meeting of the Corporation" (2 October 1865), Rhode Island Historical Society, Old Stone Bank Records, Series 1: Trustees Minutes, Volume 2: 1852-1875

held in the form of mortgage loans, while another 17 percent were invested in loans secured by other forms of collateral or personal security. But a healthy 11 percent of savings bank investments were US securities, a full 18 percent were held in various state, municipal or "other bonds and stocks," and an additional 3 percent of all savings bank assets were railroad bonds. Due to the geographic diversification of investment outlets and the sheer increase in the amount of money available, savings banks collectively invested as much as $300 million beyond their immediate physical surroundings. This integrated the fortunes of local savings institutions with those of both regional and national economies to a degree never before seen.[26]

There were some exceptions to this trend towards diversification. From 1849 to 1874, Massachusetts savings banks on average directed significantly *more* of their investment towards local loans. Their ratio of mortgages to total deposits rose from 33 to 50 percent during those years, likely reflecting the continued influence of wealthy Boston savings bank directors who tended to favor their peers when determining investments.[27] Meanwhile, the share of Massachusetts savings bank deposits invested in government bonds also atypically declined during the period. Nevertheless, these institutions' sharp rise in total assets meant that Massachusetts savings banks invested significantly larger *absolute* amounts of money into many segments of the economy beyond local businesses and residents. These additional purchases included government bonds, commercial banks, and railroad stock, and drew even Massachusetts savings banks more closely into the fortunes of the country's general economic development in aggregate terms if not in relative ones. Since most Massachusetts savings bank mortgage loans were made on commercial property in a state with a healthy share of the nation's industrial

26 American Bankers' Association, *Proceedings . . . 1877,* 104

27 Betty Farrell, *Elite Families: Class and Power in Nineteenth-Century Boston* (Albany, NY: State University Press of New York, 1993), 50-51 and 155-56

Figure 2.2[28]

Resources and Deposits in Massachusetts Savings Banks, 1849 and 1874

(All values in current dollars)

| **1849** | | | **1874** | | |
|---|---|---|---|---|---|
| | Total (in $) | (% of total deposits) | | Total (in $) | (% of total deposits) |
| Public Funds | 1,294,785 | 11 | Public Funds (United States bonds) | 8,453,759 | 4 |
| | | | Public Funds (State, county, city, and town bonds) | 10,389,307 | 5 |
| Bank Stock | 2,092,642 | 17 | Bank Stock | 22,377,009 | 10 |
| Railroad Stock | 89,528 | 1 | Railroad Bonds and Stock | 6,486,882 | 3 |
| Deposits, in banks, bearing interest | 145,155 | 1 | Due from banks | 3,294,486 | 2 |
| Cash on Hand | 162,013 | 1 | Cash | 2,042,959 | 1 |
| Invested in Real Estate | 89,403 | 1 | Real Estate | 2,798,971 | 1 |
| Loans in Mortgage of Real Estate | 3,980,217 | 33 | Loans on Real Estate | 109,254,540 | 50 |
| Loans on Personal Security | 2,572,164 | 21 | Loans on Personal and Collateral Security | 54,607,174 | 25 |
| Loans on Railroad Stock | 250,855 | 2 | | | |
| Loans on Bank Stock | 184,907 | 2 | | | |
| Loans on Public Funds | 20,750 | 0 | | | |
| Loans to County, or Town | 1,570,261 | 13 | | | |
| **Amount of Deposits** | **12,111,554** | | **Amount of Deposits** | **217,452,121** | |

28 Massachusetts. Secretary of the Commonwealth, *Abstract Exhibiting the Condition of the Institutions for Savings . . . September, 1849* (Boston: Dutton and Wentworth, 1849), 22, and US Comptroller of the Currency, *Annual Report . . . 1875*, xcv

businesses during this period,[29] even that aspect of their investment can be seen as an expression of savings banks' influence on the aggregate national economy. In other words: by financing Massachusetts' industrial development, the state's savings banks were to a large degree financing the nation's. [See Figure 2.2]

### *Working poor but capital rich*

While savings banks' individual and collective growth helped to establish them as substantial purchasers of the nation's various investments, they also indicated that the market for accessing the wealth represented by working-class saving was not yet fully exploited. In response, a host of new institutions began to seek access to workers' potential capital. In some locales, this pressure simply manifested itself as the rapid expansion in the number of savings banks during the decade after the war. For example, twenty-three new saving banks opened in New York City and Brooklyn alone between 1865 and 1870.[30] But other types of financial arrangements increasingly formed as a response to what Harvard political economist Francis Bowen in 1859 explained as "the proposition . . . that the national capital grows more by the aggregate of the small savings of the bulk of the people, including the poorer classes, than by the great gains of the rich."[31] These new institutions began to challenge savings banks for the accumulations of the working classes in ways that would have long-lasting effects for both the American finance industry and working-class savers alike.

29 From the 1840s onward, Massachusetts was in the midst of an economic shift from agriculture to manufacturing that made it one of the most industrialized states in a rapidly-industrializing United States by 1890. See: Richard Franklin Bensel, *The Political Economy of American Industrialization, 1877-1900* (New York: Cambridge University Press, 2000), 19-29 and Alexander Keyssar, *Out of Work: The First Century of Unemployment in Massachusetts* (New York: Cambridge University Press, 1986), 14-16

30 New York State. Banking Department, *Annual Report* (1870), 58-62 and New York State. Banking Department, *Annual Report* (1871), 42-6

31 Francis Bowen, *The Principles of Political Economy* (Boston: Little, Brown, and Company, 1859), 111-12

The necessity of war again produced one of the more prominent examples of such a challenge. As early as 1862, the Bank Commissioners of Massachusetts reported that a modest decline in the state's aggregate savings bank deposits could be attributed to "investment in the national loans." They explained that "the rate of interest on these securities being higher than that paid by savings banks, has doubtless attracted a large number of those who usually deposit [in savings banks] in considerable sums, and it was specially to attract this class, that the government bonds have been issued in denominations so much smaller than has been customary heretofore."[32] While the commissioners did not specify the securities to which they referred, this was likely a reference to Secretary of the Treasury Salmon P. Chase's innovative July 1861 US government offering. This issue featured bonds in denominations as low as $50, bringing them within reach of some members of the working poor. As a further incentive to small purchasers, these securities could be paid for in up to ten installments over a period of five months. Chase conceived of this payment plan specifically "to secure the widest possible circle of contribution"—that is, to draw money from the lower classes in addition to institutional investors and wealthy individuals.[33] Later Union bond issues had similarly favorable terms in order to entice people of limited means to purchase them.[34]

These bond issues demonstrated the continuation of the idea—first propagated by savings banks—which held that members of the working classes could and should contribute to the

32 Massachusetts Bank Commissioners, *Annual Report of the Bank Commissioners, September 30, 1861* (Boston: William White, 1861), 171-72

33 U.S. Secretary of the Treasury, *Report of the Secretary of the Treasury, on the finances, containing estimates of the public revenue and public expenditures, and plans for improving and increasing the revenue. July 5, 1861.,* S. Exec. Doc 2, 37th Congress, 1st Session (1861), 13

34 Henrietta M. Larson, *Jay Cooke: Private Banker* (Cambridge, MA: Harvard University Press, 1936), 143-51, 165-75

nation's investment capital. As Melinda Lawson pointed out, "only rarely did the ads for government bonds [during the Civil War] mention the importance of patriotism, citizenship, the war, or even Union." Instead, they catered to "the customer's business sense" and "self-interest."[35] Financier Jay Cooke, in particular, made a personal fortune by being the first person to successfully market low-denomination US government securities to a large group of low-volume purchasers, in part because he recognized the existence of a market where others had not.[36] Yet Cooke's debt to savings banks for this inspiration was explicit: the impending loss of business signaled by the war's conclusion led his firm to distribute a tract arguing that "the National Debt should be retained as a National Savings Bank for the earnings of laboring men and women—as a National guardianship for . . . all those who are inexperienced in [financial] affairs."[37] Both Cooke's successful brokerage and the rapid expansion of savings banks during the Civil War demonstrated substantially the same thing through quite different financial transactions: working-class Americans were willing and able to invest their money, weighing risk against the possibility of a fair return.

Unlike savings banks, the low-denomination bonds that Cooke advocated did not become an increasingly important feature of the postbellum economy. They were a novel but ultimately unstable entry into the savings industry. Although a broker such as Cooke mediated their sale, they were a direct investment on the part of the bond purchaser. In this sense, they were

35 Melinda Lawson, *Patriot Fires: Forging a New American Nationalism in the Civil War North* (Lawrence, KS: University Press of Kansas, 2002), 54

36 Larson, *Jay Cooke,* 119-78

37 Of course, it seems likely that Cooke advocated such a course of action in anticipation of continuing the profitable business of brokering such bonds that made him a fortune during the war rather than any particular charitable impulse. See: Samuel Wilkeson, *How Our National Debt May Be a National Blessing* (Philadelphia: M'Laughlin Brothers, 1865), 9

inherently ephemeral in a way that institutional savings outlets were not. While savings banks—working with the state legislatures that oversaw their charters—could change investment strategies as the market changed, a small-denomination bond purchaser could only invest directly so long as small-denomination bonds continued to be available. When the pressing necessity of war-level finance diminished after 1865, the federal government worked to quickly buy back its war-era bonds and remove such instruments from circulation.[38] At the same time, the lucrative expansion of the bond resale market after the Civil War meant that investment banking firms such as Cooke's increasingly found it more attractive to speculate their own money on government securities rather than trade them on behalf of clients.[39] Direct investment would not regain a significant share of the savings market for most American workers of modest means until well into the early decades of the twentieth century.[40]

A different product of the Union's financial strategy during the Civil War was far more lasting. The US Congress passed the National Banking Act of 1863 (followed by a series of related laws) as a way to effectively issue, circulate, and control a national currency. While not explicitly eliminating state-chartered banks and their circulating notes, the national banking system effectively removed state-bank currency from circulation. It did so by heavily taxing state bank notes while allowing national banks to issue tax-free notes backed by US government securities. As a result, the number of state-chartered banks quickly plummeted, dropping from

38 Richard Franklin Bensel, *Yankee Leviathan: The Origins of Central State Authority in America, 1859-1877* (New York: Cambridge University Press, 1990), 251 and 260-62

39 Larson, *Jay Cooke,* 216-36

40 On the growing participation in securities markets during the twentieth century, see: Chapter Four, Julia C. Ott, *When Wall Street Met Main Street: The Quest for an Investors' Democracy* (Cambridge, MA: Harvard University Press, 2011) and Janice M. Traflet, *A Nation of Small Shareholders: Marketing Wall Street After World War II* (Baltimore, MD: The Johns Hopkins University Press, 2013)

1,466 institutions in 1863 to only 247 five years later.[41] Many of those state banks simply converted to a national bank charter: 922 of the 1,601 national banks in existence at the end of 1865 were formerly state institutions, though it became significantly less common to make such a switch in subsequent years.[42]

In the long run, national banks became major participants in the hunt for savings deposits: a 1911 survey of every national bank in the country concluded that approximately 51 percent of them accepted savings deposits (see Chapter Four for more on this development).[43] The origins of this foray into the savings field began almost upon the establishment of the national banking system. For example, the Merchants' National Bank of Memphis advertised as early as January 1866 that "in addition to its ordinary Exchange and Deposit business [it] has opened a Savings' Department, in which deposits of One Dollar and greater sums will be secured and draw interest at the rate of four per cent. per annum."[44] Oregon's First National Bank of Portland announced the opening of its savings department in 1869 with a series of newspaper advertisements reading "Savings! Savings!" across the top and the explanation that it had "in view the benefits to accrue to a class of persons having small sums to loan, by providing a safe place of deposit, ample security and fair rate of interest, as well as to aggregate and bring into use idle capital." The advertisement then explicitly asserted the superiority of patronizing a national bank with one's

41 For a good summary of the National Banking Act and its implications for the US finance industry, see: Gretchen Ritter, *Goldbugs and Greenbacks: The Antimonopoly Tradition and the Politics of Finance in America* (New York: Cambridge University Press, 1997), 66-73. For statistics relevant to state and national banks, see: United States Comptroller of the Curreny, *Annual Report of the Comptroller of the Currency to . . . Congress, December 4, 1876* (Washington, DC: Government Printing Office, 1876), xciv, and Rohit Daniel Wadhwani, "Citizen Savers: The Family Economy, Financial Institutions, and Social Policy in the Northeastern U.S. From the Market Revolution to the Great Depression," unpublished diss. (University of Pennsylvania, 2002), 289

42 US Comptroller of the Curreny, *Annual Report* (1865), 3

43 National Monetary Commission, *Savings Departments of National Banks and Real Estate Loans,* 9

44 "Merchants' National Bank of Memphis" advertisement, Memphis *Daily Avalanch*, 16 January 1866, p. 2

savings deposits, claiming that various aspects of its charter provided "a greater security than that given by ordinary Savings Banks."[45] For a brief period in 1868-69, West Virginia even boasted an institution in Wheeling that called itself the "National Savings Bank" despite the fact that it issued bank notes and conducted the other usual operations of a national bank.[46]

Despite such limited experiments, it was not until 1903 that national banks began to enter the savings field in large numbers.[47] Prior to that point, Congress's failure to specifically authorize national banks to operate savings departments dissuaded many of them from transacting a savings deposit business out of fear that it might be illegal. No doubt others were discouraged by the fact that national banks were required to hold the same percentage of deposits on reserve regardless of whether they were demand or time deposits. This made it relatively more expensive to handle them (because unlike demand deposits, time deposits accrued interest) without any offsetting financial incentive to do so (such as being able to invest a greater portion of them).[48]

Of more importance to the savings industry of the immediate postbellum period was the fact that national bank control of note issuance unintentionally created a context which encouraged state-chartered commercial banks to solicit small savings deposits. Unlike federal charters, most state charters allowed banks to keep a lower percentage of time deposits compared to demand deposits on reserve. The theory was that in the event of an unusually high volume of

45 "Savings! Savings!" advertisement, *Morning Oregonian,* 16 October 1869, p. 1

46 US Comptroller of the Currency, *Annual Report* (1868), 385

47 Savings Division, American Bankers Association, *Response to Change: A Century of Commercial Bank Activity in the Savings Field* (New York: The American Bankers Association, 1965), 22

48 As noted in Chapter One, almost all savings banks required notice of the intent to withdraw deposits ranging from thirty to ninety days in advance of payment; although savings banks generally waived this requirement except in times of severe panic, the legal ability to require notice tehnically classed savings deposits as "time" deposits. See also: Wadhwani, "Citizen Savers," 289-92

withdrawal demand, banks could simply enforce their notice requirements on time deposits and stem the outward flow of capital from their coffers without threatening their reserves. While the withdrawal clause meant that time deposits offered banks' a measure of protection against bank runs, lower reserve requirements also meant that more capital from these deposits was readily available for longer-term investments—like mortgage loans—that could return a significant profit to a bank's shareholders. These institutions therefore had several financial incentives to receive time deposits once the National Bank Act had taken the more lucrative business of issuing currency from them. The fact that many business people preferred the liquidity and greater security of demand deposits, however, helped push state banks towards poorer customers who would trade liquidity for the interest returns that a time deposit would provide: savings depositors. In effect, a discrepancy between national and state banking policies had coincided with the emergence of a large working class that commanded capital to make the savings business widely desirable to state commercial bankers for the first time. As a result, the national savings industry developed quite differently after 1863 than it had earlier. Alongside the original mutual savings banks, for-profit "savings banks with capital" now cultivated working-class customers.[49]

The advent of what contemporaries alternatively called "stock savings banks" (due to their joint-stock ownership structure) was perhaps the most noticeable savings innovation after the Civil War. These institutions primarily handled small deposits and withdrawals, paying out interest on deposits that had been in the bank for a sufficient period of time by investing those deposits in securities, loans, and elsewhere. However, unlike the "mutual" savings banks that unpaid trustees directed, shareholders owned and ran stock savings banks. In further contrast to

49 Wadhwani, "Citizen Savers," 289-92

the mutual institutions that returned all the profits of investment to their depositors (less expenses and, in some cases, a reserve fund), these stock institutions paid only a guaranteed rate of interest to their depositors and retained whatever surplus remained as dividends for their shareholders. As mentioned in Chapter One, similar for-profit savings institutions had taken form occasionally as early as the 1830s in the Midwest, South, and Pennsylvania. Still, the relative scarcity and short-lived nature of most of these institutions allowed the State Savings Institution of Chicago, founded in 1858, to plausibly claim in 1875 that it was "the oldest . . . savings bank in the northwest."[50]

In the years following the Civil War, stock savings banks established themselves as a permanent feature of the economy, especially in the midwestern and western states that didn't have a practical and legislative tradition of philanthropic savings banks like those in the northeast. By late 1875, the US Comptroller of the Currency counted only two "savings-banks with capital" in the New England states and three in the "Middle" states, compared with totals of 436 and 218 "savings-banks without capital" in these two regions. But in the "Western States and Territories," the numbers were far less lopsided: nineteen capitalized savings banks operated along with thirty-eight organized on the older mutual model. Furthermore, the capitalized savings banks in this part of the country appeared to be healthier than their traditional counterparts, controlling a disproportionate $32.6 million in deposits compared to $47 million for the savings banks that did not issue capital stock. Although savings banks—like all financial institutions—were relatively hard to find in the Reconstruction-era South, the six savings institutions counted by the Comptroller in 1875 included three in each category.[51]

50 "The State Savings Institution" advertisement, Chicago *Daily Tribune,* 27 June 1875, p. 1

51 US Comptroller of the Curreny, *Annual Report* (1876), xlvi. These figures do obscure the fact that more than twenty branches of the uncapitalized Freedman's Savings and Trust Company operated in Southern states just a

The American Bankers' Association also collected statistics that showed growing strength among capitalized savings banks in the Midwest, West, and South in mid-1875. Its data indicated that the relative prevalence of stock savings banks was the reverse of that in New England. In Virginia, for example, the ABA counted only about $12,000 in deposits in uncapitalized savings banks relative to the more than half a million dollars deposited in capitalized institutions. In Florida, it didn't find a single uncapitalized savings bank but did tally $15,441 in at least one capitalized institution. In Illinois, there was more than eight times as much money deposited in stock savings banks as there was in mutual ones. Even California, which boasted the strongest tradition of non-profit savings banking outside of the East Coast, saw $24.5 million in deposits in its capitalized savings banks relative to the $37.3 million found in uncapitalized ones.[52] [See Figure 2.1, above]

Such statistics likely undercounted the amount of business that state banks conducted in the savings field by somewhat arbitrarily distinguishing between those state institutions that called themselves savings banks and those that did not. In the absence of reliable data such as state regulatory returns, it is difficult to tell how many of these stock savings banks limited themselves to accepting savings deposits. For its part, the US Comptroller of the Currency's office asserted in 1873 that many of these institutions "in constitution and operation, seem to differ in nothing from ordinary banks of discount and deposit."[53] Yet the same lack of technical precision in naming practices functioned the other way, as well. Because of the advantageous reserve requirements for time deposits in many states, even those banks that declined to use the

few years earlier. See Chapter Three for more information.

52 American Bankers' Association, *Proceedings . . . 1877,* 100-01

53 US Comptroller of the Curreny, *Annual Report* (1873), xli

word "savings" in their names began to delve into the savings business in the years after the Civil War. For example, Michigan's Jackson County Bank advertised in typical fashion that while it paid "interest for savings deposited in its savings department" it also did "a general banking business."[54] The Citizens' Bank of Chicago similarly publicized that it presented "its services to the business community" while conducting "a regular banking business," even as its "savings department [i]s now fully organized."[55]

Despite these early commercial entries into the savings market, the total deposits in all 551 state banks that the US Comptroller received returns from in 1874 and 1875 amounted to only about $166 million compared to the almost $850 million deposited in the 674 mutual savings banks it counted. Yet without the ability to exploit the working-class savings market, it seems questionable whether state banks would have survived even in such a diminished fashion in the face of the new national banks. By way of comparison, the 2,087 national banks operating held nearly $665 million in individual deposits in the same year.[56] Meanwhile, for-profit state banks helped introduce savings facilities to many workers who had never before had access to such institutions and introduced additional options to others. As stock savings banks spread in the decades that followed their modest start, they gradually ensured that a growing portion of the American population would gain access to savings deposit facilities through commercial rather than non-profit institutions.

### *Savings banks as cultural icons and social actors*

While Union bond issues, national banks, and stock savings institutions all affected the

54 Jackson County Bank, [advertisement], *Jackson* [Michigan] *Citizen,* 11 June 1872, p. 5

55 Citizens' Bank of Chicago, [advertisement], Chicago *Daily Tribune,* 14 January 1873, p. 1

56 US Comptroller of the Currency, *Annual Report* (1875), iv

savings industry in significant ways during the Civil War and its aftermath, these years also saw the first important experiments with two types of institutions that would eventually rank alongside savings banks in the world of small finance: building and loan associations and industrial insurance companies. Like stock savings banks, building and loan associations had made some tentative forays into the working-class savings field before the Civil War.[57] Unlike the for-profit savings banks, they were cooperative credit organizations that pooled savings from members in order to loan it at interest to finance home purchase or construction. Although there were a few examples dating to the 1830s, building and loan associations barely existed in the antebellum United States. By 1866, the Insurance Commissioners of Massachusetts even reported that because there was so little activity in the field, "we would respectfully ask to be relieved of the duty of reporting on Loan Fund Associations."[58] From such an inauspicious start, however, the concept slowly caught on. The first comprehensive guide to building associations in the United States—Edmund Wrigley's *The Working Man's Way to Wealth*—first appeared in 1869.[59] By 1888, about 3,500 associations operated throughout the country (see Chapter Four).[60]

More than building and loan associations, life insurance corporations aimed at the working classes were a clear product of the post-Civil War years. High premiums kept commercially-

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57 For an overview of the earliest American building-and-loan associations, see: H. Morton Bodfish, ed., *History of Building and Loan in the United States* (Chicago: United States Building and Loan League, 1931), 19-92

58 Massachusetts Board of Insurance Commissioners, *Tenth Annual Report of the Loan Fund Associations, by the Insurance Commissioners* (Boston: Wright & Potter, 1866), 3

59 See: Edmund Wrigley, *The Working Man's Way to Wealth; a Practical Treatise on Building Associations: What They Are and How to Use Them,* third edition (Philadelphia: James K. Simon, 1869)

60 David Mason, *From Building and Loans to Bail Outs: A History of the American Savings and Loan Industry, 1831-1995* (New York: Cambridge University Press, 2004), 28; US Comptroller of the Currency, *Annual Report* (1920), I, 241

offered insurance out of the hands of most members of the working classes before the war.[61] But the trend of treating American workers as full-fledged financial actors soon spread to insurance, starting with the country's first fraternal association: the Ancient Order of United Workmen, organized in 1868.[62] From that limited start, fraternal life insurance companies grew modestly throughout the nineteenth century. In 1875, the first commercial institution made so-called "industrial insurance" affordable to the working classes by offering policies with low face values and the ability to make small weekly premium payments in contrast to the quarterly or annual payments that other policies frequently required. Still, industrial insurance lagged behind even fraternal life insurance policies in terms of growth as late as the mid-1890s. The relationship of life insurance to savings banks was somewhat akin to that of national banks: these institutions would eventually pose significant challenges, but savings banks had little to fear from them until the end of the nineteenth century (see Chapter Four).[63]

Building and loan associations and industrial insurance companies nevertheless bear mention in a discussion of savings institutions in the immediate postbellum period because although still relatively novel, they demonstrated that contemporaries increasingly saw the potential of offering more diverse financial services to a working-class clientele. This marked an important contrast to the antebellum period, where even savings banks had to be explained and justified as late as the 1850s. It was also during the 1860s and 1870s that these institutions

61 See: Sharon Ann Murphy, *Investing in Life: Insurance in Antebellum America* (Baltimore: The Johns Hopkins University Press, 2010)

62 For an overview of the fraternal insurance movement, see: Jonathan Levy, *Freaks of Fortune: The Emerging World of Capitalism and Risk in America* (Cambridge, MA: Harvard University Press, 2012), 191-230

63 Viviana A. Rotman Zelizer, *Morals and Markets: The Development of Life Insurance in the United States* (New Brunswick: Transaction Books, 1983; orig. pub. Columbia University Press, 1979), 92-93, and p. 173 (n. 5); Morton Keller, *The Life Insurance Enterprise, 1885-1910: A Study in the Limits of Corporate Power* (Cambridge: Belknap Press of Harvard University Press, 1963), 10

became a permanent feature of popular *discourses* about what financial facilities should be available for members of the working classes—betraying the dominance of savings banks even as they sought to challenge it.

Mutual savings banks' long tenure and successful growth gave them a cultural edge as the dominant symbol of institutional finance for the working classes by the mid-nineteenth century. Thus it was that as institutional alternatives arose to challenge the mutual banks for a share of wage-earners' savings, their promoters frequently cast them as better savings banks. For example, popular advertisements for US government bond issues during the Civil War exclaimed that they were "a National Savings Bank, offering a higher rate of interest than any other, and the best security."[64] Others entreated potential purchasers to "make the U.S. Government your savings bank."[65] One 1874 report on insurance practices used the phrase the "savings bank accumulation" to describe the surplus held by a life insurance company as a result of charging the same annual premium on a long-term policy even as the policyholder's risk of death rose each year, allowing insured people to overpay their policy in early years in such a way that they might save on premiums towards the end of their term.[66] State banks that used the word "savings" in their names also generally did so in order to signify their willingness to facilitate small transactions even while they usually conducted a more general banking business. Such nomenclature indicated the acceptance of a financial transaction that potential depositors might not expect to be able to make in an institution that did not have "savings" in its title.

Above all, building and loan associations explicitly acknowledged the pervasiveness of

64 "United States 7-30 Loan," advertisement, Philadelphia *Inquirer,* 19 August 1864, p. 5

65 Lawson, *Patriot Fires,* 54

66 Boston Board of Trade, *Report on the Union of Savings Banks and Life Insurance To the Boston Board of Trade* (Boston: Wright & Potter, 1874), 11-12

popular perceptions that savings banks were best-suited to help working people with their finances. Thus it was that Edmund Wrigley acknowledged that savings banks "have long afforded opportunity to the saving public to gather together their spare money, and, indeed, at one time offered the only systematic plan for the working classes to accumulate little by little" as a way of introducing his readers to building and loan associations.[67] For the Insurance Commissioners of Massachusetts, savings banks were the obvious reference point with which to judge the success of these new institutions. They argued that their recommendations for the future treatment of building and loan associations would lead to "an increase in the value of real estate possessed by laborers, many times larger than all the present deposits in savings banks."[68]

Individual building and loan associations often positioned themselves explicitly as alternatives to savings banks. For the Homestead Co-operative Savings Fund and Loan Association of Boston, this posturing appeared both in its name and its advertisement that it was "The New System of Savings" and "The Workingman's way to Wealth!"[69] An organizer and publicist for building and loan associations suggestively called one 1880 appeal, "Coöperative Savings Banks, or Building Associations."[70] Demonstrating a similar philosophical affinity to savings banks even while offering a distinct financial transaction, the first annual report of Philadelphia's Tradesmen's Building and Loan Association was peppered with the same thrift maxims that savings bank advertisement and bank books frequently featured during this period,

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67 Wrigley, *The Working Man's Way to Wealth,* 10

68 Massachusetts Board of Insurance Commissioners, *Tenth Annual Report of the Loan Fund Associations, by the Insurance Commissioners* (Boston: Wright & Potter, 1866), 10

69 Homestead Co-Operative Savings Fund and Loan Association of Boston, "Building Associations the workingman's way to wealth!," broadside, 1878, The Massachusetts Historical Society

70 See: Robert Treat Paine, Jr., *Coöperative Savings Banks, or Building Associations* (Boston: Tolman & White, 1880)

such as "Great Oaks from Little Acorns Grow" and "A Dollar Saved is Twice Earned." It also included an explanation that if a member could "save fifty cents a day" they could buy a $2,000 dollar home, a rhetorical strategy that recalled the common savings bank practice of providing tables to illustrate the combined effect of regular small deposits and compound interest.[71]

The recognition of savings banks' iconic status as the preeminent financial institutions catering to the working classes represented a fourth way in which a savings bank "system" emerged during the 1860s and 1870s, adding to the initial stirrings of professional associations, the economic entanglements of increased national investment, and their role in spawning a more diverse savings industry. While before individual savings banks had been local *institutions*, "the savings bank" was now a national *institution* in the cultural sense. But if individual savings banks were now part of a consciously conceived system, what function did that system perform?

Political economists such as David Wells, Henry Carey, and Francis Bowen who focused on savings banks as aggregators and distributors of wealth provided one answer. So too did the entrepreneurs who during these years founded stock savings banks and building and loan associations or pioneered national bank savings departments and industrial insurance companies. Yet although these voices represented an increasingly important view of savings in stark economic or political economic terms, they stood in sharp contrast to a group of private reformers, self-help writers, and government officials who remained committed to preserving the social welfare aspect of savings banks that had motivated their initial inception and growth.

Emerson W. Keyes, who served in the 1860s as New York State's Assistant Superintendent for Savings Banks, was perhaps the most prominent person to advocate for this mission. An

71 Tradesmen's Building and Loan Association, *First Annual Report of the Tradesmen's Building and Loan Association* (Philadelphia: s.n., 1870), 4

influential 1868 report that Keyes prepared in his official capacity argued that savings banks "had their origin exclusively in a desire to ameliorate the condition of the poor, and hence, the popular idea of savings banks is, that they are a part of the charitable machinery of society, such as asylums and homes for the indigent." But Keyes believed that this oversimplified the power of savings banks after five decades of growth. Unlike the determinedly local, small-scale institutions he mentioned, Keyes felt that "in their results as a practical *fact* to-day, [savings banks] have outgrown their early distinctive character as charitable institutions, and take their place proudly in the front rank among the great powers of the social state."[72]

By this, Keyes did not mean simply what political economists had begun to assert about the immense potential of savings banks as financiers of government. In words self-consciously reminiscent of the earliest US savings bank founders and their legislative backers, Keyes wrote a few years later that "savings banks . . . [were] not only declarative of, but *enforcing* [of], public order, temperance, virtue, sobriety, industry, thrift and prosperity, as well as promotive of public credit, public faith and financial stability." The aggregation of money for investment was incident to the social role savings banks needed to fulfill. As Keyes rhetorically asked, "what is the great underlying fact in human experience . . . to minister unto which, Savings Banks were conceived and ordained . . . ? In one word, it is Poverty!"[73]

"Poverty is to be considered under its two aspects," Keyes continued, "as an existing practical fact, and as a result of certain conditions in the social economy." As a result, he argued that it must be addressed in two ways. The first method was "charity," which Keyes described as direct relief that served only as an "emollient to soothe and assuage a present distress." The

72 Emerson W. Keyes, *Special Report on Savings Banks* (Albany: Van Benthuysen & Sons' Steam Printing House, 1868), 13; emphasis in original

73 Keyes, *History of Savings Banks,* I, 3-4

second was to create institutions which acted as "a tonic that invigorates the system and imparts to it strength to repel the malady by removing its predisposing cause." In this case, that cause was the inability of wage laborers to accumulate assets for their secure independence. Keyes argued that because *political* economic policy had demanded the fostering of industrial development that created a wage-earning class, good *social* economic policy demanded the creation of a system of institutions that would enable that class to survive and prosper in an industrial society. In Keyes's vision, savings banks were those institutions.[74]

Keyes offered his argument in support of a social mission for savings banks with a specific eye towards winning legislation both in New York and other states to provide for a more secure system of savings banks under the close supervision of state regulators. He also insisted that savings banks could only properly fill their purpose if conducted by financially disinterested directors. He drew a firm line between the sort of institutions he promoted and the ones that "were established not as a perpetual trust for the benefit of the poor, but as institutions of profit for their immediate promoters."[75]

Keyes was not alone in these efforts. As R. Daniel Wadhwani has ably shown, he was one member of a cohort of progressive bureaucrats, legislators, and judges who successfully sharpened the legal distinctions between non-profit savings banks and for-profit financial institutions during the 1870s and 1880s on the assumption that members of the working classes deserved special state protection in financial matters due to their supposed financial unsophistication and increased risk of falling into poverty.[76] But Keyes and these reformers

74 Ibid., 4-6ff.

75 Keyes, *History of Savings Banks,* II, 387

76 R. Daniel Wadhwani, "Protecting Small Savers: The Political Economy of Economic Security," *Journal of Policy History,* Vol. 18, No. 1 (2006), pp. 126-45. See also: Wadhwani, "Citizen Savers," 125-58

represented just one wing of a much larger body of savings bank advocates who worked to expand the institutions' missions and use. Rather than focusing mainly on the structures of institutional savings—such as legal regulations or the propriety of for-profit savings institutions—other savings promoters focused more squarely on the social and personal benefits accrued by the individual act of saving with less interest in the institutional structure that fostered it. This (overlapping) branch of savings advocates continued the legacy of rhetoric about savings' potential to holistically transform members of the poor and working classes into morally and socially-upright citizens that stretched back to the earliest days of mutual savings bank organization.

Some individual savings banks re-asserted their social missions during the postbellum years by extending their functions beyond the purview of the bank book or teller's window. The Germantown Saving Fund in Philadelphia, for example, affiliated itself with the Germantown Relief Society, taking in donations of "money and clothing for the really needy" on its behalf. An 1874 broadside published to describe the Relief Society illustrated why such an organization's activities perfectly complemented those of the savings bank: "if we help to make paupers we shall have paupers; if we encourage thrift, self-respect and education, we shall have an educated, self-respecting and thrifty community."[77] In 1876, New York's Cohoes Savings Institution "presented" the *Safeguard Almanac,* a pamphlet that included some typical almanac items such as important historical dates and astronomical calculations but mostly devoted itself to savings maxims, a history of savings banks, and morality tales such as "The First Deposit." A representative example of period instructional stories about the virtues of saving, it featured a mother who praises her young son for becoming "a little capitalist" by opening a savings bank

77 Germantown Relief Society, *A Plea for Wise Charity* (Philadelphia: 1874)

account—distinguishing him from the intemperate and spendthrift husband and father who abandoned them.[78]

On an even more grandiose scale, the Farmers and Mechanics' Savings Bank of Chicago published a newsletter of sorts called *The Labor Question* in 1867 "for the use of its depositors." The bank's object was "to arrange in pamphlet form some views and statements upon the subjects of Social Science, Political Economy, Trades Unions, Co-Operative Labor Associations, and Model Tenement Houses and Cottages . . . [in order to] stimulate study and thought" on the part of "so-called 'working-men'" who were "that portion of society who are engaged in changing the *form* and *location* of things." Included among the pamphlet's selections were essays from Herbert Spencer, John Ruskin, and John Stuart Mill. Quite tellingly, very little of the material had anything explicitly to do with savings banks. Instead, it covered other issues of political economy the bank deemed relevant to an intellectually-engaged worker of the 1860s, complementing its mission to instruct depositors in matters of business or economics while also serving as an advertisement that portrayed the bank as socially-conscious.[79]

Not strictly limited to the products of savings banks themselves, the general idea that savings institutions undertook a social mission suffused popular culture after the Civil War. In addition to the excerpts it reprinted, *The Labor Question* also recommended to its readers "a perusal of" Edwin T. Freedley's *A Practical Treatise on Business*,[80] first copyrighted in 1852 but

78 *Safeguard Almanac for the Year 1876* (New York: Safeguard Press; Bradford Rhodes, 1876), *passim.* For "The First Deposit," see pp. 19-21

79 Merchants, Farmers & Mechanics' Savings Bank, ed. *The Labor Question. Extracts, Magazine Articles, and Observations Relating to Social Science & Political Economy as Bearing Upon the Subjects of Labor, Trades Unions, Co-Operative Societies, and Model Houses and Cottages, in Europe, Great Britain and America* (Chicago: A. Worden & Co., 1867), 3-4 and throughout; emphases in original

80 Merchants, Farmers & Mechanics' Savings Bank, ed., *The Labor Question,* 137

recently re-published. Freedley's book was typical of financial advice literature of the era and aligned nicely with the message that savings bank organizers and promoters conveyed. For Freedley, the most important predictor of economic success was whether or not "you possess what is known by the familiar term, Habits of Business." These included "industry, arrangement, calculation, prudence, punctuality, and perseverance"—the very qualities which savings bank advocates had for decades argued could be best inculcated by their institutions.

The essential premise of Freedley's book was that his prescribed "habits" needed to be learned and practiced. His book was not simply a statement of philosophy but an instructional primer as well. As he further explained, "the industry and efforts used in acquiring capital train to habits of business which . . . are necessary to success." For Freedley, "it needs no demonstration to prove that the *saving* of money is as essential as getting, for the attainment of a permanent independence." Indeed, he elevated this idea to "one of those self-evident truths." But simple recognition of this fact was only the first step in living one's life by it. As a result, Freedley advocated using both savings banks and the new life insurance companies in order to learn these habits and achieve that independence.[81]

The author of the popular 1874 pamphlet *How to Get Rich!* similarly evoked the long-held view that "a habit early formed in life, of saving just a little part of what one earns, will grow by repetition of succeeding years, to be a part and parcel of one's self." He then argued more explicitly than Freedley that "if Savings Banks would fill their highest mission, let them be *Public Educators"* of these lessons.[82] As an 1876 advertisement for *The Home Safeguard*—"a family paper, devoted to the interests of savings bank depositors, industry and economy"—put it:

81 Edwin T. Freedley, *A Practical Treatise on Business: Or How to Get, Save, Spend, Give, Lend, and Bequeath Money. . . .* (Philadelphia: J.B. Lippincott & Co., 1866), 46, 141, and 238

82 Uncle Ben, *How to Get Rich!* (New York: Charles M. Cornwell, 1874), ii and 16

"teach the people to save, and abiding greatness is secured for our country."[83] Or as John Pomeroy Townsend, the treasurer of New York City's Bowery Savings Bank, explained in 1877: "too much stress cannot be laid upon the educative character of [savings banks'] work."[84]

More than simply training the working classes in the "habits of business" or the specific habit of saving, savings banks and their advocates after the Civil War drew on these lessons with the intent to create a class of worker-investors, a goal betrayed by frequent references to savings bank depositors as "capitalists." This was certainly true of political economists such as David Wells and Henry Carey, the latter of whom called savings bank growth during the Civil War the record of "little capitalists."[85] But it was also true of state bodies such as the Massachusetts Bank Commissioners who explained in straightforward technical terms that savings banks "are the banks which hold the capital of the poorer classes."[86] In its schematic history of savings bank development, the *Safeguard Almanac* similarly claimed that "savings became the nucleus with many of a little capital. . . . These deposits with many were the foundation of future fortunes."[87]

A committee of the Boston Board of Trade reported in 1874 on "the best method of encouraging thrift on the part of those whose capital is their labor." Pointing to the immense amount of money then held in Massachusetts savings banks, the committee asserted that "it proves that the capitalists of society and commerce are not the rich only, but the men and women

83 Printed in: Keyes, *History of Savings,* I, 483

84 John Pomeroy Townsend, *Savings Banks: A Paper read before the American Social Science Association, at Saratoga Springs, September 5, 1877. . .* (New York: L. H. Biglow & Company, 1877), 18

85 Carey, "The Farmers' Question," 98

86 Massachusetts (State) Bank Commissioners, *Annual Report of the Bank Commissioners. . .1861.* (Boston: William White, 1861), 163

87 "Progress of Savings Banks," in *Safeguard Almanac,* 15

of monthly and weekly wages also."[88] John Townsend explained that this was because "the proceeds of labor, not otherwise appropriated by the producer, may be converted into capital so that it will produce a revenue." He further added that working-class savings bank depositors "are only too happy to have a moderate increase added to their little capital each half year." The fact that Townsend qualified this statement by explaining that "in many cases [savings bank depositors] do not quite understand how their money can be kept securely and returned . . . with the addition of any interest" only reenforced his view that savings banks were designed specifically for capitalists-in-training.[89]

The continued insistence that savings banks provided entry into capitalism for workers of modest means is even more remarkable when one considers that advocates of building and loan associations frequently made the same claim about their own institutions. As a committee of the Massachusetts state legislature explained in 1855, this "new invention . . . [can] enable him [the "poor man"] to become a small capitalist and banker."[90] After the Civil War, the prominent proselytizer of building and loan associations, Edmund Wrigley, similarly asserted that these institutions were "the only plan by which the working man can become his own capitalist."[91] Massachusetts' state insurance commissioners claimed even more boldly in an 1866 defense of building and loan associations that for a wage worker, "his only chance of escape . . . from being at the mercy of the capitalist's disposition to pay inadequate wages or none at all, is in becoming

88 Boston Board of Trade, *Report on the Union of Savings Bank and Life Insurance,* 3-4

89 Townsend, *Savings Banks,* 3 and 16

90 Quoted in: Alpheus P. Blake, *Articles of the United States Loan Fund Association. . .Also, the Design and Practical Operation* (Boston: J.E. Farwell & Co., 1855), 12

91 Wrigley, *Working Man's Way to Wealth,* 5

a capitalist himself."[92]

Such statements reflected the steadfast insistence by many commentators that wage workers could become capitalists because members of those classes actually had money to save.[93] For example, Emerson Keyes stated the same year that "it must be conceded, that in any natural state of society the wages of the laboring classes in seasons of prosperity will ever be such as to enable them, *if they will,* to reserve a portion for future need."[94] This assumption informed the idea that savings institutions—be they savings banks or building and loan associations—were sufficient to teach all workers how to be independent. As Edwin Freedley claimed, there was "no sum so small, that an able-bodied, industrious man may earn in this country, that will not suffice, so long as he remains single, to lay the foundation of an independent fortune."[95]

Proponents of the belief that *any* worker could productively save money frequently explained that the primary impediments to doing so were therefore workers' own poor financial choices. As Congregational minister and prolific essayist Washington Gladden explained in 1868: "many of those who earn their own living, after paying for their board and clothes, expend all the remainder for billiards, balls, concerts, shows, picnics, excursions, and livery bills, and have nothing left for culture or for charity, nothing to lay by for a rainy day." But Gladden insisted that this waste meant that anyone could save some money, "however small the surplus

92 Massachusetts Board of Insurance Commissioners, *Tenth Annual Report,* 4

93 This idea became a major tenet of political philosophy and economy after the Civil War, based on the idea that no one would freely accept contract labor except under terms to their own advantage. See: Amy Dru Stanley, *From Bondage to Contract: Wage, Labor, Marriage, and the Market in the Age of Slave Emancipation* (New York: Cambridge University Press, 1998)

94 Keyes, *History of Savings,* I, 11

95 Freedley, *A Practical Treatise on Business,* 238

may be." As he encouraged workers, "you should put something by, in the savings' bank, every year."[96] An 1876 monograph on *Thrift* by the essayist Samuel Smiles—a book largely about British savings institutions but published in the United States for an American audience—put it more bluntly: "Those who say that 'it can't be done' are probably not aware that many of the working-classes are in the receipt of incomes considerably larger than those of professional men."[97] The argument was this: a failure to save meant only a personal inability to deny wants that were not immediate necessities. To teach the twin habits of self-denial and thrift was the highest purpose of the savings bank.

*Successes and failures*

The belief that savings banks could teach members of the working classes the habits of thrift that would make them independent and virtuous by engaging them in the finance economy was the common denominator that tied together the various popular endorsements of institutional savings from the 1860s and 1870s. Such an idea had motivated savings bank proponents from the very beginning, but several factors distinguished those earlier pronouncements from these post-Civil War declarations. First, savings banks in the antebellum period had generally expressed such sentiments as one component of their advertisements; after the war, the dissemination of these ideas increasingly *became* the mission that advertisements reflected. Although published by a savings bank, the content of a newsletter such as *The Labor Question* only obliquely related to savings, focusing on more general practical habits and suggestions about how to handle money. Second, the casual way in which authors such as Freedley or Gladden recommended savings

96 Washington Gladden, *Plain Thoughts on the Art of Living; Designed for Young Men and Women* (Boston: Ticknor and Fields, 1868), 183-84

97 Samuel Smiles, *Thrift* (New York: Harper & Brothers, 1876), 55

banks as a way to achieve independence suggests just how engrained these institutions had become in the popular imagination of the worker's world by the 1860s and 1870s, in contrast to the many antebellum descriptions of savings banks that described their operation, function, and purpose to an audience that might be unfamiliar with them.

Finally, the economic characteristics of savings banks had changed so much in the twenty years or so following 1850 that even superficially similar arguments must be interpreted in a different light. To claim an educational mission for savings banks in the 1830s or 1840s when their aggregate deposits numbered in the tens of millions was one thing; to do so when they were essential "members of the great banking and financial organism of the country" with combined resources approaching one billion dollars stretched credulity. The fact that expressions of belief in the educational mission of savings banks persisted and even strengthened while they became structurally essential to the nation's economy suggests just how entrenched the belief was. The bank commissioners of Massachusetts betrayed no irony when they congratulated themselves on the progress of savings banks in their 1861 annual report, claiming that "it shows a superior and an improving condition of the laboring classes, and it reflects the highest honor upon that *educational* system, which, while it involves a heavy annual outlay to the State, brings back to it a far richer return, in the intelligence, the virtue, and the material condition of her people."[98]

Even as they framed savings banks as an "educational system," these observers also claimed that its health served as "an 'annual register' of the business condition of the country."[99] Such a statement indicated the increasing economic importance these institutions held, regardless of whatever educational purpose they served. Savings bank advocates had long intended to train

98 Massachusetts Bank Commissioners, *Annual Report* (1861), 160; emphasis added

99 Ibid., 160

a class of worker-capitalists and they claimed that trends in savings bank growth that appeared tied to those in the broader capitalist economy demonstrated success in this venture by indicating that workers were indeed acting like capitalists. Such pronouncements continued after the Civil War, growing in contemporary credibility apace with deposit figures. As the annual report of the Boston Five Cents Savings Bank put it in 1868, "nothing can indicate more clearly the thrift and economy of the middling classes in Boston and the neighboring towns than the large number of depositors, and the amount of deposits in the Savings Banks in this city."[100]

What is most remarkable about these assertions is how few contemporaries appear to have publicly questioned them. The most vocal criticism of savings banks during the post-Civil War years came instead from a single formidable institution: the Massachusetts Bureau of Statistics of Labor (BSL). Created in 1869 as the first government body in the United States devoted to the collection of statistics about how workers labored and lived. As the legislative resolution creating the bureau specified, its purview included "the commercial, industrial, social, educational and sanitary condition of the laboring classes" with an eye towards advancing "the permanent prosperity of the productive industry" of Massachusetts.[101] After an ineffectual and disorderly first few years,[102] the BSL quickly became the epicenter of nationwide attempts to statistically quantify the experience of wage laborers in order to test the efficacy of existing programs to aid them and to help design new ones. The BSL was so prominent in such efforts that its second leader, Carroll D. Wright, eventually became the first director of the U.S. Bureau of Labor

100 Boston Five Cents Savings Bank, *Fourteenth Annual Report of the Treasurer of the Boston Five Cents Savings Bank. . .1868* (Boston: Press of Geo. C. Rand & Avery, 1868), 6

101 Massachusetts Bureau of Statistics of Labor, *Report of the Bureau of Statistics of Labor . . . August 2, 1869, to March 1, 1870, Inclusive* (Boston: Wright & Potter, 1870), 5

102 S.N.D. North, "The Life and Work of Carroll Davidson Wright," in *Publications of the American Statistical Association,* Vol. 11, No. 86 (June 1909), pp. 447-66: 450

Statistics.[103] Given the primary status of savings banks within the "great powers of the social state" and the emphasis their supporters placed on growing deposit figures as a sign of progress, it is not surprising that the BSL soon focused its examination on savings bank usage as a way of evaluating the lives of workers. As the BSL's second annual report explained, "a matter of greater moment than is usually conceded . . . is that all the operations of these excellent institutions [savings banks] . . . should be understood."[104]

The BSL's first annual report had tentatively questioned whether savings banks could actually serve their intended purposes vis-a-vis the working classes. In the BSL's circular questionnaire to employers that year, it asked "did you ever know an instance of a workman (other than an overseer) working at ordinary day wages, or at piece-work pay, who acquired a competence, upon which he could live without work?" The answers were "almost invariably in the negative."[105] According to this unscientific survey: if workers were saving, they weren't saving enough to form the basis of financial independence. Looking into the matter further the next year, the BSL failed to receive more than one reply to the letter it distributed to savings banks in an attempt to collect data about their usage. The report thus limited its comments largely to an assertion that it would be useful to know whether savings banks extended loans to members of the same classes who comprised the bank's depositors. As the report's authors bluntly put it, they sought to establish "how far the deposits of the poor benefit the poor."[106] Though implicitly critical of savings banks, this question accepted the premise that the working poor comprised the

103 Keyssar, *Out of Work*, 1

104 Massachusetts Bureau of Statistics of Labor, *Report of the Bureau of Statistics of Labor . . . March 1, 1870, to March 1, 1871, Inclusive* (Boston: Wright & Potter, 1871), 458-9

105 Massachusetts BSL, *Report* (1870), 314

106 Massachusetts BSL, *Report* (1871), 458-9

majority of savings bank depositors.

The following year, however, the BSL finally had statistics on which to rest its analysis. What it found amounted in its eyes to a damning criticism of the logic that viewed savings banks as social welfare institutions for the working classes. Looking at the figures, the BSL bluntly stated "that savings, are the exception and not the rule" among Massachusetts workers and that "to reconcile this fact with the general statement that the hundreds of millions of dollars now on deposit in our Savings Institutions, are the savings of the wage-laborer, is impossible." Taking lower-class women as a specific example of the general point, the BSL asserted "that some women save money, is no more proof that all can, than that because one person of either sex succeeds in painting, music, or sculpture, therefore all can."[107]

In this and subsequent reports during the early 1870s, the BSL based its conclusion that savings banks failed to fulfill their purposes on two observations. The first was that a high percentage of the total money in savings bank accounts came from a relatively small percentage of the total body of depositors, suggesting that wealthier patrons drove savings bank growth rather than the thrifty laborers that dominated the popular imagination. As the 1872 report concluded, "it is evident that the great bulk of the depositors [are] from the wage classes, and," at the same time, "the great sums, generally credited to them, *are not the savings of wage-labor,* but are the results of profit upon labor in some form." According to the sample of fifteen savings banks that reported the most detailed information, "six-sevenths of the depositors own less than one-half of the deposits."[108]

The second point that the BSL argued was that a relatively small percentage of

107 Massachusetts Bureau of Statistics of Labor, *Report of the Bureau of Statistics of Labor . . . March 1, 1871, to March 1, 1872, Inclusive* (Boston: Wright & Potter, 1872), 293 and 340

108 Massachusetts BSL, *Report* (1872), 320, 332

Massachusetts workers actually *could* save money because their wages were insufficient to cover more than immediate needs. As the 1872 report asserted: although single men could live thriftily enough to save, "saving money from the wage earnings of the head of a family, under the present low wages, is impossible to the majority of laborers, skilled or unskilled." Such an argument was reenforced by the BSL's calculations of average wages and prices for items such as rent, food, and clothing, which showed that the typical worker would have little left to save after paying for these necessities. The BSL calculated in 1872 that while the average wage-earning man earned approximately $611 per year, the annual outlay for the bare necessities of a family of four was more than $644 and could easily reach more than $775.[109] Although wives' and children's earnings could be expected in many cases to help bridge this gap, the BSL nevertheless offered dozens of pages of anecdotal evidence suggesting that many if not most wage laborers were actually in debt.

The BSL's criticism of savings banks in its 1872 report drew attention from savings bank directors throughout the state as well as the legislature's Committee on Banks and Banking. The latter body convened a hearing to evaluate the claims even before the report was officially published. While many of the bank officials called to testify confirmed that relatively few large deposits skewed the aggregate figures upward, they disputed the BSL's conclusion that laborers were not among those making these deposits. As a representative of the Fall River Five Cent Savings Bank argued, "the mere fact of a large deposit standing in a man's name, is no index that he is not a laborer, as we often find," further claiming that "we have many laborers with $1,000 on deposit—men and women who have worked in our mills."[110]

109 Massachusetts BSL, *Report* (1872), 334 and 532

110 Massachusetts Bureau of Statistics of Labor, *Fourth Annual Report of the Bureau of Statistics of Labor . . . March 1, 1872, to March 1, 1873, Inclusive* (Boston: Wright & Potter, 1873), 139

Although the BSL disputed such claims as misleading outliers, its own statistics suggested there was a certain degree of truth to them. On the one hand, those depositors the BSL categorized as "day wage" laborers accounted for 39.1 percent of all deposits made in amounts over $300 during the fiscal year ending 31 August, 1873, compared to the 48 percent of such deposits made by those who earned their living by "use or interest of money." On the other hand (and in the BSL's defense), deposits made by members of the latter group were about three times more likely to surpass $300—and had a higher overall average figure—than those made by members of the former.[111] [See: Figure 2.3]

Figure 2.3

Massachusetts Bureau of Labor Statistics Study of Deposits, According to Types of Depositor Occupations, 1874

| **Occupational Category** | **Avg. Amount of Deposit** | **% of No. of Deposits** | **% of Amount of Deposits** | **No. of Deposits $300 and under** | **Amount of same** | **% of No. of Deposits, $300 and under** | **% of Amounts of Deposits, $300 and under** |
|---|---|---|---|---|---|---|---|
| Day Wage | $121.72 | 57.7 | 44.8 | 12,770 | $868,162 | 61.1 | 58 |
| Salary | $129.50 | 11 | 9.1 | 2,397 | $142,434 | 11.5 | 9.5 |
| Professional | $225.85 | 2.9 | 4.2 | 565 | $50,438 | 2.7 | 3.3 |
| Use or Interest of Money | $232.27 | 28.3 | 41.8 | 5,169 | $435,240 | 24.7 | 29.1 |
| **Averages and Totals** | **$152.91** | | | **20,901** | **$1,496,274** | | |
| **Occupational Category** | | | | **No. of Deposits above $300** | **Amount of same** | **% of No. of Deposits above $300** | **% of Amounts of Deposits above $300** |
| Day Wage | | | | 1,472 | $865,341 | 39.1 | 36.4 |
| Salary | | | | 319 | $209,292 | 8.5 | 8.8 |
| Professional | | | | 164 | $114,213 | 4.3 | 4.8 |
| Use or Interest of Money | | | | 1,807 | $1,185,107 | 48 | 49.9 |
| **Averages and Totals** | | | | **3,762** | **$2,373,953** | | |

111 Massachusetts Bureau of Statistics of Labor, *Fifth Annual Report of Bureau of Statistics of Labor* (Boston: Wright and Potter, 1874), 244-45

What was at stake in this debate was not whether savings banks were providing a service to the working classes. The BSL acknowledged that the vast majority of depositors in savings banks held only small deposits and were therefore presumably relatively poor. Even more compelling, the occupations of a large majority of those depositors for whom such information could be established indicated that they were in fact wage laborers, many of them unskilled. Instead, the issue was whether or not savings banks could actually provide the independence and upward economic mobility to the working classes *as a whole* that they promised. The BSL claimed emphatically and plausibly that they did not, because "the great number of depositors, so often quoted as 38 in 100 of the population, gives an entirely incorrect impression as to the prosperity of the people." The report acknowledged that "it is doubtless true that nearly every person has, at some period of his life, deposited in a Savings Bank, but the attempt to save has more failures than successes. The number of withdrawals for the last five years, are equal to more than one-half of the number of deposits, and when it is remembered that many of these withdrawals are in full, we have a hint of the poverty of the people."[112]

Yet despite reiterating its claim "that persons not wage-laborers are depositors to at least one-half of the whole amount deposited" and "that capitalists, persons living upon their income, use these banks to escape taxation and the care necessitated by other investments," the BSL also asserted that "in making these statements we are not making charges against Savings Banks." In the opinion of the BSL, savings banks "are not responsible for the inability of the wage-laborer to save, or for the necessity compelling him to withdraw his savings."[113] The culprit was the prevalence of inadequate wages to cover a basic standard of living. The BSL, in other words,

112 Massachusetts BSL, *Fourth Annual Report,* 228

113 Ibid., 228

criticized the practical ability of savings banks to fulfill their loftiest promises given present broader economic conditions rather than on more fundamental principled basis.

Despite the BSL's strident—if ultimately somewhat limited—criticism, it remained largely a lone voice critical of savings banks during this era. Even though they acknowledged savings banks' substantial impact, building and loan associations encompassed another. The insurance commissioners in Massachusetts were typical of building and loan association proponents when they claimed that savings banks disingenuously expected wage earners to accumulate significant deposits simply by "stint[ing] their appetites to invest in a savings bank" and "to save every pittance that can be saved between wages and the expense of living."[114] In their eyes, building and loan associations' superiority to savings banks was that the majority of savings represented in payments on a mortgaged house came from money that otherwise would have been spent irretrievably on rent. Or as one antebellum building and loan advocate suggested, these institutions "convert rent into capital."[115] In this view, a necessary expense could become a form of saving by equity accumulation because even people living hand-to-mouth had to pay rent. Despite the validity of such claims, however, savings bank depositors were still free to use their institutions as often or as little as they liked. In contrast, the weekly or monthly contribution required by building and loan associations assumed the existence of regular surplus incomes for the working classes in a more rigid way. Building and loan associations may have offered valid criticism of savings banks from one standpoint, but their own method of operations in these years left them open to criticism from a different perspective.[116]

114 Massachusetts Board of Insurance Commissioners, *Tenth Annual Report,* 5

115 Blake, *Articles of the United States Loan Fund Association,* 11

116 For a similar discussion of how life insurance companies challenged savings banks on their own terms in the late antebellum period, see: Murphy, *Investing in Life,* 166-69

*Conclusion*

Critics of savings banks received a different sort of evidence that these institutions might not fully protect their depositors by integrating them more fully into the national economy when many savings banks failed to avoid the turmoil of the Panic of 1873 and the general economic depression that followed it. Savings bank runs occurred alongside those on commercial banks and brokerages during the opening month of the crisis and these institutions accounted for seven of the initial 101 bank suspensions throughout the United States. Like in the 1850s, savings banks that were heavily interconnected with a commercial bank appear to have been particularly affected.[117] For example, the Freedman's Savings and Trust Company faced both substantial runs on its many branches and ultimate failure in large part due to its relationship with Jay Cooke & Co.—the brokerage house run by the former bond-selling hero of the Civil War that collapsed into bankruptcy in September 1873, helping to trigger the panic—a topic that will be discussed in Chapter Three.

Despite these initial shocks, the most substantial damage that many savings banks endured came in the panic's wake. As the nation's financial system struggled to rebuild itself, mutual savings bank deposits first rose from about $680 million in 1873 to $840 million in 1876, closely tracking the growth in commercial bank deposits from $1.07 billion in both 1873 and 1874 to $1.17 billion in 1877. But then the lingering economic turmoil caught up to both classes of institution almost simultaneously, leading to aggregate deposit declines of 11 percent in mutual savings banks and 13 percent in commercial banks from 1877 to 1879. (While those figures represent changes in current dollars, inflation-adjusted numbers tell a story similar in both timing and degree.) Suggesting the institutional effects of this declining business, the number of

117 Elmus Wicker, *Banking Panics of the Gilded Age* (New York: Cambridge University Press, 2000), 17-26

operating mutual savings banks in the United States dropped by more than 10 percent from their peak of 691 in 1876 over the ensuing six years. Twenty-two savings banks failed between 1872 and 1878 in New York State alone, with available assets amounting to only about one-third of these banks' liabilities.[118] While some of the national figures represented voluntary closures rather than failures,[119] they nevertheless indicated the degree to which savings banks as a whole struggled to retain depositors and encourage deposits. [See: Appendices 2 and 3]

On an institutional level, the story of savings banks after the Panic of 1873 provided further evidence—albeit of a negative sort—of the type of close integration between savings banks and the nation's general financial system that many observers had both noted and praised beginning in the 1850s. The first widespread savings bank suspensions and failures as well as declining deposit figures might well have augured a challenge to the wisdom of that vision for a class of institutions whose primary purpose was supposedly to *protect* its customers from financial ruin. And on an aggregate level, the number of savings bank depositors (measured by open accounts in both mutual and stock institutions) increased by less than 1.5 percent from 1876-78 and then declined in the following year to a total figure smaller than that which prevailed before the panic. This betrayed the fact that at least some current and potential depositors held similar misgivings or had even been forced out of the sector when their banks failed. [See: Appendix 3]

Anxious about this decline, the Archbishop of Boston issued an address in 1878 for recitation in all of the churches under his supervision that encouraged depositors to stem the tide

118 US Comptroller of the Currency, *Annual Report* (1878), xvi

119 One of the few modern historians of US savings banks, Welding Welfling, estimated that "perhaps 20 savings banks failed, without being able to re-open, during or as a result of the Panic of 1873," although the basis of his assertion is unclear. See: Weldon Welfling, *Mutual Savings Banks: The Evolution of a Financial Intermediary* (Cleveland: The Press of Case Western Reserve University, 1968), 47

of savings bank withdrawals in that city. In the same year, several governors publicly worried about the lasting effects on their states' institutions.[120] Scattered evidence, however, suggests that some contemporaries saw these depositor declines as indicative of one of the *benefits* that savings banks were supposed to provide: a personal reserve fund in case of hardship. In his widely-cited study of workers' economic achievement in Newburyport, Massachusetts, Stephan Thernstrom demonstrated that relatively poor workers in that city regularly used savings banks in the second half of the nineteenth century because "to the laborer it offered security . . . and made it easier to set aside small amounts for emergency use."[121] As Alexander Keyssar noted, such a pattern played out in Massachusetts repeatedly at the end of the nineteenth century: savings bank withdrawals exceeded deposits only in years of widespread economic disruption such as 1893, 1896, and 1898 while contemporary observers frequently commented that workers in such circumstances tried to withdraw only what was necessary for their most pressing immediate needs.[122]

Moreover, the relative stability of savings banks prior to the 1870s meant that many contemporaries found it all too easy to rationalize their struggles during these years as aberrations that could be reasonably traded for their general benefits and that at worst suggested the necessity of somewhat more stringent regulatory control over savings bank operations and investments.[123] As the most prominent proponent of savings banks during these years, Emerson

120 Samuel Rezneck, "Distress, Relief, and Discontent in the United States during the Depression of 1873-78," *Journal of Political Economy,* vol. 58, no. 6 (December 1950), pp. 494-512: 497

121 Stephan Thernstrom, *Poverty and Progress: Social Mobility in a Nineteenth Century City* (Cambridge, MA: Harvard University Press, 1964), 122-31

122 Keyssar, *Out of Work,* 157

123 On the growing acceptance over the course of the second half of the nineteenth century of exposing Americans of modest means to many kinds of financial risk as a way of potentially providing a path towards economic advancement, see: Levy, *Freaks of Fortune*

Keyes represented this point of view. Though he admitted that the recent bank failures were "a blot and stain upon a grand and noble record of self-denial," Keyes also "challenge[d] any other interest of such magnitude to produce a record so free from blemish." By his calculation, "the total loss sustained" by failures in the entire history of American savings banking was "less than one mill on each dollar deposited and earned." For Keyes and many of his contemporaries, even in the midst of the panic years "there could be found no investment at once so safe and so remunerative as a strong and well managed Savings Bank."[124] As later observers surveyed savings banks' return to widespread growth beginning in the early 1880s after the worst of the depression had faded, such an interpretation seemed increasingly plausible.

Regardless of whether savings banks fulfilled their most lofty claims, their professional profile, fiscal strength, and popular entrenchment by the 1870s meant that savings banks were a force of nearly-unquestioned power in both economic and cultural terms—even if that vision helped to perpetuate certain blind spots about the risks that this power entailed. Yet eventually, the impressive and largely unchecked growth that had taken savings banks from their first institutions in the 1810s to the early 1870s influenced changes that would end their dominance of the savings industry. Savings banks had made working-class saving such an important aspect of the nation's economy, political economy, and social economy that, from the 1870s onward, they inspired a series of successful challenges from national banks, building and loan associations, industrial insurance firms, and a host of innovative new savings institutions such as trust companies and employee thrift programs. Chapters Four, Five, and Six will explore the dynamics of this future growth. But first, Chapter Three will turn to a case study of one institution—the Freedman's Savings and Trust Company—that perfectly encapsulated the ideological and

124 Keyes, *A History of Savings Banks,* II, 565 and 568

institutional reach that savings banks achieved during and immediately following the Civil War as well as the potentially devastating consequences that this position could entail.

## Chapter Three

Saving the Race By Saving Its Money:
The Freedman's Bank and the Meaning of Freedom

### *Introduction*

The United States Congress chartered the Freedman's Savings and Trust Company in 1865 at the behest of a group of white philanthropists and missionaries. Both its organizers and their legislative backers intended the institution, popularly known as the Freedman's Bank, to help integrate former slaves into free society by teaching them how to manage their newly-earned wages. As the officers of the bank stated in a circular letter issued not long after its organization: "the large sums of money accruing to the colored man . . . from the many sources of income now thrown open to him, and his present unsettled state, demand that some safe place of deposit and investment be furnished him."[1] Over the next nine years, the Freedman's Bank was the only institution specifically dedicated to this purpose. It opened more than thirty branch offices throughout the country and circulated more than $50 million through its coffers, which collectively represented the savings of at least 100,000 depositors.[2] That the majority of these

1 The circular was printed in newspapers throughout the country, especially in the South. See: William A. Booth, et al. "Circular of the Freemen's Savings and Trust Company, Chartered by Congress, 1865," New Orleans *Tribune,* 7 October 1865, p. 3

2 Carl R. Osthaus, *Freedmen, Philanthropy, and Fraud: A History of the Freedman's Savings Banks* (Urbana, IL:

people were Southern African Americans and former slaves in the years immediately following the Civil War suggests just how impressive these figures are.

Despite its success at attracting depositors, the Freedman's Bank faced constant financial difficulties due primarily to mismanagement. It ultimately fell prey to its directors' mix of unsound and fraudulent investments when the Panic of 1873 damaged its portfolio and made it unable to handle depositor runs on its accounts when fear of its imminent collapse spread. More than 60,000 depositors still had claims on the bank totaling almost $3 million by the time it finally suspended business operations in mid-1874. Because the Freedman's Bank misleadingly advertised itself as an auxiliary of the federal government—a convenient fiction that government agents did little to dispel—some contemporaries believed that Congress should reimburse the bank's depositors for their losses. Its failure to follow such a course meant that lost deposits were accompanied by diminished confidence in the government's desire or ability to aid former slaves both during and after Reconstruction.[3]

Several historians and other observers have capably recounted the origins, rise, and eventual fall of the Freedman's Bank, most notably Carl R. Osthaus in his 1976 monograph, *Freedmen, Philanthropy, and Fraud*.[4] In discussing the bank's legacy, these studies have mainly

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Univerity of Illinois Press, 1976), 96 and 100

3 This summary is largely drawn from the only two book-length histories of the Freedman's Bank. See: Osthaus, *Freedmen, Philanthropy, and Fraud* (1976) and Walter L. Fleming, *The Freedmen's Savings Bank: A Chapter in the Economic History of the Negro Race* (1927; repr., Westport, CT: Negro Universities Press, 1970). See also: Jonathan Levy, *Freaks of Fortune: The Emerging World of Capitalism and Risk in America* (Cambridge, MA: Harvard University Press, 2012), Chapter Four, and Freedman's Savings and Trust Company, *Charter and By-Laws of the Freedman's Savings and Trust Company* (Washington, DC: Gibson Brothers, 1872), 2

4 See especially: Osthaus, *Freedom, Philanthropy, and Fraud;* Abby L. Gilbert, "The Comptroller of the Currency and the Freedman's Savings Bank," in *The Journal of Negro History,* Vol. 57, No. 2 (April 1972), pp. 125-42. Two Congressional investigations also produced lengthy and detailed accounts of the bank's history. See: Select Committee on the Freedman's Bank, *Freedman's Bank,* House Report No. 502, 44th Cong., 1st Sess. (1876), and Select Committee to Investigate the Freedman's Savings and Trust Company, *Report of the Select Committee to Investigate the Freedman's Savings and Trust Company* (Washington: Government Printing Office, 1880)

focused on the economic losses to depositors, the Congressional debate over whether or not to reimburse them, and the bank failure's effect on African American confidence in financial institutions. More recently, Jonathan Levy has intriguingly analyzed the Freedman's Bank “as an emblem of the nineteenth-century liberal experiment that made free men personally responsible for assuming their own risks but then encouraged them, if not forced them, to offload those same risks onto financial corporations.”[5] Such an interpretation is particularly poignant given the losses suffered by trusting depositors as a result of this particular corporation's risky decisions.

While Levy's interpretation comes the closest, these studies have largely failed to account for the outsized prominence of the Freedman's Bank in contemporary African Americans' memories of Reconstruction. For example, John Mercer Langston—the noted abolitionist, lawyer, and educator—wrote that “perhaps the failure of no institution in the country . . . has ever wrought larger disappointment and more disastrous results . . . than that of the Freedmen’s Savings and Trust Company.”[6] Booker T. Washington deemed the bank's failure "the greatest single setback to the Negro's progress" after the Civil War.[7] W.E.B. Du Bois went so far as to assert that "not even ten additional years of slavery could have done so much to throttle the thrift of the freedmen as the mismanagement and bankruptcy" of the Freedman's Bank.[8] And for unfortunately assuming the bank's presidency just before it failed, Frederick Douglass claimed that he had weathered "an amount of abuse and detraction greater than any encountered in any

5 Levy, *Freaks of Fortune,* 107

6 John Mercer Langston, *From the Virginia Plantation to the National Capitol: Or the First and Only Negro Representative in Congress from the Old Dominion* (New York: Johnson Reprint Corporation, 1968; orig. pub. 1894), 345

7 Booker T. Washington, *Frederick Douglass* (Philadelphia: George W. Jacobs & Company, 1906; published 1907), 278

8 W. E. Burghardt DuBois, *The Souls of Black Folk: Essays and Sketches,* third edition (Chicago: A.C. McClurg & Co., 1903), 37

other part of my life."[9]

While each of these observations referred to the collective nature of the Freedman's Bank's loss, individual depositors felt it even more acutely. Not long after the bank's failure, an official with its Atlanta branch explained that he encountered substantial pressure to release the funds on hand to deserving depositors because "people . . . are very much in Want at this time and one dollar is worth more to them now than two would be in some other."[10] At least some desperate depositors sold their accounts to storekeepers at a discount in exchange for groceries or other necessities not long after the bank closed.[11] This need lasted well after the initial deprivation: depositors sent letters and petitions to the federal government seeking redress for their losses into the 1920s.[12]

To be sure, the financial (and other related) pain that the Freedman's Bank failure caused its depositor base was severe. Yet viewed in a certain sense, the attention given the bank as the *premier* example of the failures of the post-emancipation period by contemporary observers—or near-contemporary, in the case of Du Bois—is somewhat surprising. After all, only about 60,000 depositors actually lost money in the venture at a time when the African American population

9 Frederick Douglass, *The Life and Times of Frederick Douglass, from 1817 to 1882, Written by Himself*, edited by John Lobb (London: Christian Age Office, 1882), 356

10 For example, see: Rev. F. Quarles to R.H.T. Leipold, 1 January 1875, U.S. National Archives and Records Administration, Record Group 101: Records of the Office of the Comptroller of the Currency, 1863-2006, Series: Letters Received by the Commissioners of the Freedman's Savings and Trust Company and by the Comptroller of the Currency as Ex Officio Commissioner, compiled 1870-1914, Box 2: Florida to Indiana, Folder: Georgia—Atlanta letters received.

11 Osthaus, *Freedmen, Philanthropy, and Fraud,* 205

12 For example, see: "Petition to Congress," U.S. National Archives and Record Administration, folder SEN62A-J26 (62nd Congress, 3rd Session). On the overall history of petitioners to Congress seeking reimbursement for losses, see: Osthaus, *Freedmen, Philanthropy, and Fraud,* 219-21 and Eric Foner, *Reconstruction: America's Unfinished Revolution, 1863-1877* (1988; repr., New York: Perennial Classics, 2002), 532

throughout the United States totaled approximately 4.8 million.[13] The imposition of black codes before Radical Reconstruction, the rise of sharecropping and tenant farming, and the federal government's decision not to distribute land to former slaves—all of these had an arguably much larger effect on the economic existence of the majority of Southern African Americans, to say nothing of their lives in general.[14] The important position afforded the Freedman's Bank in commentaries about the legacy of the Reconstruction era therefore requires explanation. Jonathan Levy's analysis of the bank here is instructive: the explanation can be found only by understanding the Freedman's Bank's fidelity to the social, cultural, economic, and political economic functions that all savings banks of the period claimed to fulfill. In order to understand the importance of the Freedman's Bank's failure, one has to evaluate it as one of many savings banks of the era that happened to emphasize outreach to former slaves rather than seeing it as one of many institutions devoted to helping former slaves that happened to be a savings bank.

Not coincidentally, the era of the Freedman's Bank was one in which the economic importance and sociopolitical status of savings banks grew rapidly, even compared to the significant antebellum expansion begun around 1845. As discussed in Chapter Two, mutual

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13 That was the population estimate based on the 1870 US Census, available as recorded by the Inter-University Consortium for Political and Social Research run by the University of Michigan and in a searchable format maintained by the University of Virginia Library. See: <http://mapserver.lib.virginia.edu/php/start.php?year=V1870> (accessed 17 April 2014)

14 For a representative sample of literature on the economic developments most pertinent to Southern African Americans after the Civil War, see, for example: Gavin Wright, *Old South, New South: Revolutions in the Southern Economy Since the Civil War* (New York: Basic Books, 1986); Jay Mandle, *The Roots of Black Poverty: The Southern Plantation Economy After the Civil War* (Durham, NC: Duke University Press, 1978); and Roger L. Ransom and Richard Sutch, *One Kind of Freedom: The Economic Consequences of Emancipation* (New York: Cambridge University Press, 1977). On the promise and failure of programs to distribute land to Southern African Americans, see: LaWanda Cox, "The Promise of Land," in *Freedom, Racism, and Reconstruction: Collected Writings of LaWanda Cox*, Donald G. Nieman, ed. (Athens, GA: University of Georgia Press, 1997), 41, 59-60; Eric Foner, *Politics and Ideology in the Age of the Civil War* (New York: Oxford University Press, 1980), 128-49; Leon F. Litwack, *Been in the Storm So Long: The Aftermath of Slavery* (New York: Vintage Books, 1980; orig. pub. 1979), 387-408. For a discussion of black codes and their relation to labor, see: Litwack, *Been in the Storm So Long,* 366-71

savings banks during the 1860s and 1870s coalesced into a system that collectively rivaled commercial banks (national, state, and private institutions) for the greatest share of total investment capital in the country.[15] So successful were they at raising money from the working classes for investment elsewhere that they helped to spawn and popularize a series of other financial institutions such as stock savings banks and building and loan associations that also intended to provide basic financial services to these groups. But despite this growth, savings banks also still largely excluded the southern states where the Freedman's Bank primarily operated. And despite some early challenges, they also still held their status as the single most prominent cultural and economic institution that offered wage earners access to the security and profitability that institutional savings supposedly provided. It was in this context that the Freedman's Savings and Trust Company began operations, grew impressively, and failed spectacularly. In the process, it both captured the socioeconomic promise of savings institutions in the mid-nineteenth century United States and illustrated their dangers. For former slaves, it also provided a cautionary tale about the willingness of the federal government or financial institutions to aid their transition to freedom.

### *Savings precedents among the freedpeople*

Depending on one's perspective, the Freedman's Bank either marked a new high in the attempted scope and claimed power of savings institutions to enact structural change or an

15 National banks held $471,994,657.55 in bonds, stocks, mortgages, and real estate on June 30, 1875, the majority of which was invested in United States bonds. The state banks (excluding mutual savings banks) that the Comptroller surveyed from 1874-75 held $272,338,996 in total resources, the majority of which were in "loans and discounts." Over the same period, the Comptroller found $896,197,454 in total resources held by the savings banks it received returns from. Although only the national bank figures are complete and the Comptroller made no firm estimate of private bank assets, a comparison of these totals still demonstrates the relative importance of savings banks in the investment landscape of the country in 1875, at least in a very rough sense. See: US Comptroller of the Curreny, *Annual Report* (1875), lii, xciv, and xcvi

extremely conservative embodiment of principles and methods of operation that had informed savings pioneers dating back to the 1810s. On the one hand, the bank forged new paths as a national savings institution and a branch banking pioneer. It was a savings bank that operated largely in areas of the country that had never before seen such organizations and a financial institution that found a new class of clients that most bankers had to that point overlooked (in part because they largely hadn't existed): former slaves. On the other hand, the Freedman's Bank's founders and directors organized and ran it on the philanthropic and educational lines of the earliest savings bank organizers, stressing that their institution promoted the accumulation of morals as much as money. The bank's directors also initially—though this would change over time—chose to devote its resources to the most conservative (even antiquated) of investment strategies, exclusively buying US government securities. As an amalgam of old principles and new techniques, the Freedman's Bank was an experiment typical of its time. Its tragedy was that it was also one whose risk was borne by those Americans who were the least able to do so.

Taken out of context, the decision to create a savings bank to serve the financial needs of former slaves before the hostilities of the Civil War even concluded might seem inappropriate. After all, to save money one must first earn it in sufficient amounts and the years encompassing the end of the war and its immediate aftermath were ones of major disruption in the Southern economy. Yet starting well before the end of the war, Northern military strategists, politicians, and philanthropic groups demonstrated their desire to introduce escaped and freed slaves to wage labor in areas controlled by Union forces.[16] Apart from entreating them to forgo violence, the only other instruction Abraham Lincoln addressed directly to former slaves in the Emancipation

16 For example, see: Ira Berlin, et al., *Slaves No More: Three Essays on Emancipation and the Civil War* (New York: Cambridge University Press, 1992), 77-186, and Willie Lee Rose, *Rehearsal for Reconstruction: The Port Royal Experiment* (Athens, GA: University of Georgia Press, 1999)

Proclamation was to "recommend to them that, in all cases when allowed, they labor faithfully for reasonable wages."[17] Creating local Southern economies on the new basis of wage labor began during the war as a practical effort in Union-controlled areas of Mississippi and the Sea Islands of South Carolina, among other locales.[18] After Appomattox, occupying Union officers expended considerable energy throughout the South in an attempt to ensure and enforce labor contracts between black and white Southerners on fair terms.[19] As Union General Carl Schurz reported just after the war's end: "the slaves are emancipated in point of form, but free labor has not yet been put in the place of slavery in point of fact." Failure to address this problem, in Schurz's eyes, would lead "either to a rapid and violent reaction, or to the most serious trouble and civil disorder."[20]

Creating the economic and social conditions in which free workers could achieve and sustain financial independence was a core principle of the free labor ideology that animated the policies of many Republican politicians and operatives who first prosecuted the war for the Union and then oversaw the peace.[21] That concept certainly motivated many Northern groups that organized relief efforts for former slaves as early as 1862, even as the war was just gaining momentum. In typical fashion, the Pennsylvania Freedmen's Relief Association first provided

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17 Quoted in: William E. Gienapp, ed., *The Civil War and Reconstruction: A Documentary Collection* (W.W. Norton & Company, 2001), 165

18 See: Stephen Joseph Ross, "Freed Soil, Freed Labor, Freed Men: John Eaton and the Davis Bend Experiment," in *The Journal of Southern History,* vol. 44, no. 2 (May 1978), pp. 213-32, and Rose, *Rehearsal for Reconstruction*

19 See: Litwack, *Been in the Storm So Long,* 336-86

20 *Conditions of the South: Excerpts from the Report of Major-General Carl Schurz, on the States of South Carolina, Georgia, Alabama, Mississippi, and Louisiana: Addressed to the President* (1865?), 20

21 On the general influence of free-labor ideology during Reconstruction, see: Foner, *Reconstruction,* 153-75; on the specific influence of these views on the organizers of the Freedman's Bank, see: Levy, *Freaks of Fortune,* 105-13

food and clothing to the 10,000 former slaves in Union-occupied Port Royal, South Carolina. But they quickly "turned their attention to the necessity of industrial organization, and the means needed for the people's moral and intellectual improvement," sending "field superintendents of labor and well qualified school teachers" where they had first sent only material aid.[22] The Boston-based Educational Commission for Freedmen also operated in Port Royal, carrying out "the work of the re-organization of labor under new auspices, the establishment of schools, and the introduction of a new and better way of life for those under their charge."[23] In instances where the Union established safe havens for large groups of emancipated slaves, educators of freedpeople universally understood their mission to include the propagation of lessons about why one should work under the "new auspices" of a wage-labor system.[24]

These groups tried to impress on former slaves the importance of becoming wage earners because they viewed it as the first step in a broader transition to true freedom. As the Educational Commission for Freedmen explained, its workers tried to teach freedpeople how "to appreciate the advantages of civilized life, to relinquish many of the habits and customs of slavery, and to learn the duties and responsibilities of free men." That all three of these goals involved a holistic transformation centered on—if not limited to—work habits was reenforced by the pronouncement that the Commission was "entirely successful in demonstrating the capacity of the freedmen for self-support in a condition of freedom, their readiness to work for wages, their

22 Pennsylvania Freedmen's Relief Association, *A Plea for the Freedmen* (Philadelphia: Pennsylvania Freedmen's Relief Association, 1863 or 1864), 1

23 Educational Commission for Freedmen, *First Annual Report of the Educational Commission for Freedmen* (Boston: Prentiss & Deland, 1863), 11

24 See: Robert C. Morris, *Reading, 'Riting, and Reconstruction: The Education of Freedmen in the South, 1861-1870* (Chicago: University of Chicago Press, 1981). See also: Ross, "Freed Soil, Freed Labor, Freed Men" and Rose, *Rehearsal for Reconstruction*

strong desire for education, and the readiness with which they adopt the manners and habits of civilized life."[25] As the Pennsylvania Freedmen's Relief Association explained, their representatives helped to "give direction to the people's industry, forming among them habits of self-reliance, and making their labor remunerative to themselves and of inestimable value to the country." These relief efforts had made the former slaves "a self-supporting, wealth-producing people" who "are orderly in their behaviour, and are rapidly rising in the scale of intelligence."[26] Working for wages was not the only goal these groups and their contemporaries hoped to achieve amongst the freedpeople, but it was usually one of the first that they mentioned and the foundation on which they believed other reforms could be built.

Inculcating habits of "civilized life" and "self-reliance" amongst the wage-laboring classes—savings banks had been attempting this task for four decades before the Civil War even began. In this context, it is hardly surprising that Northern reformers would consider savings banks as a likely boon to their work. Thus it was that Rufus Saxton, the Union general who oversaw the military district that included Port Royal, issued an order in August 1864 establishing a savings bank at Beaufort, South Carolina. He designed it to help former slaves now farming or fighting in the army—and so earning regular pay—to fulfill their "duty to provide against a future time of need in such a way as to sustain the Administration which, under Providence, has brought you all these blessings, and to prevent your families or yourselves from ever becoming a tax upon its bounty." By taking their deposits and investing them in US securities, Saxton assured the freedpeople that "you will thus have a secure place of deposit for your money, where it will yield you a fair rate of interest, and will at the same time indirectly aid in sustaining the government

25 Educational Commission for Freedmen, *First Annual Report of the Educational Commission for Freedmen* (Boston: Prentiss & Deland, 1863), 11 and 15

26 Pennsylvania Freedmen's Relief Association, *A Plea for the Freedmen,* 2

which is doing so much for you."[27] Another Union general, Benjamin F. Butler—who issued an official order during the war that claimed "political freedom rightly defined is *liberty to work*"[28]—established a similar bank in Norfolk, Virginia, at about the same time. Union General Nathaniel Banks created a third such institution in the area of his Lousiana command, which he termed "a Free Labor Bank . . . for the deposit of all accumulated wages and other savings." The Freedman's Bank eventually took in both the Beaufort and Norfolk institutions as successful branches, a testament to their solvency—and freedpeople's willingness and ability to use these institutions—despite beginning operations almost immediately after former slaves began to work as free laborers.[29]

These early predecessors of the Freedman's Bank also established several important principles that the latter institution perpetuated. The earliest savings banks attempted to train workers in thrift both for their own individual benefit *and* to prevent them from sliding into poverty and becoming a burden on the state. The military-run savings institutions similarly aimed to teach freedpeople to embrace the tenets of free labor as a way of asserting their freedom but *also* as a way of reducing the cost of their protection from the rolls of the federal government. On a more technical level, the new banks also suggested that savings institutions could be a complementary component to other forms of centrally-organized reconstruction. This close relationship between the federal government—particularly the US Army—and institutional savings opportunities continued in the new Freedman's Bank after the war ended. More than

27 Quoted in: C.A. Woodward, *Savings Banks: Their Origin, Progress and Utility, with a History of the National Savings Bank for Colored People* (Cleveland: Fairbanks, Benedict & Co., 1869), 95-96

28 Quoted in: New England Freedmen's Aid Society, *Second Annual Report of the New England Freedmen's Aid Society* (Boston: New England Freedmen's Aid Society, 1864), 25

29 Osthaus, *Freedmen, Philanthropy, and Fraud,* 2-3

coincidental, these precedents were important because early military attempts at organizing savings banks for freedpeople directly inspired the organizers of the Freedman's Savings and Trust Company. For example, the man who played the primary role in establishing the Freedman's Bank, Congregational minister and abolitionist John W. Alvord, specifically referred to these savings experiments in the intitial January 1865 meeting that led to its organization.[30]

*A new bank for a new age*

The idea that savings institutions should serve as auxiliaries to other forms of rehabilitation and the practical fact that the federal government was administering the affairs of the Southern states led Alvord and his cohort to petition the US Congress for their charter rather than approaching a state government. The significance of Congress' decision to grant this charter cannot be overstated. Before this period, Congress' status as the sovereign government for the District of Columbia had required them to occasionally charter banks for operation solely within that territory. Yet apart from these instances, Congress had not granted a charter to an individual bank located outside of the District of Columbia since the Second Bank of the United States.[31] The successful fight to block renewal of the Second Bank's charter in 1836 had left a powerful entrenched opposition to federally-chartered banks that only began to crack when the dire financial circumstances of the Civil War provided an opportunity to create the national banking system, but even these banks could not legally establish a physical presence outside their home states.

Despite the way that it eventually operated, even the Freedman's Bank's charter did not

30 Ibid., 1-3

31 Levy, *Freaks of Fortune,* 117

explicitly grant it the ability to function across state lines. In the Senate debate over whether to issue a federal charter to the institution's incoporators, Kentucky's Lazarus Whitehead Powell specifically objected that the bill as worded was "a roving kind of commission . . . to establish a savings bank in any part of the United States." Powell claimed the bill was therefore "unconstitutional," adding that "I do not believe that Congress has any right to establish a savings bank outside of the District of Columbia." Charles Sumner of Massachusetts responded by offering to amend the bill to make the incorporators of the Freedman's Bank a "body corporate in the District of Columbia," thus explicitly limiting the bank to operations within the borders of that territory.[32] In House debate over the bill, a similar amendment was added after New York Democrat John Ganson asked "where this bank or association is to be located?" and the bill's sponsor, Republican Thomas Dawes Eliot of Massachusetts, informed him simply: "Washington city."[33]

Although a printer's error appears to be responsible for leaving "in the District of Columbia" out of the title of the bill when passed, the final version did explicitly limit the extent of the corporation to Washington, DC.[34] Yet the Freedman's Bank's directors ignored this provision from the very beginning. The trustees of the bank opened their initial office in New York City, likely because it was easier for the bank to execute investments if it was located in the nation's financial center. That many of the bank's trustees lived in the city no doubt helped inform the decision as well. (In fact, *none* of the Freedman's Bank's fifty original trustees actually lived in Washington, its ostensible home, a sign that its national profile was evident from

32 *Congressional Globe,* 38th Congress, 2nd session, 1311

33 Ibid., 1403

34 "An Act to Incorporate the Freedman's Savings and Trust Company," US Statutes at Large, 38th Con., 2nd Sess., Ch. 92, March 3, 1865

the start.)[35] Regardless of where it located its headquarters, the bank's officers also made clear at the outset that they intended their institution to operate nationally. As early as June 1865, the Freedman's Bank sent representatives to cities throughout the South in order to both publicize the new institution and identify populations that might support a branch.[36]

Despite the questionable legality and expressed concern of some well-placed government officials, however, no observers attempted to practially limit the national scope of the Freedman's Bank after the Congressional debate over its charter. Andrew Johnson, for one, threw the weight of the Presidency behind the bank just a few months after Congress authorized it. While not explicitly condoning the national reach of the institution, Johnson's declaration that he commended the bank to "the Secretaries of War, Navy, and Treasury, for such facilities in reaching the Freedmen, and for the safe-keeping and transportation of funds, as the company may need" would hardly have made sense if he considered the Freedman's Bank to be a purely local institution.[37] The strong connections between the bank and the Bureau of Refugees, Freedmen and Abandoned Lands (the Freedmen's Bureau) helped to create an even stronger sense that the federal government blessed the national scope of the Freedman's Bank. Such connections included the presence of Freedmen's Bureau officials on the central bank's board and as directors of individual branches, the shared use of office space by the two entities, and extensive advertising for the bank that the bureau facilitated and sometimes paid for.[38] In a statement that the Freedman's Bank frequently used in its advertising, the head of the Freedmen's

35 Osthaus, *Freedmen, Philanthropy, and Fraud,* 5

36 Ibid., 10-20. See also: "An Interesting Item," *Christian Recorder*, 24 June 1865

37 Johnson's statement was dated 5 May 1865. See: "Bank Items," *The Banker's Magazine and Statistical Register,* Vol. 15, No. 10 (April 1866), 823

38 Osthaus, *Freedmen, Philanthropy, and Fraud,* 63-70

Bureau, General O.O. Howard, asserted that "I consider the Freedmen's Savings and Trust Company to be greatly needed by the Colored People, and have welcomed it as an *auxiliary* to the Freedmen's Bureau."[39] These actions and statements by representatives of the federal government—combined with the absence of official sanction—amounted to a tacit official acknowledgment that the Freedman's Bank was rightfully a national institution.

As a result, while local efforts expanded savings banks into areas of the midwest and western United States where they had largely not existed before the Civil War, the Freedman's Bank brought institutional savings to much of the South for the first time. The bank's directors explicitly considered their project in this light, stating at the outset that one of the reasons to create their bank was because "savings banks have become one of the institutions of our country."[40] According to this view, all residents of the former Confederacy—whether previously enslaved or not—deserved access to savings institutions as a matter of regional equity. Over the course of its life, the Freedman's Bank established branches in thirty-seven cities, including at least one in every Southern state from Maryland west to Kentucky and south to Louisiana and Florida. It also reflected its national ambition by opening branches in Philadelphia, New York City, and Washington, DC.[41] The outsized role of the Freedman's Bank in bringing savings banking to the South is betrayed by the fact that in 1875, just a year after its failure, there were only six savings banks still operating anywhere in the South. By 1880, the number had declined to five.[42] Whether local philanthropists or entrepreneurs would have established more individual

39 For example, see: *National Savings Bank: Freedman's Savings and Trust Company* (Washington, DC: Gibson Brothers, 1869), inside back cover; emphasis added

40 See: Booth, et al., "Circular of the Freedmen's Savings and Trust Company," 3

41 Osthaus, *Freedmen, Philanthropy, and Fraud,* 230-34

42 See: US Comptroller of the Curreny, *Annual Report* (1876), xlvi and *Annual Report* (1885), clxi

Southern savings banks before 1875 in the absence of the Freedman's Bank is an unanswerable question. Yet as late as 1900, the US Comptroller of the Currency still counted only thirty-two operating savings banks (all of them the for-profit “stock” type) in the former states of the Confederacy. Perhaps more indicative of their rarity, these institutions numbered only one in Florida and none in Mississippi, Alabama, Georgia, and Virginia.[43] The Freedman's Bank, in other words, was the primary way in which many Southerners experienced savings banking during the nineteenth century.

One way to imagine the growth of the Freedman's Bank is to view it as a system of local banks, loosely bound by the central office but each serving distinct communities of depositors and run primarily by local officials. In this sense, the Southern savings bank system dominated by the Freedman's Bank progressed up until 1874 in much the same way as the unofficial network that served the rest of the country. Total numbers of deposits, open accounts, and “institutions” (ie. branches) grew steadily throughout the period, just as they did in national aggregate terms. Although the Freedman's Bank's total deposits peaked at only around $4 million —and that in a year when the bank had branches in Philadelphia and New York City, in addition to its Southern locations—the institution operated amidst largely cash-starved populations that were underserved by banking facilities of any kind. Carl Osthaus' summary of his painstaking review of account records from seven of the institution's banks suggests that it relied more heavily on poorer depositors relative to those in Northern savings banks of the era:

> Occupationally the bulk of the depositors were unskilled laborers, servants of one kind or another, or farm workers. At many branches waiters, porters, and domestics formed a large portion of the depositors. The percentage of laborers, cooks, washers, domestics, waiters, butlers, porters, and

43 The figure may slightly undercount savings bank distribution in the South since the Comptroller had a notoriously difficult time receiving reliable data on state banks from this region during this period. There were also some alternative savings facilities in operation by 1900, including national banks and trust companies. See: US Comptroller of the Currency, *Annual Report* (1900), 552 and Chapter Four.

> stewards reached 61 percent, 60 percent, and 47 percent, respectively, at Richmond, Louisville, and Charleston, but was significantly lower at the other four brances: Huntsville,, 24 percent; Shreveport, 37 percent; Vicksburg, 32 percent; and Augusta, 30 percent. Farm workers made up a large proportion of the depositors at Huntsville (42 percent), Shreveport (29 percent), and Vicksburg (24 percent). In the Richmond survey no farmers were found, while in Louisville 3 percent of the depositors were engaged in farming, and 11 percent in Charleston and Augusta. Although the number of artisans was small, they often formed the backbone of the Negro community and played a vital role in the city's economy.[44]

Considering both the relative dependence of the bank's branches on agricultural and unskilled laborers and the fact that Southern employers and merchants were already establishing a system of debt peonage that trapped many workers from these occupational categories—making them financially incapable of saving—one realizes how significant even the somewhat modest gains of the Freedman's Bank's depositors really were.[45] [See Figure 3.1]

Figure 3.1[46]
Deposits, Withdrawals, and Balance in Freedman's Bank, 1866-1871 and 1873

| For year ending March 1 | Total deposits | Total withdrawals | Balance due |
|---|---|---|---|
| **1866** | $305,167.00 | $105,883.58 | $199,283.42 |
| **1867** | $1,624,853.33 | $1,258,515.00 | $366,338.33 |
| **1868** | $3,582,378.36 | $2,944,079.36 | $638,299.00 |
| **1869** | $7,257,798.63 | $6,184,333.32 | $1,073,465.31 |
| **1870** | $12,605,781.95 | $10,948,775.20 | $1,657,006.75 |
| **1871** | $19,952,647.36 | $17,497,111.25 | $2,455,836.11 |
| **1873** | N/A | N/A | $4,008,642.34 |

44 Osthaus, *Freedmen, Philanthropy, and Fraud,* 92

45 Roger L. Ransom and Richard Sutch, "Debt Peonage in the Cotton South After the Civil War," in *The Journal of Economic History,* vol. 32, no. 3 (September 1972), pp. 641-669

46 For 1866-1871, see: "Report of the Commissioners of the Freedman's Savings and Trust Company," House Misc. Doc. 16, 43rd Cong., 2nd Sess. (1874), p. 91. For 1873 figure, see: "Report of the Comptroller of the Currency upon the Condition of the Savings Banks of the District of Columbia," Senate Misc. Doc. 88, 42nd Cong., 3rd Session (1873), p. 2

Similar to many of the first American savings banks, the Freedman's Bank's original charter prescribed US bonds as the only legal investment its directors could make with the bank's deposits. Congress's decision in 1870 to allow investment in mortgages brought the Freedman's Bank further into line with savings bank practices throughout the country and more fully integrated it into the nation's industrial economy. The local effects of this decision on the general economic facilities available to Southerners during this period could be quite profound. Banking of any form in the South was still quite limited throughout the 1860s and 1870s. In Jacksonville, Florida, for example, the Freedman's Bank's branch was the only functioning bank of any kind when it opened in 1866.[47] As the Freedman's Bank's directors faced greater pressure to get higher returns for their investments in order to fund their rapid expansion into the South and the high operating costs attendant to transferring funds through a national network of institutions, they gradually drifted towards investing in other areas as well. Despite the questionable legality of these investments—the bank's charter did not provide for them explicitly—the institution's investment directors began to fill its portfolio with corporate bonds and stocks from around the United States, including the railroad investments that many savings banks were purchasing during this period.[48] As the bank's deposits grew steadily up until the time of its failure, its investments increasingly bound Southern savings depositors to the national economy in ways that were similar to those in the rest of the country. The fact that the failure of a number of these mortgage and corporate security investments during the Panic of 1873 caused the Freedman's Bank's collapse again suggests the important consequences of such integration between savings banks and the general economy. The presence of one of Jay Cooke's brothers on the bank's

47 Osthaus, *Freedmen, Philanthropy, and Fraud,* 22

48 Ibid., 147-53

investment committee meant that it frequently bought securities from Cooke's bank and collaborated with it in other ventures. With the benefit of hindsight, the attachment to a company that underwent one of the most spectacular bankruptcies of the nineteenth century did not bode well for the Freedman's Bank.[49]

### *A savings bank of its era, only more so*

The Freedman's Bank's economic functions and impressive growth made it relatively typical of savings banks throughout the country in the 1865-1875 period. But its unique position as minister to the most prominent body of poor workers in the country—former slaves—also made it the preeminent example of the expression and reassertion of the idea that savings banks had a social function. Ultimately, it was this status that gave the Freedman's Bank its lasting importance in the histories of both savings and Reconstruction.

The bank's creation established its debt to the legacy of socially-conscious savings banking from the very start. Not only had the military savings banks that inspired it operated as auxiliaries to the earliest missionary work among the freedpeople, the fifty initial trustees of the bank comprised a "who's who" of businesspeople and reformers that evoked the directors of the earliest savings banks. Included among them were manufacturer Peter Cooper, banker George S. Coe, and abolitionists William Cullen Bryant, Gerrit Smith, and Levi Coffin.[50] The Freedman's Bank founders saw their institution as an indispensible aspect of their overall mission to turn what had been aid for slaves into aid for freedpeople. For these men, the venture was benevolent in nature: its "whole influence . . . is intended to be educating and elevating, assisting in self-

49 Gilbert, "Comptroller of the Currency and the Freedman's Bank," 127 and Levy, *Freaks of Fortune,* 129-43

50 Osthaus, *Freedmen, Philanthropy, and Fraud,* 7-8

support, and forming a permanent and most important aid in the advancement of the colored population of our country."[51] Further cementing the connection to the mutual savings bank movement was the bank's legal requirement that its directors could not make money from their efforts.[52] In addition to its background and legal responsibilities, the Freedman's Bank's organizers and supporters also actively cultivated the perception that its economic function was primarily supposed to serve a larger social agenda. As Charles Sumner described the bank when he introduced its charter for ratification by the US Senate in 1865, it was only "a simple charity."[53] The Freedman's Bank's own publications often featured the slogan that it was "Abraham Lincoln's Gift to the Colored People."[54]

As it developed, the Freedman's Bank embodied the role of the savings bank as an educator of good "habits" more than any other institution in the country. In one advertisement, the bank listed the "reasons why you should all put Money in the Savings Bank." Three of these were related to the Freedman's Bank's safety as a repository for hard-earned wages. But the text also insisted that the bank "teaches you the value of money, and prevents you from spending it foolishly" and "is a good example of thrift to your children."[55] More tangibly, the Freedman's Bank's directors organized a standing "Education and Improvement Committee" composed of members of its board of trustees, whose mission was to advance "the education and improvement of persons heretofore held in slavery, or their descendents being inhabitants of the United

51 The circular was printed in newspapers throughout the country, but particular in the South. See: Booth, et al. "Circular of the Freemen's Savings and Trust Company," 3

52 "An Act to Incorporate the Freedman's Savings and Trust Company," US Statutes at Large, 38th Con., 2nd Sess., Ch. 92, March 3, 1865

53 *Congressional Globe,* 38th Congress, 2nd session, p. 1311

54 Freedman's Savings and Trust Company, *National Savings Bank* (Washington, DC: Gibson Brothers, 1869), 33

55 Ibid., 34

States." The bank's by-laws directed that deposits that went unclaimed for a period of seven years would devolve to a fund dedicated to this purpose.[56]

In keeping with its social and educational mission, the Freedman's Bank even published a monthly newspaper to explain such things as how interest operated and to encourage African Americans to practice thrift and temperance. Said one representative article: "the man who is a whiskey drinker soon becomes an idler, loses all his work, he and his family become ragged and miserable, and have to be kept from starving by the poor house." The author slyly concluded that although "in all this I have said nothing of the good habits that grow with savings . . . I hint at this, and leave my reader to think about it, and by all means deposit in the SAVINGS BANK."[57] In praising the Freedman's Bank along similar lines, a delegate to the 1869 Colored National Labor Convention drew a connection between "the free school, the open Bible, [and] the Savings Bank."[58]

Even as the Freedman's Bank's emphasis on pedagogy made it typical of many other contemporary savings banks, its particular claim to offer these services to former slaves made it unique and added greater import to its successes and ultimate failures. A few similar precedents for such a project existed. The founders of New York City's Seaman's Bank for Savings and Emigrant Industrial Savings Bank explicitly created their institutions to help mariners and Irish immigrants, respectively, two groups that many observers maligned as inherently incapable of exercising thrift or rising out of poverty. Yet most savings bank advocates took it for granted that

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56 Freedman's Savings and Trust Company, *The Charter and By-Laws of the Freedman's Savings and Trust Company.* (Washington, DC: Gibson Brothers, 1872), 17-18

57 "Freedmen's Savings Bank," *National Savings Bank,* January 1, 1868, p. 1

58 Colored National Labor Convention. "Proceedings of the Colored National Labor Convention. . .1869," (Washington, DC: Printed at the Office of the New Era, 1870), 14

their intended wage-earning depositors were fundamentally capable of working hard, exercising thrift, and securing financial independence—if only given the right instruction and the proper facilities to enable these achievements.

While the proponents of the Freedman's Bank shared this assumption about its African American depositors, they also recognized that many others did not. African Americans had occasionally organized banks to be both directed and utilized by other African Americans throughout the antebellum period, particularly in areas of the upper South and Mid-Atlantic regions that boasted relatively large populations of free African Americans. Their general inability to gain financing on reasonable (or any) terms from banks that white directors operated motivated these institutions' founders, in part. But many advocates for African American rights also frequently expressed the desire that patronage in these institutions would change popular attitudes about the ability of African Americans to become productive capitalists and businesspeople.[59] Although these antecedents appear to have come primarily if not exclusively in the form of commercial rather than savings institutions, the Freedman's Bank nevertheless picked up the mantle of an important tradition that married economics to ideology. Significant saving by African Americans would provide the benefits to those American workers that all savings would, but it would also prove to those in doubt that African Americans were actually capable of thrift—not simply given the right conditions for it, but in an existential, absolute sense. It would show that former slaves were ready to become productive capitalists and, as a result, contributing

59 See, for example: Abram L. Harris, *The Negro As Capitalist: A Study of Banking and Business Among American Negroes* (Philadelphia: The American Academy of Political and Social Science, 1936), 1-24 and Juliet E. K. Walker, *The History of Black Business in America: Capitalism, Race, Entrepreneurship, Volume 1 to 1865* (Chapel Hill, NC: University of North Carolina Press, 2009), 112-17 and 170-71. On the more general and common phenomenon of African Americans promoting public displays of "thrift" as a way of demonstrating their virtue, see: Patrick Rael, "African Americans, Slavery, and Thrift from the Revolution to the Civil War," in *Thrift and Thriving in America: Capitalism and Moral Order from the Puritans to the Present,* ed. Joshua J. Yates and James Davison Hunter (New York: Oxford University Press, 2011), pp. 183-206

members of society.

Within this context, even the boilerplate advertising material that the Freedman's Bank issued took on an air that distinguished it from that of other contemporary savings institutions. For example, the bank's assertion that saving “gives you character . . . [because] as soon as you become worth a little money or property, every one begins to respect you and ask your advice”[60] was virtually indistinguishable from the Seaman's Bank for Savings' explanation that "it will always be a recommendation to a man that he has some money in the Bank; and would often secure him a good birth [sic] where trustworthy and responsible men are wanted."[61] As one of the Freedman's Bank's actuaries explained, the institution also frequently issued "tracts and papers . . . on temperance, frugality, economy, chastity, the virtues of thrift & savings; explaining how daily savings in small sums at interest will accumulate & the duty of men to provide for their families—and in a word giving short & simple homilies on the virtues which constitute the moral life of civilized communities."[62] As seen in Chapter Two, such a description could be accurately applied to most of the propaganda that savings banks and their advocates produced in the 1860s and 1870s (although perhaps no single institution matched the Freedman's Bank in terms of volume).

Beyond the implicit arguments of this standard fare, however, the Freedman's Bank's promoters frequently made their more specific designs explicit. For example, one observer in 1870 wrote that “the Anglo-Saxon and the Anglo-African” could be proven equal “with faith in God and in ourselves, with habits of piety and industry, with habits of saving, and turning our

60 Freedman's Savings and Trust Company, *National Savings Bank* (Washington, DC: Gibson Brothers, 1869), 34

61 Seaman's Bank for Savings, *The Seaman's Bank for Savings, in the City of New-York* (New York: John C. Beale, 1855), 4

62 Quoted in: Osthaus, *Freedmen, Philanthropy, and Fraud,* 49

savings to account, and our universal thirst of knowledge, all of which we are rapidly acquiring."[63] The cashier of the Philadelphia branch of the Freedman's Bank similarly argued that the accumulation of capital in the bank "would become a moral educator far beyond the abstruse calculations of the arithmetician. It would dissolve prejudice, extinguish pauperism, animate industry, promote health, wealth, and prosperity. It would wipe from our general character the degradation and poverty that our ignorance and folly have inscribed on the records of the past."[64] When C.A. Woodward, the cashier of the Mobile branch of the Freedman's Bank, wrote a short history of the institution in 1868, he asserted that by using the institution, "the colored people are proving themselves industrious and frugal in their habits, and few can doubt that they will progressively *enfranchise* themselves by continued development of these qualities,—the primary source of *wealth and liberty* and the sure guarantee of their perpetuity."[65] Frederick Douglass asserted not long before the Freedman's Bank's failure that "the history of civilization shows that no people can well rise to a high degree of mental or even moral excellence without wealth . . . [and] the mission of the Freedman's Bank is to show our people the road to a share of the wealth and well being of the world."[66]

To emphasize these and similar points, the Freedman's Bank's organizers frequently referred to the exact amount of accumulated African American savings as evidence that their project was working. In this, they followed precisely the logic that savings bank promoters had espoused in a general way since at least the 1850s: if virtue led to the accumulation of money,

63 J.C. Embrey, "The Negro Race," *The Christian Recorder,* December 24, 1870, p. 2

64 William Whipper, "National Savings Bank," *Christian Recorder,* January 22, 1870, p. 1

65 C.A. Woodward, *Savings Banks: Their Origin, Progress and Utility, with a History of the National Savings Bank for Colored People* (Cleveland: Fairbanks, Benedict & Co., 1869), 59; emphases added

66 Quoted in Osthaus, *Freedmen, Philanthropy, and Fraud,* 197

then the accumulation of money must therefore imply the presence of virtue.[67] For example, J.W. Alvord claimed in his introduction to Woodward's book that freedpeople were "capable of rising, and with right habits are sure to do so." He emphasized that "all temptation in freedom to squander thoughtlessly must be resisted" and that "*to save,* should be the freedman's motto." He then finally claimed that "it will be seen by the statements made" later in the book about the bank's financial condition, "that the lately emancipated are learning the above maxims rapidly, and increasingly multitudes are putting them in practice."[68] In a later letter that Alvord wrote to Freedman's Bureau Commissioner O.O. Howard in his official capacity as the Bureau's General Superintendent of Education, Alvord similarly claimed that "the $12,605,782 put in savings banks; and the $10,948,775 drawn out and used mainly in important purchases, making that amount of social comfort and taxable capital, all show the importance of our work."[69] When Philadelphia's *Christian Recorder,* a newspaper associated with the African Methodist Episcopal Church, reported the large deposits made in the New York City branch of the Freedman's Bank, it stated succinctly that saving money "is the way for our people to get equality of political rights."[70]

Newspapers with no obvious connection to the Freedman's Bank or African Americans likewise ran articles that detailed the institution's accumulated deposits. By placing similar emphasis on the meaning of the bank figures, these articles suggested the Freedman's Bank's

67 See Chapter One for a discussion of the development of this argument.

68 J.W. Alvord, "Introduction," in Woodward, *Savings Banks,* 7-8

69 J.W. Alvord to O.O. Howard, 2 February 1870, published in: J.W. Alvord, *Letters from the South, relating to the Condition of the Freedmen, addressed to Major General O.O. Howard* . . . (Washington, DC: Howard University Press, 1870), 42

70 "Editorial Items," *The Christian Recorder,* September 1, 1866, p. 138

directors were justified to a certain degree in their hope that money could change minds. These reports often ended with sentiments about how the deposits proved "the prudence, economy and judiciousness of the patrons of the bank."[71] One Boston newspaper explained the power of their deposits to change public opinion about African Americans, claiming that "ever since the colored people of the South obtained their freedom, their enemies have persisted in declaring that they were shiftless, improvident and unable to take care of themselves." The newspaper exulted in the hope, however, that the rapidly accruing deposits in the Freedman's Bank were "fast disproving this assertion."[72] As another newspaper explained with irony, these savings made it look "as if 'the niggers' could take care of themselves."[73]

Collectively, this propaganda and commentary about the Freedman's Bank forged connections between ideas about economics, civil rights, and the very meaning of freedom. As one of the bank's advertisements put it: Abraham Lincoln "gave EMANCIPATION, and then this SAVINGS BANK. Your *freedom* and *prosperity* were in his heart united."[74] Such associations also appeared in the widespread efforts of former slaves to purchase property and the many anecdotes of how freedpeople embraced wage labor. But in the absence of any full-fledged government program to help former slaves acquire land or find fair employment, the Freedman's Bank was by far the most prominent institutional expression of these connections.[75] In a very real

71 "Freedmen's Savings," Baltimore *Sun,* March 18, 1869, p. 2

72 "Freedmen's Savings," Boston *Morning Journal,* April 1, 1870, p. 2

73 "Freedmen's Savings," *The Troy* (N.Y.) *Weekly Times,* August 17, 1867, p. 2

74 Freedman's Savings and Trust Company, "Colored Citizens' Savings Bank," 33; emphases in original

75 For the failure to enact other institutional efforts such as land distribution or labor programs, see: LaWanda Cox, "The Promise of Land," in *Freedom, Racism, and Reconstruction: Collected Writings of LaWanda Cox*, Donald G. Nieman, ed. (Athens, GA: University of Georgia Press, 1997), 41, 59-60; Eric Foner, *Politics and Ideology in the Age of the Civil War* (New York: Oxford University Press, 1980), 128-49; Leon F. Litwack, *Been in the Storm So Long: The Aftermath of Slavery* (1979; repr., New York: Vintage Books, 1980), 387-408

sense, it was the institutional expression of freedom itself. Its operations were the most obvious way to measure the abstract ideals of freedom in a medium as tangible as dollars and cents.

*The fall of the Freedman's Bank*

Many aspects of Reconstruction involved money in one way or another—from the salaries and bounties that occupying and discharged soldiers earned to the Freedmen's Bureau's responsibility for contract arbitration to the simple question of what efforts the federal government was willing to pay for.[76] But to the extent that free labor ideology involved the attempt to turn workers into a class of independent small capitalists, it required financial facilities of one form or another. As the only institution that private reformers and the federal government specifically designed for this purpose, the Freedman's Bank was a particularly potent symbol of the free-labor project. Bank official C.A. Woodward explained how this worked in practice: "a day in one of the Banks affords to the connoisseur a curious study of the character of our Africo-American citizens as embryo financiers and political economists."[77] An editorialist for the *Christian Recorder* likewise expressed the connection between free labor and saving in late 1865. The author addressed former slaves directly, advising them that "you no longer work for an allowance of meals per day and the scanty clothing that many of you formerly toiled for"; instead, "you now make your own bargains." The editorialist concluded that "this is the true meaning of freedom." But the same author also tellingly went on to say that working for wages was not an end in itself. "You should also lay by a portion of your earnings to guard against a rainy day. Put something past you, no matter how small; for the mighty ocean is composed of

76 On this last issue, see: Richard Franklin Bensel, *Yankee Leviathan: The Origins of Central State Authority in America, 1859-1877* (New York: Cambridge University Press, 1990)

77 Woodward, *Savings Banks,* 73

tiny drops of water. . . . Always save."[78]

Aside from such maxims, there could be no clearer indication that the Freedman's Bank was a capitalist savings project typical of the postbellum United States than the fact that it failed during the Panic of 1873. As discussed in Chapter Two, the Freedman's Bank was not the only savings institution affected by the financial turmoil of these years. Similar to other savings bank failures of the period, the combination of a bust in the mortgage and corporate securities bubbles of the late 1860s and early 1870s compounded by embezzlement and illegal insider lending ensured the Freedman's Bank's rapid decline and ultimate collapse during late 1873 and early 1874.[79]

Yet unlike with other savings institutions, the Freedman's Bank's federal charter, its close connection to the Freedmen's Bureau, and its frequent advertisements asserting Congressional approbation of its operations misleadingly suggested to many depositors that the federal government oversaw and guaranteed its deposits. When the bank failed with a deficit of more than $200,000 relative to about $3 million in claims, depositors anxiously awaited Congressional action to reimburse their losses. Although Congress first appointed a board of three commissioners and later the US Comptroller of the Currency to liquidate the bank's assets and make such payments as they could bear, it never reimbursed the bank's depositors for discrepancies between the available funds and their total balances. This lack of action occurred despite decades of popular appeal from depositors as well as the general public, Congressional hearings, the entreaties of presidents as late as Grover Cleveland, and the introduction of

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78 "Advice from the Editor of This Paper," *The Christian Recorder,* Vol. 5, No. 49, December 9, 1865, p. 194

79 Osthaus, *Freedmen, Philanthropy, and Fraud,* 173-200; Gilbert, "The Comptroller of the Currency and the Freedman's Savings Bank," 127-32; see also: Elmus Wicker, *Banking Panics of the Gilded Age* (New York: Cambridge University Press, 2000), 16-26ff.

numerous bills by members of Congress—at least one per year through the 1880s and then every few years into the 1910s. As Heather Cox Richardson has shown, however, a wide range of Northern politicians, authors, and even the court system had by the last quarter of the nineteenth century turned against anything that suggested legislative favoritism for African Americans. The best the bank's scorned depositors received in this context was a series of five partial payments derived from the liquidation of the bank's assets that collectively totaled only 62% of their individual claims. Even these payments stretched out over the course of more than a decade, long after many depositors had lost their bank books, stopped paying attention to the status of their claims, or even died.[80]

A member's report from the Congressional Committee on Education and Labor in 1883 best exemplifies the rationale behind Congress's failure to make whole the Freedman's Bank's depositors, despite years of agitation from advocates of both little and great political stature. Its author argued against the latest bill for reimbursement on the grounds that the federal government had no responsibility to provide aid to "ignorant investors against the results of their business incapacity or the incapacity or dishonesty of their agents."[81] This cold statement represented the dark side of the argument that promoters of savings banks who cast their institutions in a benevolent light had been making for decades: if savings bank depositors deserved to be treated as "little capitalists" when things went well, it was not that much of a leap

80 For an overview of the history to try and win reimbursement, see: Gilbert, "The Comptroller of the Currency and the Freedman's Savings Bank" and Osthaus, *Freedmen, Philanthropy, and Fraud,* 201-25. For the emergence of a general aversion to extending aid specifically to African Americans, see: Heather Cox Richardson, *The Death of Reconstruction: Race, Labor, and Politics in the Post-Civil War North, 1856-1901* (Cambridge, MA: Harvard University Press, 2001), 183-224. Richardson quoted the *Nation* in 1883 referring disparagingly to one moment in the reimbursement movement as an attempt at "the enactment of class legislation in their [African Americans'] behalf" (p. 207).

81 Quoted in: Osthaus, *Freedmen, Philanthropy, and Fraud,* 220

to assume that they should also be treated like any other "investors" when things went poorly. Despite the disingenuousness inherent in a claim that government treats all capitalists equally, this reasoning had a certain internal rhetorical logic sufficient to justify denying relief to the Freedman's Bank's depositors. The Freedman's Bank intended to teach former slaves that the ideology of the saver was the ideology of the free person. It instead provided an abject lesson that being a good capitalist was not sufficient to secure that freedom. In the process, it unintentionally betrayed the risks inherent in any system that equated personal worth with personal wealth.

As discussed in Chapter Two, savings bank advocates had never promised so much about these institutions' ability to protect and aid the poor and working classes, create a stable population of wage laborers, and demonstrate the capacity of industrial workers to be productive and virtuous citizens as they did during the decade after the Civil War. The Freedman's Bank's collapse represented a failure of these promises as much as it did an economic loss. Considering the odds faced by poor former slaves trying to prove themselves worthy of freedom, the demise of such an institution took on a much greater meaning than could be measured solely in dollars and cents. The Freedman's Bank may only have been one savings institution among hundreds, but its story demonstrated the many ways in which this class of financial institutions had deeply insinuated themselves into American society, their depositors' lives, and the US economy by the 1870s.

In the wake of the Freedman's Bank's failure, the implications of conflating African American freedom with this broader project of promoting wage-labor capitalism through institutional savings finally became clear. In a speech he gave on the Fourth of July in 1875, the educator, lawyer, and—for a brief time just before it collapsed—trustee of the Freedman's Bank, John Mercer Langston, gave a speech in which he proclaimed that "if we have colored churches, then give us colored preachers; if we [have] colored banks, we must have colored bankers, if we have colored schools, let us have our own teachers." Sharing the podium that day was Frederick Douglass, who similarly argued that "if we build churches don't ask white people to pay for them. If we have banks, colleges and papers, do not ask other people to pay for them. Be independent" of white people.[82]

Douglass then reflected on what he saw as the empty promise of freedom for African Americans that characterized the first ten years after the Civil War. Offering a "Declaration of Independence for the colored people of the United States," Douglass urged African Americans "to cut loose from all invidious class institutions and to part company with all these wandering mendicants who have followed us simply for paltry gain." He exclaimed that "I think the colored people of this country have had an experience during the last decade that will not be repeated in the future" and then turned to the Freedman's Bank in order to illustrate this point. As Douglass declared, "We have had a 'Freedmen's Savings Institute,' but we don't want any more."[83]

The lesson for both speakers was clear: African Americans could not expect to advance in social or economic terms so long as they followed the dominant ideology of turning workers into capitalists by entrenching them in the affairs of the national economy. Instead, the path to true freedom lay in an inward move to developing local communities that would de-emphasize Douglass' "invidious class institutions." Looking back on the Reconstruction era from the mid-1930s, W.E.B. Du Bois provided some historical perspective on the longevity of these feelings

82 "CELEBRATION AT HILLSDALE," in the *National Republican,* 4 July, 1875. Clipping in John Mercer Langston Papers, Fisk University Archives, Box 6, Scrapbook 1, page 86

83 Ibid.

when he argued that it was "difficult to over-estimate the psychological effect of this [the Freedman's Bank's] failure upon Negro thrift."[84]

Douglass' and his fellow thinkers' decision to use the Freedman's Bank as a proxy for the total failure of Reconstruction made sense only because of the social, political, and ideological hopes attached to the bank and to the savings project in general during the years of its operation. As Southern African Americans slid further into social, political, and economic subjugation over the rest of the nineteenth century, they repeatedly looked to the Freedman's Bank in order to explain what went wrong. On the one hand, dishonest white bankers, philanthropists, and politicians had unjustly fleeced the freedpeople of what was rightfully theirs, a practice that continued with the rise of Jim Crow and the disinterestedness of the federal government to aid African Americans. On the other hand, the failure of the bank—no matter what the cause—had left its many depositors with few assets and therefore little choice but to engage in the employment arrangements of sharecropping and tenant farming that left them in debt and that dominated the Southern agricultural economy by the end of the nineteenth century. Though many other explanations exist for both of these developments, the fact that the Freedman's Bank encompassed elements of both made it a particularly potent symbol of the failure of Reconstruction for African Americans.

Yet this same perspective also made it easy for people whose first concern was with savings banks to view the Freedman's Bank as an isolated tragedy befalling the freedpeople rather than a damning repudiation of the savings bank system in general. In its inspiration, organization, and operation, the Freedman's Bank shared much with its contemporary savings

84 W.E.B. Du Bois, *Black Reconstruction in America: An Essay Toward a History of the Part Which Black Folk Played in the Attempt to Reconstruct Democracy in America, 1860-1880* (New York: Oxford University Press, 2007; originally published 1935), 493

institutions; in its dissolution it shared almost nothing. Once again, New York savings regulator Emerson Keyes illustrated this point best. He firmly advocated the reimbursement of depositors, claiming that "until this wrong is wiped out by full and ample restitution, let the reputed friends of this loyal and down-trodden race, blush at the evidence of their humanity as seen in contrast with a policy which laid no claim to such virtue!" But as already discussed in Chapter Two, he also claimed—in the paragraph following his discussion of the Freedman's Bank—that "during the nearly sixty years" of savings banking, "less than one mill on each dollar deposited" had been lost through savings bank failures. This, in Keyes' eyes, was a testament to the fact that no "other institution of such magnitude [could] produce a record so free from blemish." In other words, the Freedman's Bank was merely the exception that proved the rule for savings banks.[85] That it *embodied* the alternative rule describing federal efforts to aid—or not aid—Southern African Americans in the late stages of Reconstruction was immaterial in this ideological framework. And so although the Freedman's Bank's inspiration, organization, and operation largely reflected the general legacy of savings banks and their contemporary status, its failure was little more than a blip in the eyes of people who identified themselves as savings proponents first and promoters of African Americans either second or not at all.

85 Keyes, *History of Savings,* II, 565

## Chapter Four

Assets for a New Era:
Reshaping National Finance Through Mass Saving, 1873-1914

### *Introduction*

In 1877, the United States Supreme Court agreed to hear a rare federal case concerning savings banks. Only two had previously made it as far as the court, each of which related to the proper collection of federal taxes on savings bank deposits that began during the US Civil War.[1] This lack of attention was largely due to the fact that little federal legislation related to savings banks prior to those years. Apart from the tax code and the Freedman's Bank, the exceptions to this rule concerned savings banks that Congress chartered in its capacity as overseer of US territories, particularly the District of Columbia. *Huntington v. Savings Bank* concerned one of those banks. The executors of the estate of a former director of the National Savings Bank, William S. Huntington, brought suit against the institution shortly after his death in 1872. They claimed that the pledge of security against bank losses that the bank's charter required him to make as one of its corporators entitled him—and, in turn, his estate—to receive a portion of the institution's investment profits in a manner akin to the dividends due a shareholder who had paid-in capital stock to a commercial bank. In Justice William Strong's decision, the court said

1 The two cases were *Oulton v. Savings Institution,* 84 U.S. 109 (1873) and *Dollar Savings Bank v. United States,* 86 U.S. 227 (1874).

otherwise.[2]

Strong noted that "in this case, so far from there being an implication of any pecuniary interest in the corporators" appearing in the bank's charter, "the contrary is expressly declared." The National Savings Bank's charter, in a manner typical of mutual savings banks, explicitly stated that "the income or interest of all deposits shall be divided among the depositors." Strong pointed out that "the corporators are not required to contribute any thing. There are, of consequence, no shareholders. Not a word is said in the instrument respecting any dividends of capital, or even of profits, to others than the depositors." Regarding Huntington's bond, Strong opined that it "was in no sense capital owned by the corporation or by the corporators. It was required by the charter solely for the security of the depositors or creditors of the institution." Huntington and his co-organizers had no ownership of the savings bank and so they had no claim on the proceeds of its operations. Instead, they were its guardians.[3]

Although this explication of the bank's charter was sufficient to dismiss the case, Strong did not stop there. Instead, he theorized about why the plaintiffs might have brought their claim in the first place. Suggesting that "we think the complainants have mistaken the nature of the corporation," he elaborated that "it is not a commercial partnership, nor is it an artificial being the members of which have property interests in it, nor is it strictly eleemosynary." The purpose of a savings bank was instead "to furnish a safe depositary for the money of those members of the community disposed to intrust [sic] their property to its keeping." Not an attempt at earning profit—except, perhaps, for its depositors—"it is somewhat of the nature of such corporations as church-wardens for the conservation of the goods of a parish, the college of surgeons for the

2 See: *Huntington v. Savings Bank,* 96 U.S. 388 (1877)

3 Ibid.

promotion of medical science, or the society of antiquaries for the advancement of the study of antiquities. Its purpose is a public advantage, without any [financial] interest in its members." Recounting the history of savings banks both in England and the United States, Strong concluded that such institutions are "quasi benevolent and most useful, because they hold out no encouragement to speculative dealing or commercial trading." As R. Daniel Wadhwani has pointed out, this interpretation affirmed the "quasi-public" nature of mutual savings banks on a national level. It represented the culmination of decades of state charters, legislation, and court decisions based on the premise that government had a compelling interest to regulate financial institutions intended for working people because this group was particularly at risk of succumbing to economic ruin.[4]

Even as Strong endorsed this conception of savings institutions, however, he acknowledged that it was only *"until recently*, [that] the primary idea of a savings bank has been, that it is an institution in the hands of disinterested persons, the profits of which . . . inure wholly to the benefit of the depositors."[5] Regardless of what Strong thought "the original idea of savings banks" had been and despite the fact that he endorsed that view, this near-afterthought—to say nothing of the case itself—betrayed his recognition that competing notions had begun to emerge about the propriety of operating a savings business for the interests of bank owners as well as depositors. While mutual savings banks organized along the lines that Strong outlined remained an important component of the US financial sector well into the twentieth century, this

4 Rohit Daniel Wadhwani, "Citizen Savers: The Family Economy, Financial Institutions, and Social Policy in the Northeastern U.S. From the Market Revolution to the Great Depression," unpublished diss. (University of Pennsylvania, 2002), 89-98 and 136-37. For a discussion of the *Huntington* decision in the context of nineteenth-century jurisprudence and legislation regarding savings banks, see also: R. Daniel Wadhwani, "Protecting Small Savers: The Political Economy of Economic Security," *Journal of Policy History,* vol. 18, no. 1 (2006), pp. 126-45

5 See: *Huntington v. Savings Bank,* 96 U.S. 388 (1877); emphasis added.

alternative vision of institutions that utilized the savings of everyday Americans for the benefit of their shareholding *owners* as well as their depositors transformed both the nature of saving and its relation to the national finance economy.

The idea of for-profit savings institutions that first manifested in the stock savings banks of the mid-nineteenth century spread through the beginning of the twentieth to a wide variety of businesses that sought to harness small savings for profitable investment. These included previously-established financial institutions such as national banks and trust companies and even non-financial sector businesses such as industrial manufacturers and department stores, many of which began to offer savings deposit services. Alternative small finance institutions such as life insurance companies also grew in both for-profit and nonprofit forms,[6] helping to broaden generally-accepted notions of what constituted a legitimate savings outlet. Collectively, these institutions' entry into the savings field indicated the degree to which debates about propriety shifted from questions of whose interests should be served to those concerning the most productive method of serving them.

While using "small savings" for any financial purpose other than the benefit of depositors remained the subject of intense debate, the general pattern of institutional savings development suggested that the "original idea of savings banks" steadily lost market share from the 1870s to the 1910s. By 1915, mutual savings banks could still claim to be the nation's single-largest repository of traditional savings deposits by institutional class. But the combined savings deposits in stock savings banks, state commercial banks, national banks, and trust companies

6 "Nonprofit" corporations in the context of this chapter are those whose directors are barred from receiving compensation for their activites and that issue no capital stock (unless solely to be used as a reserve against losses). "For-profit" corporations are those that issue capital stock which entitles its owners to a share in the corporation's profits. On the status of mutual savings banks as "non-profit" corporations, see: Henry Hansmann, *The Ownership of Enterprise* (Cambridge, MA: Harvard University Press, 2000; orig. 1996), 246-51

significantly exceeded their holdings. By that point, Americans saved billions of additional dollars through insurance companies, building and loan associations, and other institutions that offered services beyond the savings deposit. While some of these repositories—most notably many building and loan associations—were nonprofit, most of them were not.

Broadly speaking, interest in organizing new institutional savings outlets during this period reflected financiers' responses to accelerating changes in the American economy that had begun to emerge a century earlier. While economic inequality as measured by total property ownership generally increased over the course of the nineteenth century,[7] a steadily growing aggregate of money controlled by the working and middle classes who were paid in wages and salaries presented an opportunity to those who wished to access that capital for investment or other economic activities.[8] As outlined in Chapter One, this development first emerged on a large scale in eastern cities during the early-nineteenth century and inspired the organizers of the first mutual savings banks in the United States. Between 1860 and 1890, workers' real wages rose roughly 50 percent and the bulk of that growth occurred in the 1880s.[9] As these conditions spread in the last third of the nineteenth century—especially from the Northeast to the Midwest and West—many Americans pursued a concurrent expansion in opportunities for institutional saving.

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7 For example, one study of Massachusetts tax records shows that the share of real estate as a component of the wealth held by the richest top 1 percent of heads of household grew from 35.5 to 64.9 percent between 1870 and 1900 while the same group's overall share of the state's wealth grew from 27.2 to 37.2 percent. Slightly less severe but similar trends apply to the wealthiest 5 and 20 percent of heads of household. See: Richard H. Steckel and Caroyln M. Moehling, "Rising Inequality: Trends in the Distribution of Wealth in Industrializing New England," *Journal of Economic History,* vol. 61, no. 1 (March 2001), pp. 160-83: 166-67

8 Wage workers outnumbered the self-employed by 1860; in the last-third of the nineteenth century, a new and growing majority of wage workers had jobs in industrial employment with less chance of leaving their wage-earning status. See: Richard Schneirov, "Thoughts on Periodizing the Gilded Age: Capital Accumulation, Society, and Politics, 1873-1898," *Journal of the Gilded Age and Progressive Era,* vol. 5, no. 3 (July 2006), pp. 189-224: 202-3

9 Lendol Calder, *Financing the American Dream: A Cultural History of Consumer Credit* (Princeton, NJ: Princeton University Press, 1999), 70

But unlike in the antebellum period, they most often did so without utilizing mutual savings banks.

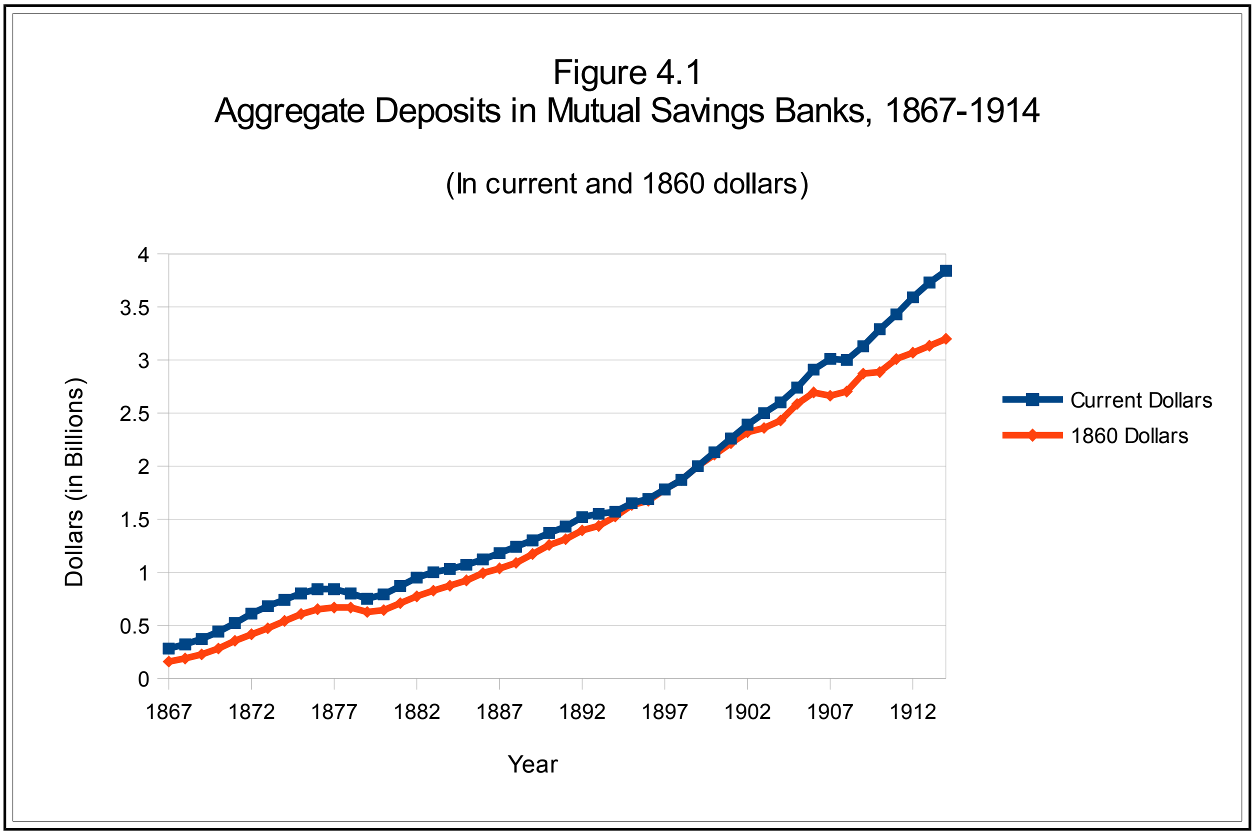
The specific fact that the organizers of these new savings institutions elected to pursue for-profit arrangements far more often than not suggests that the changing perception of the relationship between wage- and (increasingly) salary-earning Americans and the US financial sector which Strong criticized in the *Huntington* decision became mainstream. The vast majority of early savings bank organizers began with the premise that financiers had failed to supply similar institutions because they could not successfully operate them for profit. But these philanthropic institutions' success at aggregating both depositors and deposits in the antebellum and Civil War years had definitively demonstrated that wage-earners would utilize formal financial institutions in sufficient numbers and with sufficient aggregate capital to allow those institutions to function soundly.

Starting in the 1870s, many organizers and directors of financial institutions took this realization and added to it their observation of the growing numbers of wage- and salary-earners and the aggregate capital they controlled. Doing so led to a far different conclusion about the utility of small finance than that which had attracted their early-nineteenth century predecessors: not only could one operate a stable savings business on a for-profit basis, but a financier might indeed *have* to do so in order to effectively access the full extent of the nation's potential investment capital. Institutional savings developed from its antebellum origin as the primary activity by which workers engaged with the US finance economy to one of the essential methods by which that economy raised capital.[10] In other words, mass saving became the basis of a

10 One crude but broadly-accurate way of quantifying this shift given the poor extant data for the 1870s is to use time deposits as a proxy for savings deposits and to calculate the ratio of time deposits to the total resources of (1) mutual savings banks, (2) state banks (both stock savings and commercial), (3) trust companies, and (4) national banks. From 1875 to 1915, this ratio rose from 27 percent to 32 percent while the share of mutual

national institutional finance sector dependent on the necessity of near-universal participation less than a century after the first savings banks appeared as philanthropic anti-poverty experiments in a few cities on the east coast.

*Completing a century of savings banking*

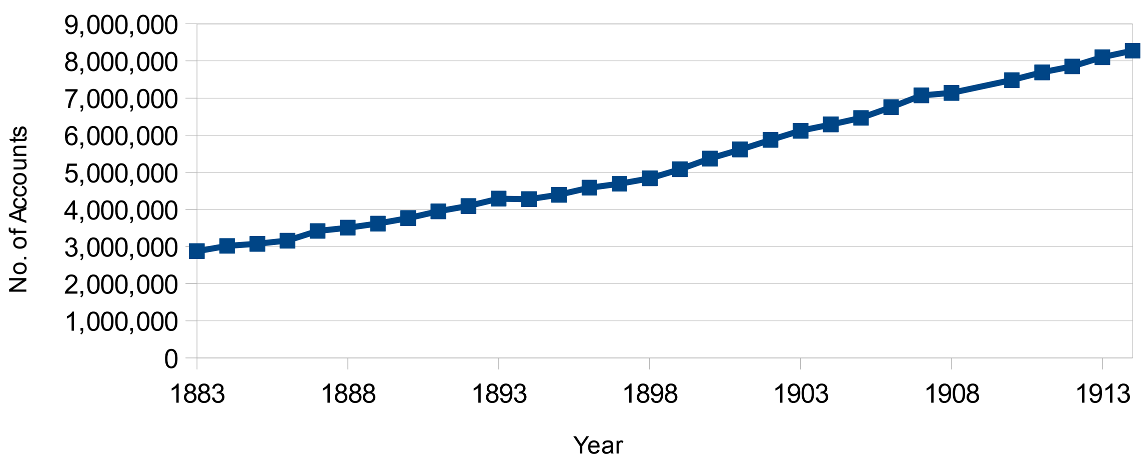



While losing some of their overall share of US savings deposits during the late-nineteenth and early-twentieth centuries, mutual savings banks remained powerful aggregators of capital and points of access to the financial industry for people of modest means. The mutual savings

savings bank resources out of the total declined from 28 percent to 15.5 percent over the same period. In other words, savings deposits became a more important source of capital throughout the banking sector as the result of their growing importance for *non*-mutual savings banks. The calculation is exceedingly rough, however, due to the assumption that mutual savings banks represented the entirety of time deposits in 1875 (they likely represented only a substantial majority). See: US Comptroller of the Currency, *Annual Report* (1875), iv and xcii-xcvii; US Comptroller of the Currency, *Annual Report* (1915), 946-49 banks which survived the Panic of 1873 collectively continued their strong record of growth in the decades that followed it. Recovering from the downturn of the late 1870s, aggregate deposit figures grew in both current dollars and inflation-adjusted terms for the next thirty-five years—often at a rate of between five and six percent annually—with only minor downward adjustments during the recessions that followed the Panics of 1893 and 1907. After temporarily bottoming out in 1879, deposits in mutual savings banks grew by a total of more than five hundred percent in both current and inflation-adjusted terms by the onset of World War I. [See: Figure 4.1 and Appendix 2] The number of depositors using these institutions likewise expanded substantially during roughly the same period. In 1875, for example, there were around 2.35 million open savings accounts in mutual savings banks nationwide; by 1914, the number was better than 8.25 million.[11] [See Figure 4.2 and Appendix 3] While this rate of growth was somewhat lower than it was during the mutual savings bank sector's first burst of rapid expansion from the mid-1840s to

Figure 4.2

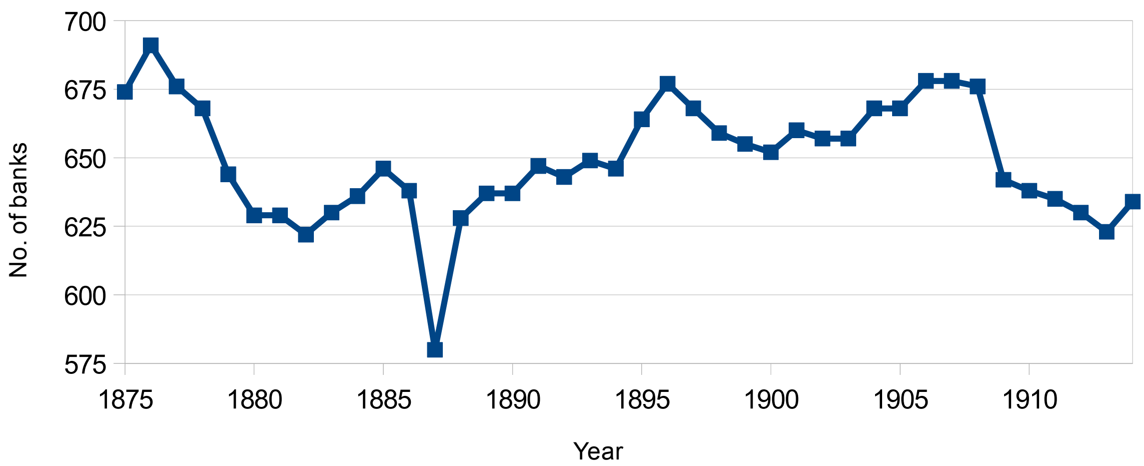
Number of Open Accounts in Mutual Savings Banks, 1883-1914




11 For 1875 figures, see: Keyes, *A History of Savings Banks,* II, folded sheet inserted between pp. 532 and 533; for 1914, see: US Comptroller of the Currency, *Annual Report* (1934), I, 125

Figure 4.3

No. of Mutual Savings Banks, 1875-1914




the end of the US Civil War—when the increase frequently exceeded ten percent annually—the absolute growth of both open accounts and total deposits was significantly larger than that of the earlier period. The increase in depositors also outpaced the growth of the national population by a ratio of roughly 3.5 to 2.[12] [See: Chapter One and Appendix 1]

A more significant difference between the antebellum and postbellum expansion of mutual savings banking was that the latter growth in deposits and depositors occurred without a concurrent increase in the total number of institutions. Nationwide mutual savings banks peaked at 691 in 1876 and then fell rapidly in the depression years of the late 1870s and early 1880s. While depositor and deposit figures overcame a similarly-timed pattern of contraction by quickly returning to their pre-Panic annual growth rates, the numbers of mutual savings banks in operation recovered far more slowly and ultimately far less completely, reaching a new high of

12 The population of the United States approximately doubled between both 1870-1910 and 1880-1920. See: *1990 Census of Population and Housing*, "1990 Population and Housing Unit Counts: United States", (CPH-2), Table IV: Population, 1790-1990

678 only in 1906—and then only maintaining that level for another year before declining again. (The 1876 peak in the number of operating mutual savings banks proved to be an all-time high.) [See: Figure 4.3 and Appendix 3] Taken by itself, such behavior might have simply indicated the increasing saturation of the overall market for savings deposit facilities. But the fact that mutual savings banks also faced a declining share of the national market for time deposits as their numerical expansion slowed to a stop belies such an explanation. While mutual savings banks collectively held almost all of the savings deposits in American banks and trust companies in 1875, they held only about 61 percent of them by 1910.[13]

Two related developments account for this stagnation in national mutual savings bank growth. First, policymakers in states such as Massachusetts and New York that continued to account for a large percentage of all mutual savings banks began to pursue policies designed to limit the organization of new institutions. In particular, many New York observers believed that the relatively large number of savings bank failures faced by the state during the financial crisis of the 1870s was the direct result of lax policies in both issuing new savings bank charters and failing to ensure that new institutions met their legal requirements regarding investment strategies designed to protect them from loss.[14]

13 The Comptroller of the Currency distinguished between "savings deposits" and "time deposits, including time certificates of deposit" in his 1910 annual report. The above percentage is based on the reported "savings deposit" figure for mutual savings banks versus state banks (both stock savings and commercial), trust companies, and national banks—the major classes of institution taking regular savings deposits during this period. If the broader time deposit figure is used, those institutions collectively held slightly more aggregate deposits than did mutual savings banks, although the latter institution remained the single largest repository. See: US Comptroller of the Currency, *Annual Report* (1910), 790-94. Excluded from this consideration are industrial insurance companies and building and loan associations. Although they were significant alternative outlets for working-class savings by 1910, they did not operate savings deposit businesses that were equivalent to those run by the other institutions discussed here. In any event, their inclusion would amplify the degree of market share that mutual savings banks lost during the period.

14 See: Emerson W. Keyes, *A History of Savings Banks in the United States,* 2 vols. (New York: Bradford Rhodes, 1876, 1878), II, 540-48

Encouraged by the state's crusading former deputy superintendent of banking, Emerson W. Keyes, New York passed a general incorporation law in 1875 that indirectly discouraged the formation of new savings banks and increased their safeguards. Among other new regulations, the state required all savings banks to maintain reserve funds, limited the rate of interest they could charge before that fund was established, and held savings bank trustees personally liable for any interest payments to depositors that exceeded the bank's earnings. Each of these provisions increased the safety of new banks while making it more difficult for them to compete with established institutions. While a movement to institute similar laws had been developing in New York and New England since the late antebellum years, mutual savings bank advocates who clung to the original notion of these institutions as anti-poverty and social reform efforts viewed the 1875 New York law as a model for future regulation and many other states that already had mutual savings banks followed with their own legislation.[15]

Although the desire to protect savings bank depositors does seem to have sincerely motivated many of these regulators, state government financial interests also likely influenced them. For one thing, mutual savings bank bond purchases were one of the most important ways in which these institutions functioned as intermediaries that channeled depositors' funds to government. State, county, and municipal bonds accounted for between 19 and 24 percent of savings bank assets from 1890 to 1900. Although they briefly declined between 1900 and 1905 as mutual savings banks moved heavily into corporate securities—likely a result of the corporate merger movement that flooded the market with promising stock near the turn of the twentieth century—they had returned to similar levels of government investment by 1910.[16] Securing a

15 See: Wadhwani, "Protecting Small Savers," 132-33 and Keyes, *A History of Savings Banks in the United States,* II, 91-141

16 On the merger movement, see: Naomi M. Lamoreaux, *The Great Merger Movement in American Business,*

stable market for their security issues was not the only direct financial incentive that state governments had to maintain a stable and growing mutual savings bank sector, however. In states that taxed savings banks on their total deposits, the revenues could be substantial. For example, one Massachusetts savings bank official estimated that the tax on savings bank deposits amounted to more than fifteen percent of the state's total annual operating budget for 1908.[17] A banking historian similarly claimed that New Hampshire took in more from its taxes on savings deposits from 1863 to the end of the nineteenth century than from any other single source.[18]

In New York, the most immediate result of the 1875 law was that mutual savings bank numbers continued to slowly fall for two decades following their rapid decline during the Panic of 1873. When this pattern eventually reversed, the total only recovered half of its initial loss. Since New York accounted for about one-fifth of all US mutual savings banks throughout this period, its diminished figures had a perceptible effect on national totals. The only state with a higher percentage of the nation's mutual savings banks, Massachusetts, did eventually surpass its 1875-76 institutional capacity, but it took until 1892 to do so. Following that, mutual savings bank numbers in the state increased less than ten percent over the next two decades. While state legislators might have responded to steadily increasing deposit and depositor figures in both states throughout almost the entire period from the early 1880s to the early 1910s by issuing charters for new savings banks, they instead chose to allow the existing savings bank

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*1895-1904* (New York: Cambridge University Press, 1999; orig. 1985). For mutual savings bank asset allocation, see: US Comptroller of the Currency, *Annual Reports* (1890): 214-17; (1900): 552-55; (1905): 344-47; and (1910): 733-49

17 Frederic C. Nichols, "The Operation of the Mutual Savings Bank System in the United States, and the Treatment of Savings Deposits," *Annals of the American Academy of Political and Social Science,* vol. 36, no. 3 (November 1910), pp. 162-75: 165

18 John Jay Knox, *A History of Banking in the United States,* revised ed. (New York: Bradford Rhodes & Company, 1900), 341

Figure 4.4

Number of Mutual Savings Banks in Massachusetts and New York, 1873-1914

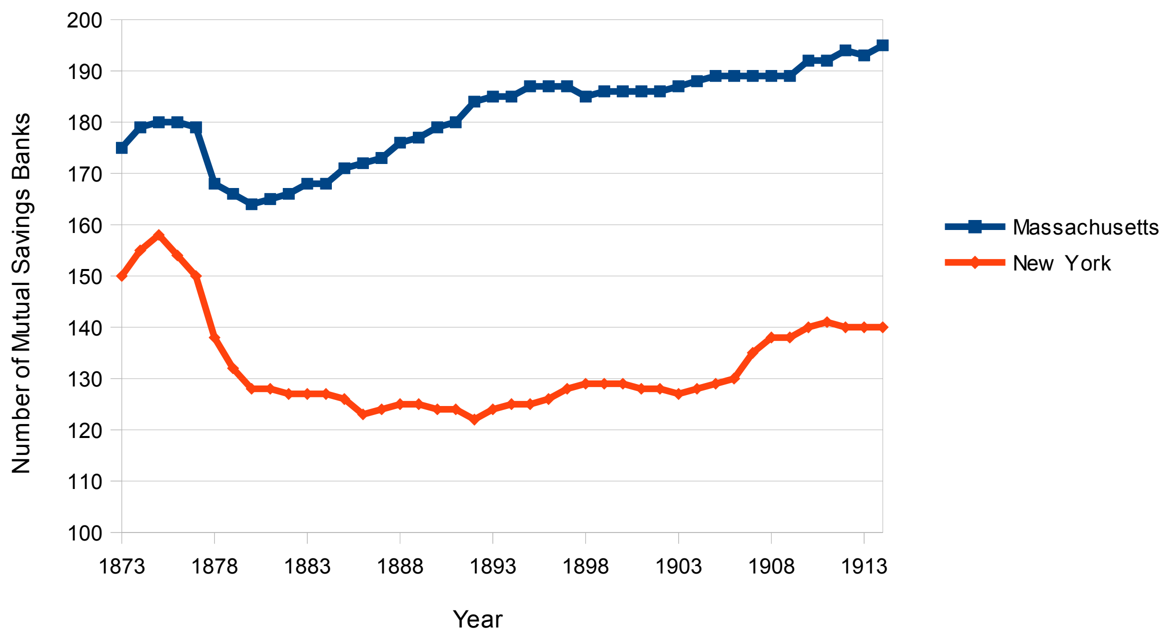



Figure 4.5

Numbers of Open Accounts in Mutual Savings Banks
in Massachusetts and New York, 1873-1914

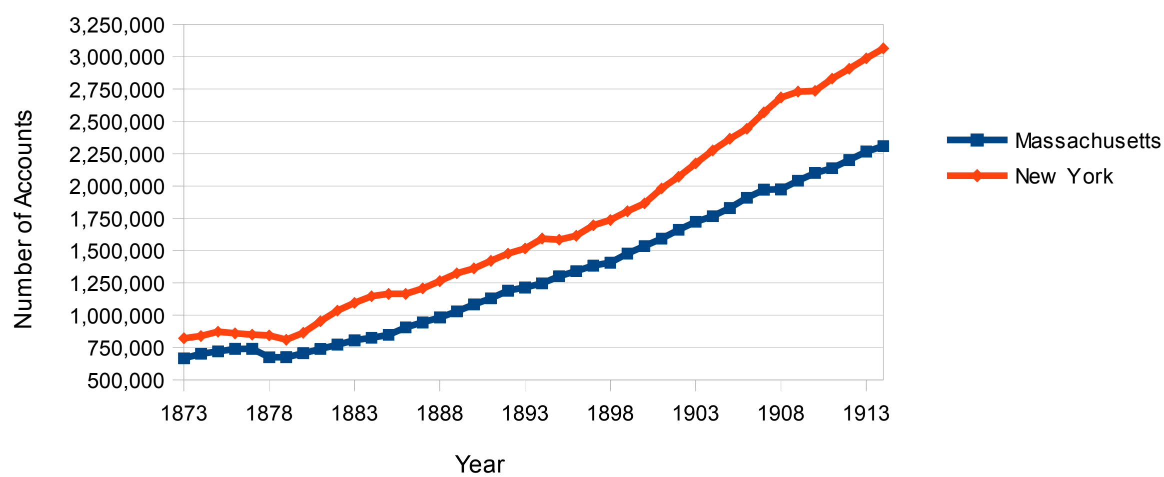
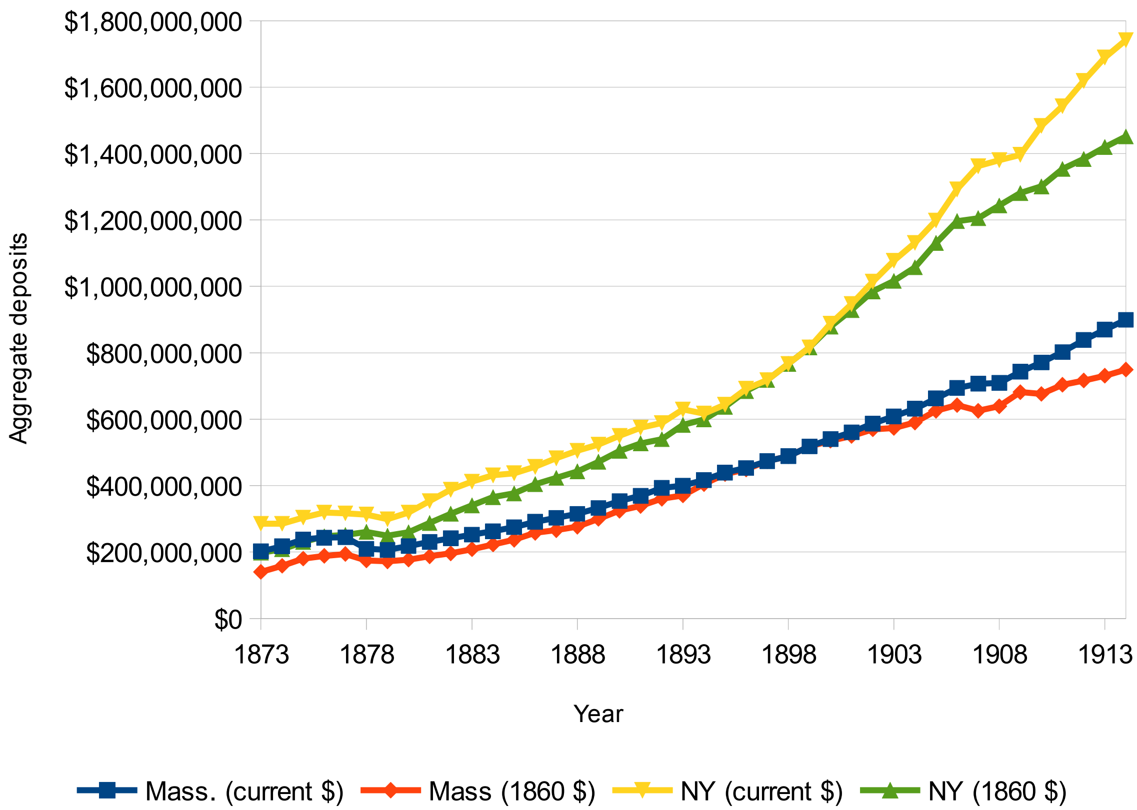


Figure 4.6

Aggregate Deposits in Massachusetts and New York
Mutual Savings Banks, 1873-1914 (in current and 1860 dollars)




infrastructure to handle the bulk of the new business.[19] [See: Figures 4.4-6]

Declining or moderately-increasing mutual savings bank numbers in Massachusetts and New York affected national figures dramatically because the geographic spread of mutual savings banking into states outside of New England and the Mid-Atlantic regions all but ceased following the economic crash of the 1870s. As noted in Chapter Two, these two states' share of the national savings market had declined slowly but significantly from the 1860s onward as

19 See: Massachusetts. Commissioner of Savings Banks, *Annual Report* (1919), xxxii, and: New York. Bank Commissioners, *Annual Report* (1915), 360

mutual savings banking spread elsewhere in the United States, both within New England and the Mid-Atlantic regions but also into Midwestern and Western states including Ohio, Illinois, and California. While the 1880s saw Indiana (5), Wisconsin (1), Delaware (2), and West Virginia (1) add a total of nine mutual savings banks to the nation's ranks in five states that had not had any at the beginning of the decade, no state or territory had a mutual savings bank in 1900 that did not already have one in 1890. Meanwhile, the Comptroller of the Currency did not record a mutual savings bank in California in either 1890 or 1900. Between 1900 and 1910, only Minnesota with eight mutuals and California returning with a single new institution slightly expanded the roster of states with this form of savings banking.[20]

The failure of mutual savings banking to effectively continue its geographic extension should not be taken as a sign of a lack of demand for savings institutions in much of the rest of the country, however. It instead represented the fact that the others states that sought to pursue savings banking overwhelmingly chartered stock savings banks rather than mutual ones. While the Comptroller of the Currency had difficulty receiving representative returns from stock savings banks prior to the late 1880s, 173 of these institutions operated by 1888 relative to 628 mutual savings banks. From there, stock savings bank numbers grew quickly until 1892, when they briefly peaked at 416—amassing a respectable quarter-billion dollars in deposits along the way.[21] And then they began to decline. By 1896 there were only 311; by 1898, only 275. Inflation-adjusted aggregate deposits fell by nearly one-quarter over the same time span—a stark contrast to the comparable mutual savings bank figures.[22] While the decline lasted less than a

20 US Comptroller of the Currency, *Annual Report* (1880): cxxvi-cxxvii; (1890): 214; (1900): 552; and (1910): 738

21 US Comptroller of the Currency, *Annual Report* (1888), I: 226-29 and (1892): 236-39

22 See: Appendix 3

Figure 4.7

Number of Stock Savings Banks, 1888-1914

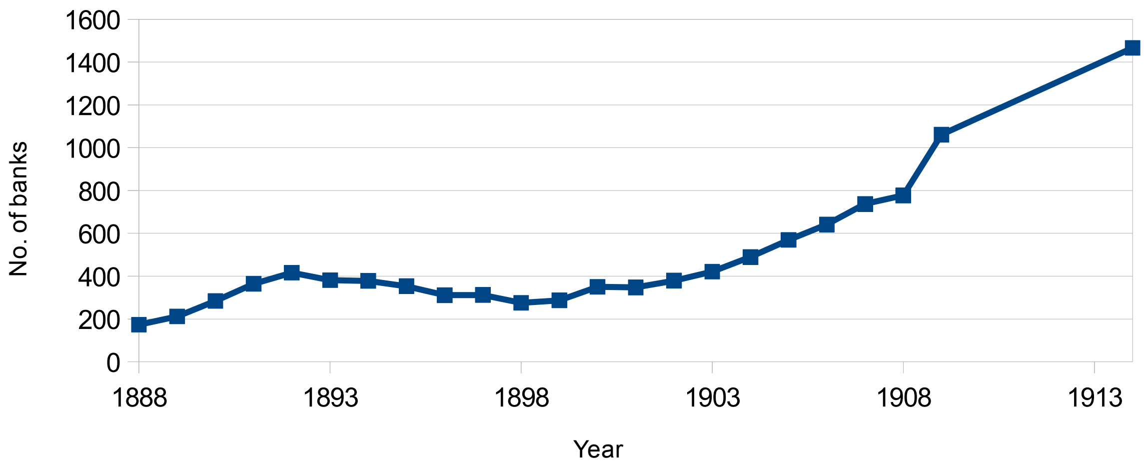



Figure 4.8

Number of Open Accounts in Stock Savings Banks, 1888-1914

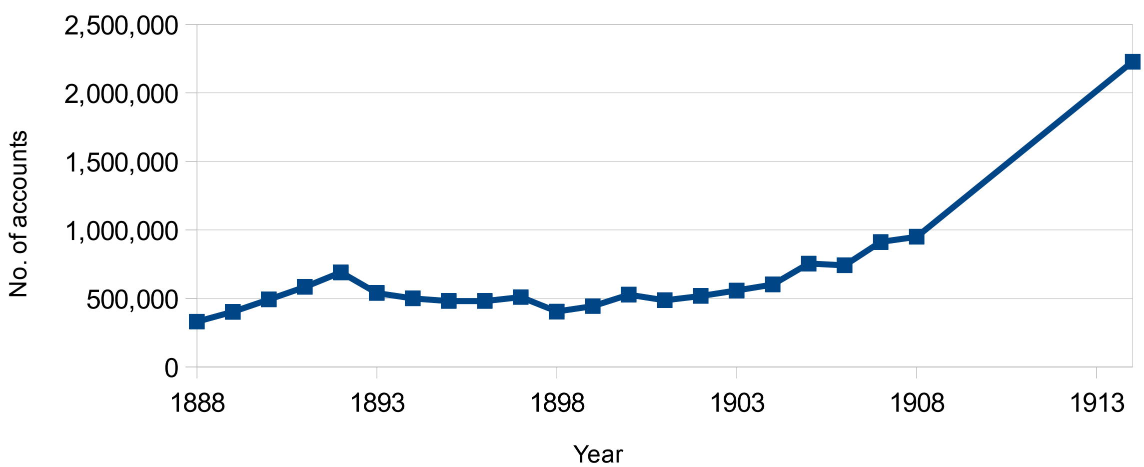
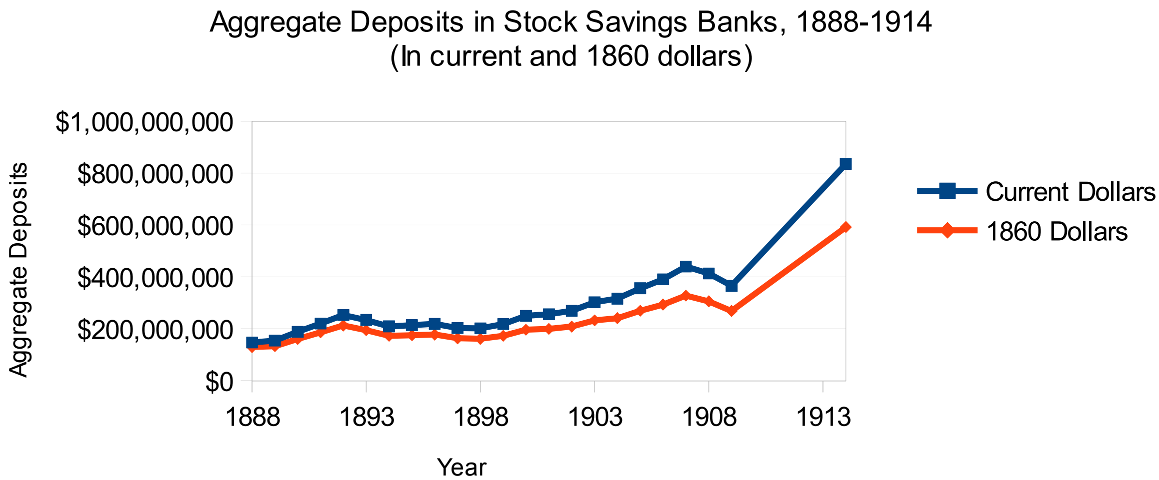


Figure 4.9




decade, its origins are instructive about the relative nature of stock and mutual savings banks. [See: Figures 4.7-9 and Appendix 3]

This rapid reversal seems attributable to two related factors. Elmus Wicker demonstrated that although relatively few savings banks failed during the actual Panic of 1893, they frequently instigated or were significant foci for the bank runs that proliferated throughout the Midwest and West[23]—precisely the location where stock savings banks were most likely to operate. Even if these banks didn't fail during the panic itself, lingering fears during the depression that followed may well have affected them. Moreover—and likely more importantly—operating as minimally-capitalized speculative ventures with relatively fewer restrictions on their legal investment options, stock savings banks were far more likely to be exposed to unmanageable risk during that lingering financial crisis than were mutual savings banks.

While both types of savings bank devoted roughly 38% of their assets to loans on real estate in 1895—and while a healthy percentage of mutual savings banks' mortgages were in the

23 Elmus Wicker, *Banking Panics of the Gilded Age* (New York: Cambridge University Press, 2000), 62-77

same western farm land that stock savings banks likely invested in[24]—the next largest allocation of stock savings bank funds was to "all other loans and discounts," many of which were probably business loans made on personal security rather than collateral. The next highest allocation that mutual savings banks made, by contrast, was the 24 percent they invested in "state, county, and municipal bonds"—a far more conservative investment. Possibly exposing the average stock savings bank to more risk, the class's third-largest allocation of assets—nearly 12%—went to investments in corporate stocks and bonds (excluding those from railroads and banks).[25]

Meanwhile, the distinction between "stock savings banks" and regular state-chartered commercial banks was frequently one of emphasis rather than clear distinction. As the Comptroller of the Currency noted in 1893: "the reports show that over 10 per cent of the deposits in [stock savings banks] . . . are not of that [savings] nature, and the presumption is that the percentage is much greater, as it is known that stock savings banks in certain States make no classification of deposits, and yet transact a commercial as well as savings bank business."[26] As a result, many stock savings banks would have been legally required to return at least a portion of their deposits on demand while mutual savings banks could impose a waiting period on all withdrawals. Taking all of these factors into account, stock savings banks likely faced far more risk than did mutual savings banks. And in the aggregate, they went out of business while mutual savings banks weathered the storm in the 1890s far better than they had in the 1870s.

That the number of stock savings banks grew rapidly in the following two decades despite this spotty record while the more stable class of mutual savings banks did not make any

24 Richard Franklin Bensel, *The Political Economy of American Industrialization, 1877-1900* (New York: Cambridge University Press, 2000), 56-57

25 US Comptroller of the Currency, *Annual Report* (1895), 496-99

26 US Comptroller of the Currency, *Annual Report* (1893), I, 8

significant inroads in the same areas demands explanation. The primary answer lies in the fact that Midwestern, Western, and Southern states were overwhelmingly responsible for extending charters to the early stock savings banks. The states that had ten or more stock savings banks in 1890 were Michigan (67), Iowa (59), California (37), Illinois (15), South Carolina (13), Georgia (12), Vermont (11), Tennessee (10), and Ohio (10). The one regional outlier, Vermont, had more mutual banks (20) than stock banks, while the only other state on the list that also had mutual savings banks was Ohio (it had 4).[27] To the extent that these states shared any common features, it was that most of them were capital-poor and overly-reliant on investment from "foreign"—that is, out-of-state—banks from the east coast due to their predominantly agricultural economies and relatively under-developed banking sectors.[28] The mutual form attracted the first savings bank founders because their primary desire was to provide a financial institution to poor workers while they operated under the belief that it might not be possible to do so for direct profit. Beginning at a time when the latter idea had been proven false, state legislatures chartered stock savings banks because their primary concern was to find new sources of local capital. Allowing the organizers of these banks to make a profit was a way to induce them to attempt the savings business.

The fact that many of the banks that claimed to be "stock savings banks" also took commercial deposits is one indication of that motivation. Another is that state banks that didn't call themselves "savings banks" nevertheless began to accept savings deposits during these years. While the Comptroller of the Currency didn't disaggregate savings deposits from other state commercial bank deposits until 1910, in that year they held roughly $418 million in "savings deposits" plus another $558 million in "time deposits, including time certificates of deposit"

27 US Comptroller of the Currency, *Annual Report* (1890), 214

28 Bensel, *Political Economy of American Industrialization,* 54-75

(against nearly $1.5 billion in demand deposits).[29] Taking savings deposits wasn't the primary business that state commercial banks engaged in, but it did come to account for a significant portion of it. That shift might help to explain why these institutions more than doubled the percentage of their aggregate asset portfolio devoted to loans made on real estate between 1905 and 1910—after essentially no change for the previous fifteen years—indicating one of the tangible ways in which the growth of for-profit savings banking helped to reshape the finance economy.[30] Mutual savings banks had long dominated mortgage finance because basing their business on time deposits made it easier to invest in less-liquid assets relative to commercial banks whose deposits could be withdrawn on demand.[31]

The lower risk of exposure to liquidity problems—and bank runs—that savings deposits provided led to yet another reason that state legislatures in capital-poor areas might try to encourage stock savings banks: they theoretically held the promise of being secure with relatively less capital than a traditional commercial bank would require. Thus, between 1889 and 1908, Ohio required its state banks to have capital stock amounting to $25,000 as security but the organizers of a stock savings bank only had to pay-in half of that amount to begin operations. In Kansas and Missouri, stock savings banks only needed 10 percent of their nominal capital of $50,000. Beginning in 1874, Iowa allowed its stock savings banks to be capitalized at $10,000 rather than the $25,000 that regular state banks needed—though they required $50,000 to

29 By comparison, the institutions listed as "stock savings banks" had $452 million in "savings deposits," $74.5 million in "Time Deposits, including time certificates of deposit," and $140 million in "Individual deposits subject to check." In 1910, there were 1,121 reporting stock savings banks and 12,166 other state banks. See: Comptroller of the Currency, *Annual Report* (1910), 733-49 and 790-94

30 US Comptroller of the Currency, *Annual Reports* (1905): 334-36 and (1910): 733-49

31 This was part of the reason that national banks were barred from making loans on real estate until 1916, by which point many of them had been accepting savings deposits for more than a decade—a topic that will be discussed later in this chapter.

incorporate in a city with a population of ten thousand or more.[32]

While no one organized stock savings banks in any significant numbers in Missouri or Kansas, their history in Iowa demonstrates just how successful such inducements could prove to be. A look at the relative growth of the state's savings banks compared to the rest of its banks in the years that followed the change in capital requirements should suffice to make that point:

Figure 4.10
Number of Iowa Banks, 1875-1915 (by class)[33]

| **YEAR** | National banks | State banks | Savings Banks | Private Banks | TOTAL | **Savings Banks as % of Total** |
|---|---|---|---|---|---|---|
| **1875** | 81 | 23 | 19 | 199 | 322 | **5.9** |
| **1885** | 125 | 50 | 34 | 383 | 592 | **5.74** |
| **1890** | 139 | 105 | 59 | 485 | 788 | **7.49** |
| **1895** | 167 | 194 | 170 | 464 | 995 | **17.09** |
| **1900** | 196 | 214 | 234 | 534 | 1178 | **19.86** |
| **1905** | 281 | 248 | 429 | 438 | 1,396 | **30.73** |
| **1910** | 326 | 272 | 663 | 345 | 1,622 | **40.88** |
| **1915** | 348 | 339 | 832 | 282 | 1,801 | **46.2** |

That Iowa legislators intended to foster a local banking system for local interests was clear from the start. Under the 1874 law, Iowa savings banks could only legally invest in securities issued by Iowa government jurisdictions or the US government—not those from any other state. They could also make loans secured by real estate, provided the property was located in Iowa. Their only other legal pursuits were to engage in discounting notes or making loans on public and personal security. While this last provision did not specifically restrict a bank's activities to

32 George E. Barnett, *State Banks and Trust Companies Since the Passage of the National-Bank Act,* Publications of the National Monetary Commission, Vol. VII: State Banks, Trust Companies and the Independent Treasury System (Washington: Government Printing Office, 1911), 39n. and John Jay Knox, *A History of Banking in the United States,* revised ed. (New York: Bradford Rhodes & Company, 1900), 774

33 Howard H. Preston, *History of Banking in Iowa* (Iowa City, IA: The State Historical Society of Iowa, 1922), 171 and US Comptroller of the Currency, *Annual Report* (1915), II, 921

Iowa, it seems doubtful that legislators envisioned any of these functions to be undertaken far from its headquarters. A later historian of banking noted that while such geographic restrictions initially led to "some considerable apprehension," it "was a necessary provision at the time, as a strictly Savings bank, without authority to do any commercial business, would have had insufficient encouragement." In other words, Iowa legislators wanted to access small savings and the perceived need to entice speculative financiers to do so outweighed the potential downside of introducing more risk for depositors or their institutions. In addition to the relatively light capital requirements, no other bank in the state was permitted to use the word "savings" in its title.[34]

Because the law only authorized Iowa savings banks to accept deposits up to an amount equaling ten times their capital stock, it effectively encouraged the proliferation of numerous small banks throughout Iowa once the institutions became popular.[35] Nearly all of this growth directed increasing aggregate funds into bank loans, which stayed relatively stable as a percentage of Iowa savings banks' total resources (growing modestly from 76 percent in 1900 to 81.5 percent in 1915). In 1915, roughly a quarter of all loans that Iowa savings banks made were secured by farm land, while another 8.5 percent were made on other real estate. These were substantially outpaced by "other loans" (most likely loans on personal security), however, which accounted for 56 percent of all loans on Iowa savings banks' balance sheets in 1915. In the same year, the Comptroller of the Currency classified just under 40 percent of their deposits as "savings," suggesting that while these banks engaged in a traditional commercial business they supplemented their operating capital substantially by taking in savings deposits. Essentially,

34 Knox, *History of Banking in the United States,* 775-76. While these characterized the provisions of the 1874 law, a later historian of Iowa banking noted in 1922 that "although the law of 1874 has been amended from time to time it still retains most of its original features." See: Preston, *History of Banking in Iowa,* 142

35 Preston, *History of Banking in Iowa,* 139

Iowa created a strong state banking system that relied heavily on its residents' small deposits.[36] While most Iowa stock savings banks remained small, there were some exceptions: by 1916, the German Savings Bank of Davenport was the largest bank of any kind in the state with resources exceeding $13 million.[37] Though not providing any specific evidence, a Cedar Rapids banker claimed in 1902 that "the accumulations in Iowa savings banks have evidently had a direct effect in reducing interest on mortgage loans in this state," noting that "a few years ago there was a great demand for foreign capital at high rates of interest" but that this situation had diminished.[38]

Iowa's growing savings bank system explains why the ratio of its savings depositors to total population was 1:13 by 1902, a small percentage compared to the ratio of 1:2 in New England and 1:6 in the "Eastern States" but well ahead of the average of 1:48 in the "Middle States," or 1:306 in the "Southern States" (the "Western States" came in at 1:18). Iowa's per capita savings account rate gave it one of the highest in the United States outside of the Northeast.[39] From 1900 onward, the state accounted for roughly half to two-thirds of all stock savings banks in the United States while California generally had the second most (122 compared to Iowa's 663 in 1910, for example). In this sense, stock savings bank growth became even more geographically maldistributed than had been the case with mutual savings banks. Yet stock savings banks were nationally important in other ways. Most notably, 31 other states—plus the District of Columbia—had at least one stock savings bank in operation in 1910. Fifteen of

36 US Comptroller of the Currency, *Annual Reports* (1900), I: 552-55, (1905): 344-45, (1910): 740-41, and (1915): II, 921-28

37 Preston, *History of Banking in Iowa,* 160

38 [Chas. E. Clark], "The Banks and the People," *The Commercial West,* vol. iii, no. 21 (24 May 1902), pp. 22-23: 23

39 James Henry Hamilton, *Savings and Savings Institutions* (New York: Macmillan Company, 1902), 197-98

those states had ten or more. Perhaps more important in terms of their effect on the overall national diffusion of savings deposit institutions, stock savings banks were the only form of savings banking in twenty-five of those 32 states and territories (although many of them faced other competitors, as shown below). In other words, states were more likely by 1910 to have at least one bank that styled itself a "stock savings bank" than they were to have a mutual savings bank.[40] The fact that almost two-thirds of the deposits that these banks collectively held were classified as "savings" deposits suggests that even if they blended a savings with a commercial business, they played an important role in introducing savings banking to many areas.[41]

The spread of stock savings banks was also important for several reasons related to the developing national finance market. For one thing, these institutions tended to have a different investment profile from mutual savings banks—either as a result of their different locations, their profit motive, or both. Even though each class of banks pursued investment profiles that changed over time, they also rarely overlapped precisely.[42] [See: Figures 4.11-16]

**Figure 4.11**
Mutual Savings Banks (1895)
Percentage of Resources, By Type

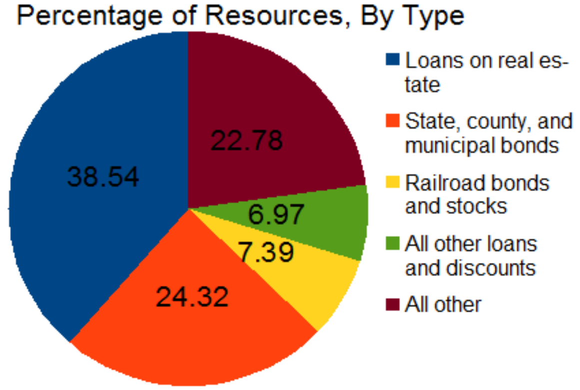
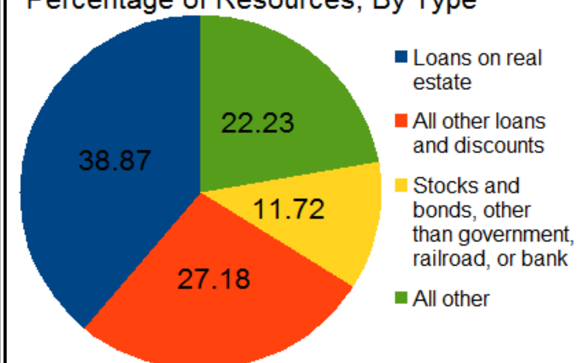



**Figure 4.12**
Stock Savings Banks (1895)
Percentage of Resources, By Type




40 US Comptroller of the Currency, *Annual Report* (1910), 738 and 740-41

41 Ibid., 790-94

42 The distributions in the following six figures are extrapolated from savings bank returns submitted to the Comptroller of the Currency. See: US Comptroller of the Currency, *Annual Reports* (1895): 496-99, (1905): 344-47, and (1915): 947-48

**Figure 4.13**
Mutual Savings Banks (1905)
Percentage of Resources, By Type

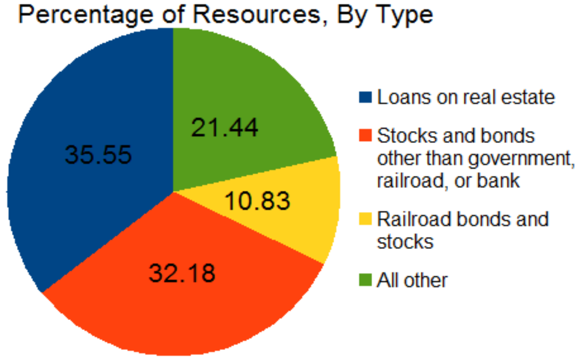



**Figure 4.14**
Stock Savings Banks (1905)
Percentage of Resources, By Type

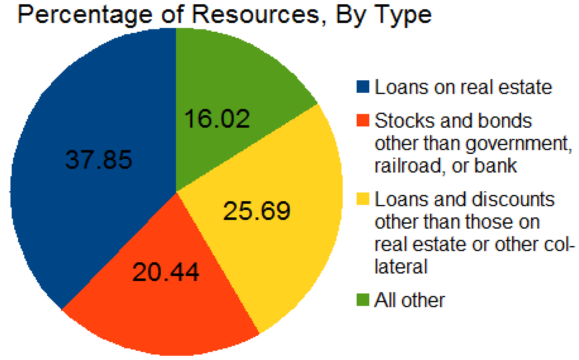



**Figure 4.15**
Mutual Savings Banks (1915)
Percentage of Resources, By Type

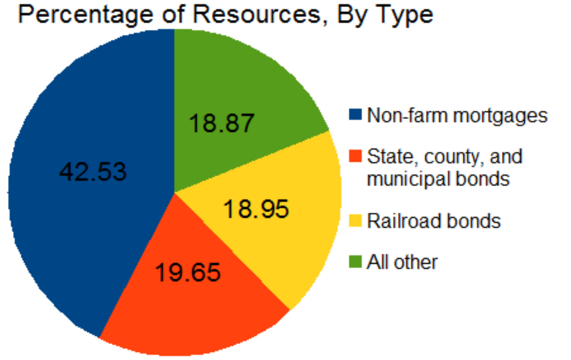
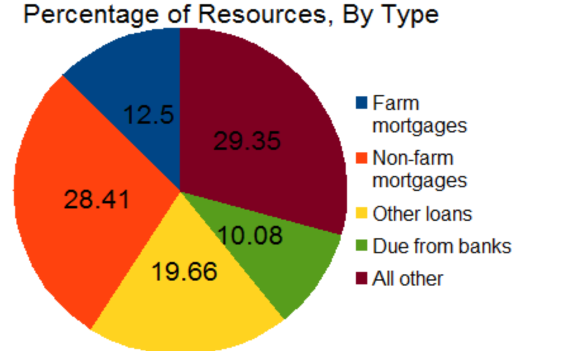



**Figure 4.16**
Stock Savings Banks (1915)
Percentage of Resources, By Type




Several results stand out from comparing mutual and stock savings bank investment patterns. The first is that while both types of bank invested in mortgage loans at roughly the same rate, the relative composition of mutual savings bank loans by 1915 was skewed heavily towards non-farm property while stock savings banks were demonstrably more invested in this sector. The lack of disaggregated data for the two earlier years suggests a fruitful avenue for future study, especially given the general historical consensus that mutual savings banks invested substantially in western farm mortgages during the late-nineteenth century.[43] Comparison with

43 See: Bensel, *Political Economy of American Industrialization,* 56-57 and Jonathan Levy, "The Mortgage Worked the Hardest: The Fate of Landed Independence in Nineteenth-Century America," in *Capitalism Takes Command,* ed. Michael Zakim and Gary J. Kornblith (Chicago: University of Chicago Press, 2012), 52-53

state commercial bank assets is also instructive here: in 1895 and 1905, the percentage of assets they devoted to mortgages of any kind was under 4 percent; by 1915, it had climbed to a combined 13 percent as more of them developed savings deposit businesses of their own.[44]

The rapid swing in mutual savings bank securities investment centered around the early-twentieth century is also intriguing, not only for its suggestion that mutual savings banks substantially financed the creation of many of the famed industrial trusts of the era but also because their reaction to these new investment vehicles was notably stronger than that of their stock savings bank counterparts. This perhaps suggests the more locally-oriented nature of the much smaller stock savings banks that were far removed from the eastern money centers where corporate stocks were issued and mutual savings banks clustered. Conversely, stock savings banks placed a relatively high percentage of their resources on deposit at other banks in 1915. Like the many antebellum mutual savings banks that frequently had close associations with at least one commercial bank, these stock savings banks therefore served as an intermediary that transferred money from savings depositors to commercial banks even if those commercial banks didn't directly accept savings accounts. In other words, this development integrated more savings depositors into commercial finance without requiring additional savings institutions. While total deposits in stock savings banks lagged well behind those in mutual savings banks, trust companies, and national banks (see below), they still exceeded $1 billion by 1915—roughly one-third the total held by the state commercial banks that they were sometimes indistinguishable from.[45]

Stock savings bank growth during this period was important for two additional reasons.

44 US Comptroller of the Currency, *Annual Reports* (1895): 490-93, (1905): 334-36, and (1915): 946-47

45 US Comptroller of the Currency, *Annual Report* (1915), 946-48

The decision of states outside of the Northeast to develop for-profit savings institutions meant that many of them did not benefit from the wave of increased regulatory protection that defined mutual savings bank states at the end of the nineteenth century. (The distinction is particularly apparent in the presence of so many unsecured loans on the balance sheets of stock savings banks.) Along with other likely factors such as location, the relative size of the institutions, and the more speculative orientation of stock savings bank directors, this made stock savings banks on the whole far more volatile than mutual savings banks. The effect could be substantial and rapid. When the United States faced its first major financial crisis of the twentieth century—the Panic of 1907—aggregate stock savings bank deposits fell by 18 percent between 1907 and 1909 (after accounting for inflation). They had recovered their 1907 figure by 1910 and continued to grow thereafter, but the contrast with mutual savings banks is striking. Inflation-adjusted mutual savings bank deposits declined by less than half-a-percent between 1907 and 1908 and had more than recovered by 1909, a year earlier.[46] Clearly, the geographic segmentation of US savings banking between mutual and stock forms was one of consequence for depositors and the broader local, regional, and even national finance economies to which they contributed.

Given their relatively high propensity to lose deposits and cease operations, it is surprising how successful stock savings banks were at gaining public acceptance. As already seen in Chapter Two, the American Bankers' Association embraced stock savings banks as suitable repositories for small savings from an early date. Likewise, stock savings banks had long advertised their savings depository services in a manner that made no distinction between their own institutions and mutual savings banks and they continued to do so. Other indications of acceptance were considerably more subtle, however. When the US Comptroller of the Currency

46 See: Appendix 3

first included stock savings banks in his annual report, for example, aggregate tables included separate columns for "savings banks without capital" and "savings banks with capital." While subsequent annual reports continued to take pains to distinguish between mutual and stock savings banks—both in the text and in the granular data—as early as 1885 it became common practice to either conflate mutual and stock savings banks in summary statistics or present them both under a column headed "savings banks."[47]

A spate of histories related to savings bank development from the early-twentieth century likewise distinguished between the two classes of institution on technical grounds but argued that one need not be essentially better than the other. As one author—himself the treasurer of a mutual savings bank—wrote: "the stock savings bank, where it is a *savings* bank, and not a bank of discount under a savings title, differs in no essential degree from the mutual institution." The important distinction was in management, not ownership: "where the investments are of the accepted savings bank type, it can justly claim to be on a par with its mutual friends." Indeed, "in so far as safety is concerned . . . the stock bank with the stockholders' liability is surely superior to the mutual."[48] Perhaps most surprisingly, a former president of the Savings Bank Association of the State of New York extended a measure of approval to stock savings banks in a volume celebrating the centenary of the Philadelphia Saving Fund Society and Boston Provident Institution. Even though he noted that "stock savings banks . . . are distinctly business enterprises . . . [with] no pretense on their part of being purely philanthropic," he conceded that both mutual and stock institutions "have points of advantage, and when honestly and prudently managed,

47 US Comptroller of the Currency, *Annual Report* (1885), 160-61

48 William H. Kniffin, *The Savings Bank and Its Practical Work* (New York: The Bankers Publishing Company, 1912), 59

both are admirable institutions."[49]

While the Supreme Court's *Huntington* decision had been based on the premise that whether or not "the profits of [a savings bank] . . . inure wholly to the benefit of the depositors" or to stockholders was essential to determining the nature of such an institution, stock savings banks and their promoters by the 1910s had largely managed to define their essential nature in terms of the retail transaction they processed rather than their ownership structure. Despite the criticisms of Justice Strong, Emerson Keyes, and similar promoters of "philanthropic" savings institutions, this acceptance was in one sense the logical extension of a principle that had defined their ideological tradition: savings institutions taught workers how to be capitalists. Given that standpoint, the conflation of mutual with stock savings institutions that gradually developed was simply a further iteration of the integration of small savers into the capitalist economy. Louis D. Brandeis made a similar point in his excoriating exposé of the broader US finance industry, 1913's *Other People's Money.* In a section titled "Bankers' Savings Banks," he wrote that "the funds of our savings banks (whether stock or purely mutual) are not used mainly *for* the people." While he acknowledged that "statically the money is used for them" in the sense that depositors received interest, "dynamically it is used for the capitalist" because these institutions shared a propensity to exclusively finance securities purchases, business enterprises, or the personal credit of wealthy clients rather than their own depositors. For Brandeis, both classes of savings banks were essentially the same in this regard.[50]

This was more than a rhetorical distinction. As observers conflated the two types of institutions, it became increasingly hard to disaggregate their relative contributions to the US

49 James Hilton Manning, *Century of American Savings Banks* (New York: B.F. Buck & Company, 1917), 23

50 Louis D. Brandeis, *Other People's Money: And How the Bankers Use It* (New York: Frederick A. Stokes, 1914), 218

economy—despite the fact that those contributions could be substantially different. In the process, they normalized the essential idea that so-called "ordinary" Americans engaged in the finance economy in a similar manner—if not on a similar scale—to their wealthier counterparts, with practical consequences such as institutional and regional variations in savings depositors' exposure to risk and the relative ability of certain industries or governments to raise finance capital. As outlined below, this perspective also helped to reduce regulatory or popular resistance to new lines of potentially lucrative activity for financiers, industrial employers, and even retail merchants. By helping to smooth the way for other classes of institutions to enter the savings deposit business, stock savings banks also ensured that these changes accelerated as the nineteenth century transitioned to the twentieth.

### *Saving beyond the savings bank, Part I:*<br>*Creating "the full-service concept of commercial banking"*

If the first forty years of mutual savings banking demonstrated that non-profit banks could be run in a self-sustaining manner, the first forty years of stock savings banking demonstrated that these institutions could—under certain circumstances—actually turn a profit. While stock savings banks generally continued to grow during the early decades of the twentieth century, this basic observation spread to finance professionals who began to consider the possibilities of adding a savings business to their existing slate of services. Rather than creating an entirely separate stock savings bank to cultivate a working-class clientele, the financiers who directed trust companies and national banks instead began to take savings deposits under the auspices of their existing institutions.

American trust companies traced their origins to 1822, when New York state authorized the Farmers' Fire Insurance and Loan Company to operate "in their corporate capacity" as a trustee "in the same manner and to the same extent" as individuals might legally do. This innovation lay not in the fiduciary activities that a trust company might undertake on behalf of its clients, but in the fact that a corporation could explicitly fill that role. As an early Farmers' advertisement explained, the perceived benefit of such an arrangement was that while "individual executors or other trustees . . . are always liable to casualties" such as injury or death, a corporate trust could guarantee "continued succession" of the trustee's oversight.[51]

The trust business eventually grew to become a major component of the Farmers' Company's activities, but in its early years it focused more on the rural fire insurance business that it originally earned its charter to undertake. As Bradley A. Hansen demonstrated, the Farmers' Company increased its focus on managing investment trusts in part to respond to its capital needs while extending its operations from fire insurance to loans secured by real estate in order to fill a banking vacuum in the same rural areas that it insured. Eventually realizing that real estate investment was potentially more lucrative than its previous activities, the company quickly transitioned more fully to the trust business. By the mid-1830s, its main activities involved the creation of trusts worth hundreds of thousands of dollars to finance real estate investment in both the United States and Europe.[52]

Though founded in 1818, the Massachusetts Hospital Life Insurance Corporation made a similar transition to trusts when its amended 1823 charter added that ability. It quickly became the largest financial intermediary in New England as a result, taking deposits on interest from

51 Bradley A. Hansen, *Institutions, Entrepreneurs, and American Economic History: How the Farmers' Loan and Trust Company Shaped the Laws of Business from 1822 to 1929* (New York: Palgrave Macmillan, 2009), 16-18. See also: Edward Ten Broeck Perine, *The Story of Trust Companies* (New York: G.P. Putnam's Sons, 1916), 11-17

52 Hansen, *Institutions, Entrepreneurs, and American Economic History,* 19-36

many wealthy Boston families and investing them in mortgages and other loans rather than using the money to underwrite insurance.[53] Such a profitable example no doubt accounts for the fact that when the New York Life Insurance and Trust Company organized in 1830 as that state's second trust company, it explicitly advertised its business as comprising three apparently equal branches: to "insure lives and purchase and sell annuities," to "receive money [on deposit] in trust, pay interest thereon and accumulate the same," and to act as guardians and executors for both individuals and suspended corporations. By 1838, the balance of the company's business was indicated by the fact that it held more than $3 million in deposits to augment its $1 million in capital stock, while having written life insurance policies with a face value of only $2.4 million.[54]

Early trust companies generally limited their deposit businesses to wealthy clients. New York Life's original minimum deposit was $100; Massachusetts Hospital Life's was $500.[55] Because people could legally deposit funds in a trust company and name themselves as the beneficiaries—effectively placing funds on deposit at interest for themselves, a business that commercial banks generally did not engage in before the last third of the nineteenth century—trust companies fast earned a reputation as "savings banks for the rich."[56] But as was true with

53 Betty Farrell, *Elite Families: Class and Power in Nineteenth-Century Boston* (Albany, NY: State University Press of New York, 1993), 52ff.

54 Perine, *The Story of Trust Companies,* 21-31

55 See: Perine, *The Story of Trust Companies,* 26; Farrell, *Elite Families,* 52

56 For an indication that trust companies consciously encouraged such a view from their early days, see: Hansen, *Institutions, Entrepreneurs, and American Economic History,* 16-17 and John Denis Haeger, "Eastern Financiers and Institutional Change: The Origins of the New York Life Insurance and Trust Company and the Ohio Life Insurance and Trust Company," *Journal of Economic History,* vol. 39, no. 1 (March 1979), pp. 259-73. For the investment orientation of early trust companies, see: Elizabeth Blackmar, "Inheriting Property and Debt: From Family Security to Corporate Accumulation," in *Capitalism Takes Command,* ed. Michael Zakim and Gary J. Kornblith (Chicago: University of Chicago Press, 2012), pp. 93-117: 108-9 and 113-15

stock savings and state commercial banks, trust companies began to realize in the years following the Civil War how much potential capital could be accessed by extending their savings business to depositors of far more limited means. In 1874, for example, the Illinois Trust and Savings Bank emphasized in equal measure its trust department—which "manages estates, executes trusts, invests money for individuals, estates, and corporations"—and its savings department, which "receives deposits in any amount, from 5 cents upwards." The five-cent minimum deposit that the trust company offered undercut by half the minimum deposits of the two other savings institutions with which it shared a newspaper page while matching the 6 percent interest they each offered. The trust company's incursion into the savings business may well have prompted the Dime Savings Bank to emphasize in its adjoining advertisement that it was "exclusively a savings bank." It presumably believed that potential depositors would view its focus on small depositors as a benefit compared to the more general business undertaken by the trust company.[57]

Chicago may well have been one of the earliest areas in which trust companies engaged in a general savings deposit business because Illinois usually granted corporate trust powers to commercial banks (which was rarely the case elsewhere).[58] In this respect, their willingness to accept savings deposits may have simply indicated the general development of this area of business by Illinois state banks during these years, making these institutions more akin to stock savings banks than to the early trust companies. Even so, the non-bank trust companies that exploded in numbers throughout the country beginning around 1900 frequently included a

57 [advertisements], Chicago *Daily Tribune,* 17 May 1874, p. 1

58 George Cator, *Trust Companies in the United States* (Baltimore: The Johns Hopkins University Press, 1902), 19-20

savings department among the many other services they offered.[59] As the treasurer of one these institutions explained: "the trust company has been successful as a savings bank, and successful in general largely because it has undertaken this function. The customers of the savings department have found their way into all the departments" of the company, purchasing bonds or making other investments, utilizing its safe deposit facilities, and opening checking accounts.[60]

Most trust companies could easily offer to take savings deposits because they generally faced few restrictions on any of their business operations before about 1910. This was a legacy of having evolved from deposit and investment institutions for wealthy people that state governments felt no obligation to protect in the same manner that they did depositors in savings or even commercial banks. As a result, trust companies viewed savings deposits as simply another stream of potential capital to be pooled for investment. Because few states required trust companies to segregate savings deposits for exclusively conservative investments—as was sometimes the case with banks—taking such deposits did not entail lowering profit expectations. For trust companies that were free to invest all of their funds in whatever securities or loans they desired, time deposits such as those held in savings accounts could be additionally attractive as a means to finance relatively illiquid investments such as mortgages.[61] Indeed, a study of trust

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59 There were 488 trust companies operating in the US in 1900; by 1910, the number had tripled. See: Larry Neal, "Trust Companies and Financial Innovation, 1897-1914," *Business History Review,* vol. 45, no. 1 (Spring 1971), pp. 35-51: 38

60 Thornton Cooke, "The Saving Department of a Trust Company," *Practical Problems in Banking and Currency,* ed. Walter Henry Hull (New York: The Macmillan Company, 1907), 575

61 On the relative lack of restrictions on trust company operations, see: Jon Moen and Ellis W. Tallman, "The Bank Panic of 1907: The Role of Trust Companies," *Journal of Economic History,* vol. 52, no. 3 (September 1992), pp. 611-30: 615-16. See also: George E. Barnett, *State Banks and Trust Companies Since the Passage of the National-Bank Act,* Publications of the National Monetary Commission, Vol. VII: State Banks, Trust Companies and the Independent Treasury System (Washington: Government Printing Office, 1911), 19-22. Barnett did note that as more trust companies pursued banking businesses, states were gradually starting to bring them under similar regulatory standards.

companies and state banks published in 1911 under the auspices of the National Monetary Commission concluded that their essential business was usually identical. It explained that the recent "preference to incorporate under the trust-company law is not due to the desire to carry on a trust company business, but to the greater liberality of the trust-company law in its regulation of the banking business" that these institutions were actually pursuing.[62]

Some contemporaries viewed this relative lack of restriction to be inherently dangerous. The political economists Richard Ely and George Wicker, for example, noted that trust companies "seem to enjoy most of the privileges granted to incorporated banks, without being compelled to observe the restrictions by which banks, as the result of experience, have been surrounded." The result, they felt, was that "within the last decade this condition of comparative irresponsibility has made it possible for such companies to invest in doubtful securities and thus to help in the 'flotation' of unsound industrial enterprises."[63] Trust company advocates—particularly their officers—countered that it was precisely the comparative lack of restrictions on their business that allowed them to offer financial services to clients who otherwise might go without. As a Kansas City trust company treasurer claimed in 1906, "there is a savings bank law in Missouri"—referred to earlier in relation to stock savings bank capital requirements—"but no bank operates under it [because] restrictions on investments are so severe as to be impracticable." Because they could invest savings deposits as they saw fit, Missouri trust companies filled the void and "carry savings deposits of more than $20,000,000."[64]

One should not make too much of savings departments as drivers of trust company

62 Ibid., 235

63 Richard T. Ely and George Ray Wicker, *Elementary Principles of Economics* (New York: The Macmillan Company, 1916), 222

64 Cooke, "The Saving Department of a Trust Company," 572-73

growth during the first few decades of the twentieth century. These institutions held approximately $624 million in saving deposits in 1910, a figure that amounted to only 20% of their total deposits in that year. Demand deposits alone were more than three times greater in value, although they also held a little more than $300 million in time deposits other than savings.[65] In other words, wealthier depositors—both individual and institutional—continued to be trust companies' main customers even as savings deposits provided a welcome additional source of capital. Trust companies' pursuit of savings deposits therefore provides another indication of the general consensus that had developed by the end of the nineteenth century about the opportunity that mass finance provided to tap into additional capital funds on a grand scale.

If modest on an intra-institutional level, the effect was nevertheless substantial for the savings sector as a whole: trust companies accounted for more aggregate traditional savings deposits in 1910 than those claimed by any class of financial institution other than mutual savings banks.[66] Moreover, the 2.26 million trust company savings accounts exceeded those open in both national and stock savings banks. And in an indication that at least a significant percentage of this business truly represented competition for working- and middle-class savings, the average trust company savings account in 1910 held about $275. This placed trust companies well below mutual savings banks (roughly $450)[67] and between the stock savings banks (about $350) and state banks (about $150) that were their closest competitors for small savings

65 US Comptroller of the Currency, *Annual Report* (1910), 790-94

66 Ibid., 790-94

67 The mutual savings bank figures likely included a higher proportion of institutional depositors, skewing the average deposit higher since institutional depositors such as churches and fraternal societies frequently had no maximum deposit limit in mutual savings banks (unlike individuals). Nevertheless, the trust company figure remains roughly in line with the other institutions and thus it seems plausible that a significant portion of those deposits were held in accounts of similarly modest size to savings accounts in the other three classes of institution.

deposits.[68] [See: Figure 4.17]

Figure 4.17
Savings Accounts and Deposits by Institutional Class, 1910

| *Institutional Class* | *Total Open Savings Accounts* | *Total Savings Deposits* | *Per Capita Deposits* |
|---|---|---|---|
| Mutual Savings Banks | 7,481,649 | $3,360,563,842.79 | $449.17 |
| Stock Savings Banks | 1,301,654 | $451,759,955.59 | $347.07 |
| Trust Companies | 2,260,268 | $624,601,126.66 | $276.34 |
| State Banks (other than savings) | 2,816,561 | $418,310,704.39 | $148.52 |

As with stock savings banks, the unique structure of trust companies relative to other savings depository institutions meant that their entry into the savings field did more than simply increase aggregate savings deposits or access to savings institutions for potential depositors: it created yet another class of intermediary to integrate savers and their money into the broader finance economy in potentially new ways. For example, trust companies' relative lack of regulatory restriction meant that they were able to alter their investment portfolios faster than most other financial institutions of the period. As Larry Neal demonstrated, this agility helped trust companies enter into a sustained period of growth in the first two decades of the twentieth century by competitively meeting the demand for industrial securities generated by the turn-of-the-century corporate merger movement, best symbolized by the creation of US Steel in 1901.[69] As a contemporary put it the following year: "trust companies have been favored by freedom from the regulations to which the banks have been subjected . . . [and] have consequently been allowed to engage more . . . in the huge schemes which the changes in the industrial organization

68 US Comptroller of the Currency, *Annual Report* (1910), 778-81

69 Neal, "Trust Companies and Financial Innovation, 1897-1914," 40-41

and the rapid development of the country have required to be undertaken."[70] What such an analysis left out was that a growing portion of the funds which allowed them to do so came from the pockets of the very same class of people—working-class savers—who those industrial companies employed.

As noted in Chapter Two, a few national banks also accepted savings deposits during the last third of the nineteenth century. But the practice's legality remained uncertain due to the National Banking Act's failure to explicitly specify whether national banks could operate such a business. As savings became an increasingly mainstream activity for commercial banks and trust companies, however, national banks began more thoroughly to explore the possibility of entering the business as well. One of the earliest to do so was a Pennsylvania bank that petitioned the Comptroller of the Currency in 1901 to rule on whether it was legal to operate a "savings business and pay interest on savings accounts not subject to check." While the Comptroller replied that "there appears to be no legal objection to a national bank's receiving deposits" of this sort, they would be subject to the same restrictions as other deposits. This stipulation "would prevent a national bank from accepting real estate and other securities deemed judicious for savings banks" to invest in, potentially putting it at a competitive disadvantage relative to these institutions. With that proviso, the Comptroller concluded only that "it would be a matter for the board of directors to decide whether it is expedient, all things considered, to enter upon this line

70 Cator, *Trust Companies in the United States*, 62. The validity of the assertion is suggested by a brief overview of trust company assets in the 1895 to 1915 period. In 1895, trust companies on aggregate held roughly 8% of their assets in bank, railroad, and other non-government issued stocks and bonds. Just five years later, the number had jumped to nearly 24%; by 1905, it was 27%. After the 1911 Pujo Committee hearings into the "Money Trust" revealed that trust company directors were also among the largest single group represented on the boards of the country's major industrial firms—a result of the large purchases of preferred stock that they held "in trust" for their investors and depositors—public disapprobation and a cooling of the merger movement led trust companies to minimize this area of investment almost as quickly as they had entered it. By 1915, these securities accounted for only 14% of trust company assets (18% if quasi-public utility corporations such as streetcar systems are included). See: Neal, "Trust Companies and Financial Innovation," 51, and US Comptroller of the Currency, *Annual Reports* (1895, 1900, 1905, 1910, and 1915)

of business."[71]

Although it is unclear whether or not the directors of that bank decided to institute a savings business under these conditions, it quickly became apparent that many other national banks were interested in pursuing the matter. In later years, observers frequently pointed to the First National Bank of Chicago's 1903 petition to the Comptroller as the trigger for the decision that explicitly allowed national banks to receive savings deposits.[72] Though largely based on the same interpretation as the response of two years earlier, the Comptroller noted this time that all deposits in a national bank "are payable on demand, except when made the subject of special contract." Savings deposits might be taken under this clause, "but the right of a bank to make a contract of that nature is a matter for judicial determination."[73] National bank inquiries on the subject were so numerous by 1903 that the Comptroller's office prepared a form letter outlining this interpretation to send in response.[74]

Chicago's First National was the first prominent national bank to set about formally entering the savings business under this regulatory framework and it earned a reputation as a pioneer in the field. Because of the legal gray area that still existed despite the Comptroller's ruling, the bank decide to establish a state-chartered affiliate to operate its new savings operation.[75] The First Trust and Savings Bank of Chicago opened for business in December 1903.

71 "Savings Departments of National Banks," *Banking Law Journal,* vol. 22, no. 5 (May 1905), pp. 308-10: 309

72 See: Weldon Welfling, *Mutual Savings Banks: The Evolution of a Financial Intermediary* (Cleveland: The Press of Case Western Reserve University, 1968), 58-59; Savings Division. American Bankers' Association, *Response to Change: A Century of Commercial Bank Activity in the Savings Field* (New York: The American Bankers Association, 1965), 22; and Guy Wickes Cooke, *The First National Bank of Chicago . . . A Brief History of Its Progress* (Chicago: M.A. Donahue, 1913), 57-60

73 Welfling, *Mutual Savings Banks,* 59

74 "Savings Departments in National Banks," *Bankers' Magazine,* vol. LXVII, no. 5 (November 1903), p. 870

75 The First National's decision on this front was in keeping with a broader tendency of national banks to create

Despite the technical distinction between the two entities, the affiliate was a clear extension of the national bank: it was wholly owned by the shareholders of Chicago's First National, shared an identical board of directors with the parent company, and was located on the first floor of its headquarters.[76] One of its first public announcements proclaimed that "the stockholders of the First National Bank . . . offer to the general public a new bank under the above title."[77]

The same notice also indicated that the recent prominence which savings and trust businesses had gained in the overall finance industry was a primary motivation for creating the affiliate. "As a commercial bank," it read, "the First National Bank has from time to time been compelled to enlarge the scope of its services to the public, until now there is no transaction outside of the duties of a trust and savings bank which is not a part of its daily routine." It intended the First Trust and Savings to "round the business into a complete whole."[78] Reflecting on this development in the 1960s, an American Bankers' Association retrospective of commercial bank savings extended this observation to the industry as a whole: the creation of the First Trust and Savings "marked the beginning of the full-service concept of commercial banking."[79]

Within three months, the First Trust and Savings Bank had accumulated savings deposits of more than $2 million and "other deposits" of more than $5 million.[80] On the strength of this

wholly-owned affiliate companies during this period in order to conduct businesses that were not explicitly authorized under the National Banking Acts. In addition to savings and trust companies, these affiliates often included securities dealers or institutions to conduct international banking. The New York *Times* claimed in 1911 that there were more than 200 bank affiliates in operation that year. See: "Giving Up Control of Outside Banks," New York *Times,* 4 November 1911

76 Cooke, *The First National Bank of Chicago,* 57-58

77 First Trust and Savings Bank of Chicago, [advertisement], Chicago *Daily Tribune,* 26 December 1903, p. 9

78 Ibid.

79 Savings Division. American Bankers' Association, *Response to Change: A Century of Commercial Bank Activity in the Savings Field* (New York: The American Bankers Association, 1965), 22

80 Cooke, *The First National Bank of Chicago . . . A Brief History of Its Progress,* 59

success and the general interest that had preceded it, national banks rapidly entered the savings business. Some followed the First National of Chicago's lead and created affiliates; others simply began to take time deposits and advertise a savings business under their existing charter. By 1911, a National Monetary Commission survey of national banks revealed that slightly more than half of the nearly 7,000 institutions that responded were taking savings deposits. In a further indication of the repositioning of savings within the general financial sector, fully one-third of those banks took savings deposits through their commercial banking departments.[81] By 1913, after just a decade of widespread national bank activity in the savings sector, they collectively held more than $800 million in savings deposits across more than 3 million accounts. While this was scarcely more than one-fifth the total deposits held by mutual savings banks, it came closer to equaling the $958 million in stock savings banks while exceeding those institutions' 2.2 million open accounts.[82]

After the creation of the Federal Reserve system at the end of that year, savings deposits became subject to lower reserve requirements than did demand deposits.[83] By granting tacit permission to all member banks to take savings deposits, this regulation removed any lingering doubt about the legality of national bank savings operations. In part because of this financial incentive to operate a savings business, one study estimated that 80 percent of all American

81 United States National Monetary Commission, *Savings Departments of National Banks and Real Estate Loans* (Washington: Government Printing Office, 1911), 9

82 US Comptroller of the Currency, *Annual Report* (1913), 12-14 and 64-68

83 The Federal Reserve Act of 1913 established reserve requirements for banks in reserve cities of fifteen percent of demand deposits; banks in non-reserve cities had to keep twelve percent in reserve. This compared with a requirement for all member banks to keep reserves of only five percent of time deposits, defined as "deposits payable after thirty days, and all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment." See: United States. Congress, (1913), *Federal Reserve Act: Public Law 63-43, 63d Congress, H.R. 7837: An Act to Provide for the Establishment of Federal Reserve Banks. . .* [Federal Reserve Act of 1913], accessed Mar 7, 2014 from FRASER, <http:fraser.stlouisfed.org/publication/?pid=966>

banks did so by 1930, integrating everyday Americans into the commercial finance sector to a degree never before seen.[84] National banks represented a substantial portion of this growth, managing one-quarter of the $24 billion deposited in ordinary pass-book savings accounts across all banks and trust companies that reported to the Comptroller of the Currency. Those deposits were distributed throughout just over 30% of all open savings accounts in the country.[85] More remarkable as an indication of how important savings deposits became to national banks in less than three decades, aggregate pass-book savings deposits accounted for nearly one-third of all deposits held by national banks in that year while aggregate time deposits of all kinds nearly equaled the business-customer oriented demand deposits.[86] Though they were relative latecomers to the savings business compared to their financial intermediary cousins, national banks too bent to the same economic and social pressures that pushed the aggregate savings of "ordinary" Americans to the forefront of the national finance economy.

### *Saving beyond the savings bank, Part II: Institutional innovations*

Stock savings bank, national bank, and trust company directors recognized in savers the potential to tap an increasingly large capital pool while offering a deposit service that was essentially similar to that offered by both mutual savings banks and by each other. But a similar analysis led many American companies—financial and otherwise—to develop new types of

84 William G. Sutcliffe and Lindley A. Bond, *Savings Banks and Savings Department Management* (New York: Harper and Brothers, 1930), vii

85 The deposit figures exclude postal savings and "club" accounts (like Christmas clubs, vacation clubs, etc.) and so likely undercount national banks' share of national savings deposits; the depositor figure is likewise based on open pass-book savings accounts as opposed to these alternative forms of saving. See: US Comptroller of the Currency, *Annual Report* (1930), 62-63

86 US Comptroller of the Currency, *Annual Report* (1930), 40-41

financial services to attract workers and their savings. If the constellation of savings banks and savings departments first demonstrated the willingness and ability of American working- and middle-class savers to deposit in a range of banking institutions, it was industrial insurance companies, employee stock purchase programs, and some limited experiments such as department store savings which first showed that they would direct their money to other types of institutional finance arrangements as well.

By many measures, industrial insurance policies were the most important new financial service offered to Americans of modest means during the end of the nineteenth and beginning of the twentieth centuries. Industrial insurance companies offered what was essentially burial insurance—with policies written for as little as $10 and more commonly for between $100 and $150—to members of the urban working classes who feared a pauper's funeral.[87] There was essentially no working-class access to commercial insurance companies prior to 1875 due to uniformly high policy minimums (often $1,000) and the difficulty of making large quarterly or annual lump sum premium payments on so-called "ordinary" insurance. But just forty years later, more than $4.4 billion of industrial policies held by more than 33 million Americans were in force. In 1915 alone, 25 US firms specialized in industrial insurance and wrote policies worth nearly $1 billion. They also collected premiums amounting to roughly $250 million—five times the increase in combined mutual and stock savings bank deposits that year.[88] [See: Figure 4.18]

The concept of offering life insurance to American workers was not entirely novel when

87 See: Jonathan Levy, *Freaks of Fortune: The Emerging World of Capitalism and Risk in America* (Cambridge, MA: Harvard University Press, 2012), 222-23 and Joel Schwartz, *Fighting Poverty with Virtue: Moral Reform and America's Urban Poor, 1825-2000* (Bloomington, IN: Indiana University Press, 2000), 51-52

88 Bureau of Labor Statistics. US Department of Labor, *Proceedings of the Conference on Social Insurance,* Workmen's Insurance and Compensation Series, no. 10 (Washington, DC: Government Printing Office, 1917), 441 and US Comptroller of the Currency, *Annual Report* (1934), I, 125

| Figure 4.18<br>Growth of Industrial Insurance in the US, 1876-1915 (various)[89] | | | | | | |
|---|---|---|---|---|---|---|
| **Year** | No. of firms | Insurance Written (Current Dollars) | Insurance Written (1860 Dollars) | Number of Policies in Force | Total Amount of Insurance in Force (Current Dollars) | Total Amount of Insurance in Force (1860 Dollars) |
| **1876** | 1 | $727,168 | $563,696 | 4,816 | $413,072 | $320,211 |
| **1886** | 3 | $132,674,189 | $117,140,787 | 1,764,158 | $196,694,876 | $174,066,262 |
| **1896** | 11 | $360,852,458 | $357,279,661 | 7,375,688 | $886,484,869 | $877,707,791 |
| **1906** | 19 | $631,417,769 | $584,646,082 | 17,829,046 | $2,451,177,221 | $2,269,608,358 |
| **1911** | 32 | $785,902,210 | $689,387,904 | 24,708,499 | $3,423,790,536 | $3,003,325,032 |
| **1915** | 25 | $999,079,322 | $825,685,390 | 33,370,638 | $4,431,754,866 | $3,662,607,327 |

the first commercial company to do so, the Prudential Insurance Company of New Jersey, opened in 1875. Similar companies began operation in Britain in the 1850s, one of which—the Prudential Assurance Company of London—directly inspired John F. Dryden to found its American namesake.[90] The first "fraternal" insurance schemes—mutual associations organized by groups such as the Ancient Order of United Workmen to provide their members with benefits in the event of sickness, injury, or death—also preceded Dryden by a few years, though they did not become widespread or successful until the mid-1870s. (The two classes of institution differed not only in terms of their status as nonprofit and for-profit institutions, but also in the ways that

89 Bureau of Labor Statistics. US Department of Labor, *Proceedings of the Conference on Social Insurance,* Workmen's Insurance and Compensation Series, no. 10 (Washington, DC: Government Printing Office, 1917), 441. Estimated inflation is based on the consumer price index derived in: Paul A. David and Peter Solar, "A Bicentenary Contribution to the History of the Cost of Living in America," *Research in Economic History* 2 (1977), 16

90 Malvin E. Davis, *Industrial Life Insurance in the United States* (New York: McGraw-Hill Book Company, 1944), 4-6 and Levy, *Freaks of Fortune,* 222. Several "ordinary" insurance companies offered low-cost policies in the US as early as the 1840s, but they attracted few customers. See: Viviana A. Rotman Zelizer, *Morals and Markets: The Development of Life Insurance in the United States* (New Brunswick: Transaction Books, 1983; orig. pub. Columbia University Press, 1979), 92-93

they assessed premiums and paid out benefits.)[91] The other two companies that joined Prudential as the largest American firms to offer industrial insurance—the Metropolitan Life Insurance Company and John Hancock Mutual Life Insurance Company—started as relatively unsuccessful "ordinary" insurance ventures but entered into the "industrial" business in 1879.[92]

In contrast to the decades that it took before for-profit savings banks joined their non-profit antecedents in any significant numbers, entrepreneurs entered the working-class life insurance business almost simultaneously with their fraternal counterparts. The difference seems far from coincidental. Early mutual savings banks had faced questions about the feasibility of wage earners using formal financial institutions (of any kind) in sufficient numbers to ensure a stable aggregate and to offset the high transaction costs associated with small exchanges. Yet their spectacular growth meant that this principle was well-established by the time fraternal life insurance companies appeared. This converged with the fact that, as Jonathan Levy has convincingly shown, workers themselves widely demonstrated their desire to seek new contingencies against personal economic ruin in the depression that followed the Panic of 1873.[93] Although many of them chose to pursue financial security outside of the for-profit finance sector that had faltered severely during that crisis, they still demonstrated the potential to successfully offer insurance to the masses at roughly the same time that financiers recognized the aggregate power of working-class capital in a more general sense. While some sought to harness that capital through a stock savings bank or a trust company, others took a chance on insurance.

Despite these seemingly favorable conditions, most industrial insurance companies and

91 Levy, *Freaks of Fortune,* 191-214

92 Morton Keller, *The Life Insurance Enterprise, 1885-1910: A Study in the Limits of Corporate Power* (Cambridge: Belknap Press of Harvard University Press, 1963), 20

93 Levy, *Freaks of Fortune,* 191-200 and 212-14

observers believed that they would not be successful if they relied on workers to seek them out. This attitude reflected prevailing insurance industry wisdom dating to the 1840s rather than being specific to industrial companies. Both ordinary and industrial insurers developed extensive ranks of agents to engage in personal solicitation as a result of this outlook.[94] The difference was that industrial firms used these networks to not only sell policies but to collect their premiums.[95] Apart from the small face value of policies that industrial companies offered, this was the innovation that allowed industrial insurers to thrive while previous attempts to sell low-value policies to workers had failed. Hiring thousands of agents to make weekly rounds for premium collection not only allowed industrial insurers to exert social pressure on economically-precarious policyholders to maintain their payments, it also enabled the companies to offer policies with premiums as low as a nickel (and occasionally less) per week. Not coincidentally, such a figure brought industrial insurance company premiums in line with the minimums that many savings banks both accepted and encouraged poor workers to deposit on a weekly basis.

From the start, industrial insurance company directors and promoters framed their institutions as new—and better—opportunities for American workers to save compared to those offered by depository institutions. For example, industrial insurance advertisements frequently stressed their savings aspect.[96] As an early scholarly review of working-class insurance plans of

94 A typical industry observer of the 1890s claimed that "not one man in a hundred or thousand in this country ever comes into an office to get insured of his own accord." See: Viviana A. Rotman Zelizer, *Morals and Markets: The Development of Life Insurance in the United States* (New Brunswick: Transaction Books, 1983; orig. pub. Columbia University Press, 1979), 120-24ff; quotation on p. 121.

95 In contrast, insurance agents for other firms generally only collected the initial premium when they signed a customer to a new policy. See: Zelizer, *Morals and Markets,* 135n.

96 One Prudential advertisement emphasized that "a man of property you can become . . . by investing your savings in a policy of Life Insurance" and then echoed the two traditional pillars of savings bank rhetoric by claiming that "no investment [is] safer or more profitable." Metropolitan Life stressed that "the daily saving of 5 cents will carry policies on the lives of every member of a family of seven persons." In 1909, a new Indianapolis firm extended this marketing tactic to its name: "The Public Savings Insurance Corporation." See: The

all kinds explained, insurance "is primarily a savings institution by which men are assisted to make provision for future contingencies."[97] John Dryden, Prudential's founder and later a US Senator, noted that "the usual method of accumulating savings bank deposits is in marked contrast to Industrial insurance premium payments, in that, as a rule, deposits are made at irregular intervals and not in the small sums which represent true foresight, frugality, and abstinence from needless expenditures." Echoing decades of savings bank promoters, he argued that "the weekly premium payments soon become a habit of life" but insisted that this was better achieved first by *enforcing* weekly payment rather than *encouraging* it. As Dryden put it, "accumulations in savings banks, or payments for building loans, *follow* Industrial insurance rather than precede it."[98]

While Dryden and those who shared his views may or may not have sincerely believed that industrial insurance offered a more rigorous way to inculcate virtue in American workers than did savings banks, there was little doubt that the undertaking was immensely more expensive. By the turn of the twentieth century, common industry wisdom was that industrial insurance cost roughly twice as much as ordinary insurance to administer relative to the income each brought in. As with small finance of all kinds, the small average value of each policy accounted for some of the extra administrative unit costs. But increased volumes of correspondence, medical examinations, and an estimated 416 million annual home visits from

Prudential Insurance Co. of America, [advertisement], Trenton (NJ) *Evening Times,* 17 November 1901, p. 5; Metropolitan Life Insurance Company, [advertisement], Minneapolis *Journal,* 5 March 1896, p. 7; and "Industrial Insurance," *The Insurance Press,* vol. xxix, no. 742 (17 November 1909), p. 14

97 William Franklin Willoughby, *Workingmen's Insurance* (New York: Thomas Y. Crowell & Company, 1898), 3

98 John F. Dryden, *Addresses and Papers on Life Insurance and Other Subjects* (Newark, NJ: The Prudential Insurance Company of America, 1909), 73; emphasis in original.

industrial insurance agents in the early twentieth century were also factors.[99] Industrial insurers could profitably operate on this basis in part because their policyholders paid extremely high premiums relative to the value of their policies. As one contemporary noted, "the poorer wage earners must content themselves with extremely small returns for their enormous sacrifice."[100] Meanwhile, industrial insurers almost uniformly imposed harsh terms that required policyholders to surrender all of their benefits regardless of previously paid-in premiums in the case of a missed payment, death from suicide or one that was related to intoxication, or even a misstatement on an application—regardless of whether it was material to the policy or not.[101]

While industrial insurance proponents argued that such rules served as a financial incentive to remain virtuous, the benefits that accrued to the companies as a result of them suggests that a more basic profit motive inspired them to at least an equivalent degree.[102] The strict payment schedule and general lack of surrender benefits meant that industrial policyholders frequently lost their "savings" simply by missing a weekly premium payment—a situation that industrial insurers found to be so lucrative that it effectively became their business model. As early as 1891, the three major industrial insurance firms earned more income from the forfeited premiums paid on surrendered policies than they did on investment returns. By the early-twentieth century, more than half of Metropolitan Life's policies lapsed within one year and

99 Charles Richmond Henderson, *Industrial Insurance in the United States*, 2nd Edition (Chicago: University of Chicago Press, 1911), 150-51

100 Ibid., 161

101 Davis, *Industrial Life Insurance in the United States,* 9-10

102 It should be noted that one of the biggest industrial companies—the John Hancock—was a mutual company and thus periodically distributed its earnings amongst its policyholders through bonus "dividends," similar to the way that mutual savings banks operated. Both Prudential and Metropolitan converted to mutual institutions after 1914 but remained investor-owned through the period in question. See: Davis, *Industrial Life Insurance in the United States,* 11

nearly two-thirds did so within five years.[103] One prominent analysis of industrial insurance companies in the first decade of the twentieth century indicated that they collected three to four times as much money in premium payments as they paid out in losses in any given year.[104] Amidst such trends, Prudential's John Dryden still insisted that with industrial insurance, "millions have been educated . . . and become habituated to systematic and periodical savings."[105] What that view obscures is that this "education" frequently came in the form of punishment through lost savings rather than through positive "habituation."

Industrial policies' profitability likely explains why the insurance sector as a whole increasingly gravitated toward those policies despite the fact that the easier-to-administer "ordinary" business also boomed from the 1880s onward. By 1915, there were nearly 10 million ordinary policies in force and premium payments on those policies amounted to more than $500 million—roughly twice as much income with less than a third as many policies to manage compared to the industrial firms.[106] To a large degree, this growth represented life insurers' successful attempts to market ordinary life insurance as a form of mass saving as well, particularly to western farmers with more limited access to savings deposit facilities than their eastern urban counterparts that industrial insurance served.[107] Adding the equity represented in ordinary policies to industrial ones, insurance companies were the single-largest class of savings repository in the United States by 1915, although the combined savings deposits of mutual and

103 Levy, *Freaks of Fortune,* 223

104 Henderson, *Industrial Insurance in the United States*, 158

105 John F. Dryden, "The Inception and Early Problems of Industrial Insurance," in "Half-Century Anniversary Number," special issue, *The Insurance Monitor,* vol. 51, no. 613 (1903), pp. 8-16: 16

106 The Spectator Company, *The Insurance Year Book, 1916-1917: Life, Casualty and Miscellaneous* (New York: The Spectator Company, 1916), 571

107 Levy, "The Mortgage Worked the Hardest," 53

commercial banks continued to outrank them.[108] (The comparison is imperfect due to the fact that ordinary policies continued to attract some wealthier clients who likely viewed the hedge against future risk as their main benefit, rather than their savings or investment aspects.) Yet despite the appeal of a growing ordinary business, industrial insurance's share of the total value of insurance in force steadily grew from roughly 10 percent in 1890 to almost twice that in 1915.[109] In insurance as in deposits, small finance was gradually reshaping the sector.

Most insurance companies' immense assets meant that they effectively channeled large amounts of capital from policyholders' premiums to commercial banks—capital derived from "savings" even if it ended up on a bank's commercial deposit ledger rather than in its savings department.[110] This was no less true of industrial insurers. By 1902, the Prudential held deposits in 268 different banks and shared a headquarters with the Fidelity Trust Company, which served as its main investment bank. Metropolitan Life actually established and then effectively subsidized its *own* commercial bank—the Metropolitan Bank—in order to serve a similar function in New York.[111] Additionally, industrial insurance companies were so successful at presenting their service as a form of mass saving and attracting working- and middle-class capital that deposit institutions could not help but take notice. By 1918, one banking trade manual claimed that "life insurance is similar to banking [because] it collects the savings of thousands" and "places within the reach of the man of small means a safe investment." Seeing an

108 John Lintner, *Mutual Savings Banks in the Savings and Mortgage Markets* (Boston: Harvard University Graduate School of Business, 1948), 463

109 The exact figures were 10.59% in 1890 against 19.44% in 1915. See: Davis, *Industrial Life Insurance in the United States,* 233

110 Levy, *Freaks of Fortune,* 223-24

111 Keller, *The Life Insurance Enterprise,* 154-55

opportunity for new business here rather than competition, the manual went on to suggest that deposits could be increased by positioning the "savings department of a modern bank" as an adjunct to purchasing life insurance. The method would be to design a regular service that would allow bank customers to deposit "in a savings account one-twelfth of the annual [insurance] premium each month" so that "life insurance will then be paid first of all" before any other expenses.[112]

Some observers—who viewed common industrial insurance practices such as high premium-to-benefit ratios and little or no surrender benefits as disproportionately exploitative of poor people—considered the insurers' competition for workers' savings to be inherently problematic. This opinion proved particularly prominent in the more general push to regulate the insurance industry that New York's 1905 Armstrong Committee investigation—as well as similar reviews in New Jersey, Wisconsin, Iowa, Ohio, Massachusetts, and Tennessee, among other states—unleashed.[113] While the regulations that many of these states enacted in its wake concerned the insurance industry as a whole, a group of reformers led by lawyer and future US Supreme Court justice Louis Brandeis managed to push the debate in Massachusetts towards making some changes specifically related to the industrial market.

Brandeis' essential idea was to allow the state's mutual savings banks to offer life insurance policies as an adjunct to their savings deposit business. Such a marriage of savings banking and insurance had intellectual precedents stretching back at least to the mid-1870s. It was then that pioneering actuary Elizur Wright suggested that creating a hybrid savings bank/life insurance company would less expensively expand working-class access to insurance policies

112 W. R. Morehouse, *Bank Deposit Building: Practical and Improved Methods of Increasing Your Business and Holding It* (New York: The Bankers Publishing Co., 1918), 140-41

113 Keller, *The Life Insurance Enterprise,* 254-55

than would stand-alone insurance corporations.[114] As Wright and several colleagues claimed in 1874, "the people who most need life insurance"—poor workers "whose capital is their labor"—"cannot well afford the luxury of the agency expenses of the existing system."[115] In their view, the savings deposit business of their proposed "Family Bank" would be unaffected by an insurance department governed by sound actuarial practices, while traditional insurance company expenses could be eliminated by simply offering policies to those who would deposit anyway instead of seeking them out through agents and advertising.

Despite the potential merits of the "Family Bank" plan, no one ever put it into effect. But the growth of industrial insurers' abuses led Brandeis to revive the idea because he similarly believed that "the sacrifice incident to the present industrial insurance system [could] be avoided only by providing an institution for insurance which [would] recognize that its function is not to induce working people to take insurance regardless of whether they really want it or can afford to carry it." In other words, he sought to create an insurance system that didn't require the constant solicitation of poor customers to be profitable. Instead, Brandeis sought an institution that could "furnish a good article at a low price" and he believed that mutual savings banks might be well-positioned to do so as a result of their years of experience managing millions of small accounts and successfully making sound but profitable investments. As he put it, "life insurance is but a method of saving" and he convinced the Massachusetts state legislature in 1907 to allow savings banks to offer life insurance policies on a competitive basis with independent companies.[116]

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114 Pliny Earle Chase, "Saving-Fund Life-Insurance," *Proceedings of the American Philosophical Society,* vol. 14, no. 92 (3 April 1874), pp. 148-49: 148

115 Boston Board of Trade, *Report on the Union of Savings Banks and Life Insurance* (Boston: Wright & Potter, 1874), 21

116 Brandeis quoted in: Lintner, *Mutual Savings Banks in the Savings and Mortgage Markets,* 178-79

Massachusetts' insurance regulators issued a booklet to introduce so-called "savings bank insurance," claiming that a typical saver should have three goals: "to take care of himself in old age," "to take care of his family in case he dies," and "to take care of himself and family in case he or one of his family is sick." In a striking contrast to nineteenth-century savings bank rhetoric that tended to locate all three of these purposes in the normal deposit business, the booklet claimed that "savings banks offer means to save money for the third of these things" but that saving for the first two would best be served by "an insurance and annuity policy."[117] The innovation here was to present savings banks as one-stop shopping for all of these services, echoing the contemporary tendency of commercial banks and trust companies to diversify as well. In so doing, the state that had the longest record of closely regulating its mutual savings banks officially accepted the broadened category of "saving" that industrial insurance companies had long advocated.

Despite such encouragement, Massachusetts savings banks were slow to enter the life insurance business. At the end of ten years, only four banks had become licensed issuers and they collectively held fewer than 20,000 policies.[118] As late as 1929, savings banks wrote fewer than five percent of the policies in the state (worth less than two percent of their aggregate face value).[119] Uneasiness at entering into such a new business was reflected in one Massachusetts savings bank treasurer's opinion that savings bank life insurance "may be of inestimable benefit

117 Massachusetts intended the booklet, "Who Will Pay Your Wages When You Are Old and Grey?," to be distributed in savings banks as a means of advertising the new system. Quoted in: "Savings Banks Ready to Issue Insurance," *Charities and the Commons,* 11 July 1908, pp. 466-68: 466-67. See also: Henderson, *Industrial Insurance in the United States*, 170-72

118 Edward Berman, *Operation of Savings-Bank Life Insurance in Massachusetts and New York* (Washington, DC: Government Printing Office, 1941), 12

119 Lintner, *Mutual Savings Banks in the Savings and Mortgage Markets,* 480

to the working man" but that "there is an entirely natural reluctance among the trustees of the ordinary savings bank to go into anything so radical as the savings bank insurance."[120] While Massachusetts may have recognized the legitimacy of insurance as a form of saving, its bankers had generally decided that such saving could be managed best by dedicated companies.

Massachusetts savings bankers were not alone in holding this view: it took until 1939 for Massachusetts to be joined by another state, New York, in the attempt to foster savings bank life insurance. Connecticut followed in 1941, but no other states ever legalized the practice and its overall influence remained small.[121] A belief in the utility of life insurance thus did not easily translate into one that a savings bank was the suitable forum for offering it. This reluctance suggests the degree to which early-twentieth century observers had grown comfortable with a diversified mass finance sector and sometimes even viewed it as a beneficial outcome.[122] From the perspective of most American savings bank directors—indeed, of most bankers of any kind—the business of taking and managing savings deposits was still distinct from the management of insurance premiums even if workers' virtuous acts of "saving" might now take on both forms in equal measure.

Industrial insurance represented the earliest substantial institutional innovation of the period in terms of transcending a traditional deposit business with the goal of aggregating workers' savings, but it was at the vanguard of more varied attempts to serve a similar purpose.

120 Frederic C. Nichols, "The Operation of the Mutual Savings Bank System in the United States, and the Treatment of Savings Deposits," *Annals of the American Academy of Political and Social Science,* vol. 36, no. 3 (November 1910), pp. 162-75: 167

121 Zelizer, *Morals and Markets,* 123

122 This diversification distinguished the US mass finance sector from most of its European counterparts, which had a greater tendency to consolidate all small finance services in a single institution—frequently one that was centrally-operated by a government body. See: R. Daniel Wadhwani, "The Institutional Foundations of Personal Finance: Innovation in U.S. Savings Banks, 1880s-1920s," *Business History Review,* vol. 85, no. 3 (Autumn 2011), pp. 499-528

The connection was sometimes direct. For example, some companies began to experiment almost immediately with self-insurance as both a means to ensure a stable healthy workforce and as a fringe benefit for their employees. While such experimentation was still limited in the mid-1880s, an inquiry into self-insurance by the Interstate Commerce Commission indicated one way in which even early observers understood how these ventures could be influenced by the desire to find new ways of raising capital for industrial finance. In railroad magnate Jay Gould's opinion, potential operators of these programs "would get control of the money [aggregated by them] and spend it, in nine cases out of ten." Rather than reserving the funds for insurance payments as was their ostensible purpose, such programs could represent a cheap pool of capital to railroad operators.[123]

Insurance was not the only area of institutional working-class finance that railroad companies entered in the last few decades of the nineteenth century. Several of them also set up private savings funds that they operated for employees who, as one early notice explained, "are remotely situated from established savings banks" as a result of the constant travel that their jobs entailed.[124] The demanding physical nature of railroad work and the advantages of ensuring a uniformly healthy workforce also led railroad companies to be the first major US sector to experiment with private pension funds. Notably, many of these early programs did *not* require employee contributions from their savings but were instead fully-funded by the employer (although this did become less common over time).[125] While these programs were not sources of

123 Levy, *Freaks of Fortune,* p. 211-12 (quotation on p. 212)

124 See: "Philadelphia Affairs," Baltimore *Sun,* 18 November 1887, p. 1. See also: M. Riebenack, *Railway Provident Institutions in English-Speaking Countries* (Philadelphia: Pennsylvania Railroad Company, 1905): 233-37

125 See: Steven A. Sass, *The Promise of Private Pensions: The First Hundred Years* (Cambridge, MA: Harvard University Press, 1997), 18-40 and Lewis D. Solomon, *Financial Security & Personal Wealth* (New Brunswick,

aggregate capital for the firms that ran them, they did represent an acknowledgment that workers' long-term financial futures might be more closely tied to their employers' fortunes than they had been for most of the nineteenth century. Though they often first emerged within railroad companies—generally the largest American companies of the time—similar plans spread to other major industrial sectors near the turn of the twentieth century. For example, firms as diverse as the Carnegie Steel Co., the Metropolitan Life Insurance Co., and the Riverside Press (of the Houghton, Mifflin, Co.) took savings deposits from their workers and paid interest on them independently of established banks.[126]

Company insurance, pension plans, and savings funds were specific manifestations of the more general development of welfare capitalism that emerged in the late-nineteenth century as corporations attempted to defuse labor unrest by offering fringe benefits rather than paying higher wages, reducing hours, improving worker safety, or otherwise addressing the most prominent grievances expressed by individual workers and the developing organized labor movement.[127] Such programs also represented an interesting parallel development to the evolution of national banks' and trust companies' "full-service" banking operations, as industrial employers frequently instituted a wide range of employee financial services programs simultaneously. This suggests that the desire to win over workers to the idea of running their financial lives through their employers was more important than the specific means used to

NJ: Transaction Publishers, 2005)

126 Mary Rankin Cranston, "Savings Funds for Employes," *Social Service,* vol. iv, no. 5 (November 1901), pp. 177-78: 178

127 For an overview of welfare capitalism, see: Stuart Brandes, *American Welfare Capitalism, 1880-1940* (Chicago: University of Chicago Press, 1976) and Roland Marchand, *Creating the Corporate Soul: The Rise of Public Relations and Corporate Imagery in American Big Business* (Berkeley, CA: The University of California Press, 1998), 15-26

accomplish this goal, just as building a broad customer base in an era of mass retail finance was key to bank strategy. More radical experiments to achieve similar results also appeared during these years, including limited attempts at cooperative ownership and profit-sharing plans.[128]

Out of many experiments in this vein, one arrangement that proved particularly attractive to large companies beginning in the early 1900s involved offering employees the opportunity to purchase shares in their company's own stock. The so-called "Perkins Plan" that US Steel instituted in 1902 is generally regarded as the first employee stock purchase plan that assumed this form. George W. Perkins was a long-time executive with the New York Life Insurance Co., later organizer of Theodore Roosevelt's Progressive Party, and a director for a number of major industrial corporations as a result of his position as a partner in J.P. Morgan and Co. The "profit-sharing" plan he developed for US Steel made a certain number of preferred shares available to US Steel workers for purchase on installment through payroll deduction. Initially, employees could purchase shares below the market rate and could expect 7 percent annual dividends on their shares plus a $5 annual bonus per share while paying them off over the course of five years. In the short-term, those benefits were reduced substantially by the fact that worker shareholders also had to pay 5 percent interest on the outstanding balance they owed towards their purchase. Failure to continue making payments also resulted in the forfeiture of all previously paid-in money, similar to most industrial insurance policies. Lastly, workers could only collect their stock after their final payment if a "proper official" of the company deemed that they "showed a proper interest in its welfare and progress."[129] Despite these many provisions, *Harper's Weekly*

128 For an overview of late-nineteenth century experiments with cooperative ownership and employee profit-sharing, see: Daniel T. Rodgers, *The Work Ethic in Industrial America, 1850-1920* (Chicago: University of Chicago Press, 1978), 40-50

129 Levy, *Freaks of Fortune,* 292-93 and "Sharing Profits of a Great Corporation," *Iron Trade Review,* vol. xxxix, no. 51 (20 December 1906), pp. 19-20: 19

was typical of mainstream commentary when it touted US Steel's plan as "making partners, practically, of its workmen and all other employees."[130]

Organizing a savings plan along these lines tied participating workers' financial futures intimately to the fortunes of the company as perceived by investors in the wider market for its stocks. The potentially negative consequences for workers became immediately clear. The initial US Steel offering in 1903 enticed 27,379 employees to purchase 48,983 shares in the corporation at $82.50 per share, a nominal commitment of more than $4 million to the firm from its employees (excluding the interest generated by unpaid balances).[131] While this was a discount over the share's high price that year of $89.75, it was still significantly above that year's low of $49.75. And although par prices for a single share would almost always exceed $82.50 from 1905 onward, in 1904 the stock's price again dipped as low as $51.25.[132] This situation led later reports to describe it as "a time when workmen . . . firmly believed that the chief object of the employee stock ownership plan was merely to turn back into the great treasury a part of their hard earned wages."[133] This may be why two-thirds of the initial subscribers had canceled their orders by 1907, despite having to surrender any money they'd already paid to the company.[134]

Despite the many restrictions that employees faced, the decline in stock value was balanced in the long run by shares offered through the plan at $55 in 1904—a figure well below the par value of the stock for most of the next decade. Indeed, any employee that was able to

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130 "Employees as Partners," *Harper's Weekly,* vol. xlvii, no. 2411 (7 March 1903), pp. 403-4: 403

131 Levy, *Freaks of Fortune,* 294-95

132 "Market Wipes Out Last of Water In United States Steel Common," New York *Times,* 10 September 1916

133 "Sharing Profits of a Great Corporation," *Iron Trade Review,* vol. xxxix, no. 51 (20 December 1906), pp. 19-20: 19

134 Levy, *Freaks of Fortune,* 294

purchase preferred stock in US Steel during the 1900s, make five years of payments, and hold it for a year or more likely did fairly well on an individual level. This may be why the plan continued to attract perhaps 5-15% of employees over the ensuing decade.[135] But the short-term experience made clear the differing dynamics between investing through this method and by depositing in a savings bank with a fixed rate of interest and relatively high security.

As variations on employee stock purchase plans spread to other firms including McCormick Reaper, International Harvester, DuPont, National Biscuit, Swift & Company, National Carbon, and US Rubber,[136] further indications of this distinction became clear. For example, Proctor & Gamble's plan required its participants to commit four percent of their income to purchase their stock. Employees were only allowed full ownership of a share once it was fully paid-up and paid 3% annual interest on their unpaid balances. They were also penalized for early withdrawal "unless . . . because of imperative necessity"—determined at the company's discretion—by being barred from future access to the program. Moreover, if an employee chose to withdraw funds before a period of two years and before paying-in a minimum of 35% of the subscription, any dividends that the stock had earned reverted to the company—effectively meaning that the employees' "savings" deposits accrued no return over the period of investment.[137] Operating on similar lines, American Telephone & Telegraph's plan deducted payment from wages at a rate of $2 per subscribed share per month, which worked out to roughly

135 Participation figures are a rough estimate based on the fact that US Steel employees generally subscribed to between 20,000-40,000 shares per year through the program, many subscriptions were for a single share, and the company employed roughly 200,000 people. See: "U.S. Steel Buying Stock for Workers," New York *Times,* 29 November 1922 and "Sharing Profits of a Great Corporation," 19

136 Julia C. Ott, *When Wall Street Met Main Street: The Quest for an Investors' Democracy* (Cambridge, MA: Harvard University Press, 2011), 28-29

137 For two overviews of the Proctor & Gamble plan, see: N.O. Nelson, "Why I Share My Profits," *System: The Magazine of Business,* vol. xxviii, no. 4 (October 1915), pp. 338-50: 343 and National Civic Federation, *Profit Sharing by American Employers* (New York: National Civic Federation, 1916), 161-63

six years of payments (depending on credits accrued through dividends) before the purchase was complete. During this time, employees paid 4 percent interest on their unpaid balances. Like the Proctor & Gamble plan, an AT&T employee could not "alienate or pledge his stock until it is fully paid for" and could only withdraw paid-in funds (not dividends) upon leaving the company unless electing to pay a lump sum to purchase the stock outright.[138]

Access to finance capital was not the primary goal of these plans for most of the companies that, such as US Steel, had to purchase stock for their programs on the open market before selling it to their employees. As expressed in numerous contemporary commentaries on the subject, managers pursued these programs far more for their supposed potential to undermine labor unrest by making any potential industrial action negatively affect employees' own savings. Of equal importance was the potential to reduce employee turnover by providing a financial incentive to remain with the company.[139] That said, firms could benefit directly from any reduction in paid-out dividends on shares affected by early withdrawal and by reducing the percentage of employee compensation paid in cash. Moreover, the plans that required subscribers to pay interest on unpaid balances could also benefit the company by effectively subsidizing dividend payments on subscribed shares. As a 1924 review of the demographics of American stock owners noted, "in many cases of employee subscription the dividends received do not exceed by any considerable amount the interest paid on balances due to the corporation."[140] Clothed in the language of investment and saving, these plans nevertheless diverted a significant amount of capital from workers back into their employer's firms without the need for a financial

138 National Civic Federation, *Profit Sharing by American Employers*, 137

139 Rodgers, *Work Ethic in Industrial America,* 48-50

140 H.T. Warshow, "The Distribution of Corporate Ownership in the United States," *Quarterly Journal of Economics,* vol. 39, no. 1 (November 1924), pp. 15-38: 20n.4

intermediary such as a savings bank or trust company.

Over the long run, much of employee stock purchase plans' importance lay in the way that they helped to normalize the ideas of stock ownership as a legitimate form of both compensation and long-term savings for workers. As historians such as Julia Ott and Janice Traflet have shown, the general trend in that direction reshaped both popular and political notions of the public function served by private corporations while also changing the ways in which large American corporations sought finance capital. Employee stock programs represented an important moment of transition from nineteenth-century patterns of smaller corporations owned and financed by a relatively small number of economic elites to twentieth-century patterns of increasingly larger corporations whose ownership and finance was spread over a much greater percentage of the population even if their direct control still lay in the hands of a relative few.[141]

At their origin, however, employee stock purchase programs also represented a more prosaic extension of the principle of capital aggregation through small saving from banks to non-financial sector businesses. A similar impulse inspired several prominent turn-of-the-twentieth century department stores to try to directly access workers' savings, with one important distinction: these stores sought deposits not from their employees, but from their customers. Starting in the 1890s, so-called "department store savings banks" accepted small deposits (reportedly as low as fifty cents) and were "prepared to handle every form of banking except that of discounting paper." They paid rates of interest on deposits that were competitive with those offered by banks and trust companies and they allowed depositors to draw on their funds for

141 See: Janice M. Traflet, *A Nation of Small Shareholders: Marketing Wall Street After World War II* (Baltimore, MD: The Johns Hopkins University Press, 2013) and Ott, *When Wall Street Met Main Street.* See also: Warshow, "The Distribution of Corporate Ownership in the United States." On trends in corporate structure at the end of the nineteenth century, see: Morton J. Horwitz, *The Transformation of American Law, 1870-1960: The Crisis of Legal Orthodoxy* (New York: Oxford University Press, 1992), 94-98.

purchases at the store, a service that was supposed to especially attract customers who lived far away by allowing easy mail-order purchases with no need to transfer funds. In at least one case, a department store bank allowed its depositors to draft checks on their accounts.[142]

These "savings banks" arose at a time when department stores experimented widely with their service offerings and the stores that offered savings departments presented them in this context.[143] In New York, store banks became sufficiently established in the first few decades of the twentieth century that at least one newspaper listed them along with restaurants, concert auditoriums, and rest rooms among the "conveniences" an average customer would have experienced.[144] A widely-quoted figure in the first decade of the twentieth century claimed that the largest department store savings bank in New York City handled accounts for as many as 50,000 depositors.[145] Although these "banks" seem to have been centered in New York, they gained a measure of national attention while stores in at least five other cities—St. Louis, Chicago, and three in Massachusetts, including Boston—also introduced them.[146]

Observers from an early date understood that the department store savings bank was primarily an attempt to increase sales rather than provide a complementary service to customers. As one of the earliest descriptions of such programs sarcastically noted, their great innovation

142 See: "Department Store Finance," *United States Investor,* vol. xix, no. 35 (29 August 1908), p. 1169; "Banking Made Easy," New-York *Tribune,* 30 August 1903, p. B14; and "Banking By Department Stores," *Wall Street Journal,* 15 February 1909, p. 6

143 On department store service innovations, see: William Leach, *Land of Desire: Merchants, Power, and the Rise of a New American Culture* (New York: Vintage Books, 1994; orig. 1993), 130-50 and throughout

144 "Round the Clock in a Department Store," New-York *Tribune,* 24 December 1914, p. 4

145 For example, see: "Department Store Finance," *United States Investor,* 1169 and "Abolition of Department Store Banking," *Trust Companies,* vol. vii, no. 3 (September 1908), 541

146 See: "Took Bank's Funds to Bet on Baseball," New York *Times,* 16 October 1921, p. 23; Siegel-Cooper & Co., [advertisement], Chicago *Tribune,* 2 April 1899, p. E5; "Siegel Boston Depositors," *Wall Street Journal,* 10 April 1914, p. 8; and Massachusetts Bank Commissioner, *Annual Report of the Bank Commissioner, 1908, Part I* (Boston: Wright & Potter, 1909), xlviii-xlix

lay in correcting the fact that "all that has heretofore prevented the shopping woman from ruining herself in a single day at the bargain counter of the department store is that before she could get to the bank for fresh supplies of cash the tempting merchandise would all be sold."[147] Even a generally favorable discussion of the store banks noted that their operation "acts as an incentive to spend money" because of the co-location of "so-called bargains" with deposits that could be withdrawn on demand in the form of store credit.[148]

In addition to drumming up new business, these store banks also gave their operators access to less expensive forms of capital than department stores could get from commercial financiers. As one critical examination of department store savings programs explained, "the money which the store bank receives is used as a rule in the business of the concern as capital, and is subjected therefore to the risks of trade without security."[149] Another report explained that department stores could usually expect to get rates no better than six percent on their commercial paper, making the four percent interest they paid on deposits a way to "secure substantial sums of money at a savings of 2 per cent to 2½ per cent" while simultaneously making "a good customer of every depositor."[150] As the *Wall Street Journal* explained in 1909, "all big stores are extensive borrowers" and "with deposits of $500,000 or $250,000 in the department store banks, the necessity for outside loans is so much lessened and in a very important manner these deposits act as money capital."[151] In addition to using their savings deposits as a form of self-finance,

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147 "The Store Bank," Los Angeles *Times,* 4 March 1895, p. 5

148 "Department Store Finance," *United States Investor,* 1169

149 "Abolish Department Store Savings Banks," *The New York Financier,* vol. lxxx, no. 935 (7 July 1902), 23

150 "Department Store Finance," *United States Investor,* 1169

151 "Banking By Department Stores," *Wall Street Journal,* 15 February 1909, p. 6

department stores also invested them for their own gain.[152]

Given that department store savings programs were attempts similar to those which trust companies had undertaken to access working- and middle-class capital outside of the traditional banking structure, it is perhaps not surprising that some savings banks viewed them with equivalent wariness. Indeed, a group of New York savings bank operators petitioned the state legislature in 1903 to support passage of a bill that would bar department stores, trust companies, and other non-savings banks from advertising or operating a savings deposit business. A newspaper account of the petition noted that a lawyer for the state's Savings Bank Association claimed that "these institutions . . . had by clever devices made the people believe that their deposits were safeguarded as by regular savings banks, and thus secured thousands of depositors."[153]

Although the bill failed to pass, criticism persisted. A few years later, New York's Superintendent of Banks pushed to prohibit businesses from offering both mercantile and banking services at the same physical location.[154] Trust companies themselves even joined the fray, perhaps in an attempt to make their savings business seem legitimate in comparison to the store banks. As one trust company trade magazine complained, "department store banking is neither subject to Federal nor State supervision, and . . . [d]epositors have no assurance to the manner in which their deposits are invested or how employed." The article termed "this practice .

152 As one overview claimed, "the funds received are invested or loaned at will." Siegel-Cooper, for example, extended a three-year $360,000 mortgage to a construction firm in 1908 to finance a project in the Bronx. For the quotation, see: "Abolish Department Store Savings Banks," *The New York Financier,* vol. lxxx, no. 935 (7 July 1902), 23; for the construction deal, see: "In the Real Estate Field," New York *Times,* 16 December 1908, p. 16

153 "Protest of Savings Banks," New York *Times,* 12 February 1903

154 "Confer on Bank Laws," New York *Tribune,* 22 January 1908, p. 9

. . a menace to the public" and added—without an apparent sense of irony—that it was "an invasion of the legitimate field of the savings bank."[155]

Despite such attacks from within the finance world, department store banks continued to attract depositors and maintain operations without any apparent widespread public backlash until the end of 1913, when two department stores in New York and one in Boston owned by the Siegel Stores Corporation went into receivership. As the company slipped into bankruptcy proceedings, it quickly became clear that its financial mismanagement had included using the $2.4 million on deposit in the store banks to finance loans to the failing department stores (which were technically distinct entities within the holding company). Depositors in the store banks quickly feared that they might absorb heavy losses as a result. As the company's president, Henry Siegel, faced a fourteen-count indictment for larceny and other crimes stemming from the fraud, 15,000 depositors fought with the firm's creditors for priority over the little money the firm still controlled. Siegel was eventually found guilty on a single count of submitting a fraudulent loan application to a third party, while most savings depositors in the Siegel store banks recouped only about 15 percent of their losses. The saga was a major news story in both New York and Boston for months as the bankruptcy and criminal court cases played out.[156]

Siegel's case highlighted the validity of many department store savings bank critics who claimed that the depositories were inherently unsafe because they operated legally as "private banks" in New York and thus fell under the jurisdiction and regulation of the state comptroller

155 "Abolition of Department Store Banking," *Trust Companies,* vol. vii, no. 3 (September 1908), p. 541

156 See: "Receivers for Siegel Houses," Boston *Daily Globe,* 31 December 1913, p. 1; "Siegel Depositors Meet," New York *Times,* 6 January 1914, p. 17; "Siegel in Geneseo Ready For Trial," New York *Times,* 9 November 1914, p. 1; "Appeal for Siegel If Found Guilty," New York *Times,* 15 November 1914, p. C1; "Siegel Is Guilty," Chicago *Daily Tribune,* 24 November 1914, p. 1; "Savings Depositors Will Get No More," New York *Times,* 11 July 1915, p. 16; and "Henry Siegel, Big Merchant Once, Is Dead," Chicago *Daily Tribune,* 27 August 1930, p. 1

rather than the banking department. Much of the early reporting after Siegel's bankruptcy pointed out that although the store had taken out a $100,000 bond as legally required to operate a private bank in New York, there was no way to know whether that would be sufficient to repay depositors because the comptroller's office did compile private bank deposit figures.[157] Outrage over the Siegel case directly led New York to amend its banking laws in 1914 in order to transfer supervision of private banks to the more watchful eye of the state banking department.[158] Meanwhile, at least one shameless firm sought to capitalize on the distrust of department store banks that the affair engendered, running an advertisement that ran: "Old man 76 lost $21,155 in Department Store Bank crash. Took Life Savings out of Mortgages to put on Deposit. Moral[:] Buy Our Guaranteed Mortgages."[159]

Because of Siegel's criminal conduct, those who wished to do so found it all too easy to frame his bank's failure as an example of personal impropriety or lax oversight rather than as an indictment of the premise of department store banking, repeating a pattern that described analysis of most mutual savings bank failures as well. As a characteristic Midwestern observer opined in a discussion of the Siegel affair, these institutions were not inherently problematic. The real issue, he felt, was that they would go unregulated in many states. "There is no objection to this," the commentator explained, "as long as nothing objectionable happens."[160]

As outrage over the Siegel affair eventually faded and the state instituted greater

157 "Department Store Savings," *Wall Street Journal,* 31 December 1913, p. 2

158 "New Banking Law Signed by Governor," New York *Times,* 17 April 1914, p. 8

159 Lawyers Mortgage Co., [advertisement], New York *Times,* 26 March 1914, p. 7. The advertising copy referred to the case of August Albert, who contemporary news reports identified as the New York store's largest depositor—his deposits along with those of his wife and daughter amounted to $21,155.22; see: "Siegel Said Stores Would Pay Richly," New York *Times,* 23 March 1914, p. 1

160 "Department Store 'Savings Departments,'" *Commercial West,* vol. 25, no. 2 (10 January 1914), 7

oversight, department store banking continued for many years in New York. By 1925, the *Wall Street Journal* reported that R.H. Macy & Co.'s department store bank was the biggest in the class—and the state's second-largest private bank of any sort—with deposits in excess of $5 million invested in a mix of securities and loans. It was joined by the Bloomingdale Bros. bank with nearly $1.7 million on deposit. Interest in the concept remained strong enough that Gimbel Bros. had also recently organized a new bank.[161]

### *Moving beyond saving: the development of working-class credit*

In the late 1910s, mutual savings banks started to offered new services in an attempt to compete with the considerably wider range of institutional finance options becoming available to the average American. Such service innovations included the direct sale of savings bonds beginning with the World War I Liberty Bond campaigns and the opening of budget departments to help with basic financial planning.[162] Prior to that point, however, most mutual savings bank innovation was focused on developing new ways to bring in depositors and deposits (some of which will be discussed in Chapter Six). The Christmas, vacation, and other savings "clubs" that proliferated during these years fit that profile. Primarily marketing tools whose main advantage was that banks could use standardized forms to calculate interest on their deposits, these new accounts actually offered a more restricted customer experience than did a traditional savings account.[163]

161 "In and Out of the Banks," *Wall Street Journal,* 2 September 1925, p. 8

162 On budgeting, see: S. Agnes Donham, "Home Economics in Banks," *Savings Bank Journal,* vol. II, no. 6 (August 1921), pp. 30-31; on savings banks promoting Liberty Bond sales, see: Welfling, *Mutual Savings Banks,* 71

163 Savings banks began to offer "club" saving in significant numbers starting around 1905. Richard N. Germain explains their operation: "To enroll in a Christmas Club, a customer agreed to make fixed or escalating deposits at fixed intervals over a one-year period. The clubs got their name from the fact that payouts were made shortly before Christmas, and banks used the clubs to promote saving for holiday spending. . . . If a customer failed to

This lack of expansion beyond the savings deposit transaction indicated the conservatism of mutual savings bank directors more than any lack of desire on the part of working- and middle-class Americans for a broader range of institutional finance options.[164] The many deposit facilities available by the end of the nineteenth century and the development of fraternal and industrial insurance companies during the period left one remaining basic financial service for people of modest means still largely unmet: the extension of credit. While a mix of both for-profit and semi-philanthropic pawnshops as well as informal arrangements with merchants, immigrant bankers, and even friends or family provided a patchwork of credit options to Americans of modest means,[165] the end of the nineteenth and beginning of the twentieth centuries saw the advent of two new institutional options: building and loan associations and credit unions.

As outlined in Chapter Two, some building and loan associations operated in the United States as early as the 1830s. Moreover, their first advocates positioned them as alternatives to savings banks for working-class depositors, despite their primary intention to provide loans and the relative lack of ability in many early building and loan associations to withdraw money on demand before the end of the plan's terms. Saving was a necessary component of early cooperative building-and-loan associations because their organizers determined that the only way to raise the capital to make mortgage loans to relatively poor people was to draw on the pooled

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make a deposit, deposits to date were returned without interest. Banks therefore needed to calculate interest only once for each plan." See: Richard N. Germain, *Dollars Through the Doors: A Pre-1930 History of Bank Marketing in America* (Westport, CT: The Greenwood Press, 1996)*,* 126-29; quotation on pp. 126-27

164 On the relative lack of mutual savings bank innovation—especially compared to equivalent institutions in Europe—during this period, see: Wadhwani, "The Institutional Foundations of Personal Finance"

165 On pawnshops, see: Wendy A. Woloson, *In Hock: Pawning in America from Independence through the Great Depression* (Chicago: University of Chicago Press, 2009); on immigrant banking, see: Jared N. Day, "Credit, Capital and Community: Informal Banking in Immigrant Communities in the United States, 1880-1924," *Financial History Review,* vol. 9, no. 1 (April 2002), pp. 65-78; on borrowing from aquaintances as well as nineteenth-century small lending in general, see: Calder, *Financing the American Dream,* 41-73

resources of the members who wanted the chance to take a loan themselves. Thus, they encapsulated two of the main aspects of institutional savings development in the nineteenth century. First, they represented another strain of the movement that recognized the financial power that aggregated savings could wield even if individual deposits were insubstantial. Second, they were explicit responses to for-profit financiers who would not extend mortgage loans to working-class borrowers on reasonable terms. Although they pursued a cooperative model rather than a philanthropic one, building and loan associations followed where mutual savings banks had led a half-century before, offering a nonprofit service that for-profit institutions did not believe was economically viable.

Despite this legacy, it was not until the 1880s that building and loan associations became widespread in the United States. In terms of their utility as savings institutions, the development during that decade of the so-called "Dayton Plan" of operations was a key innovation in this regard because it was the first widely-adopted organizational structure that allowed members to withdraw money at any time without penalty. Dayton Plan associations also sometimes accepted deposits from non-members, albeit at a lower interest rate than shareholders received.[166] Whether operating on the Dayton Plan or another method of organization, roughly 11% of building and loan associations accepted non-member deposits by 1893.[167] At the end of the century, another organizational structure called the "guaranteed stock plan"—used particularly in Oregon, Kansas, and California—required its directors to purchase non-withdrawable stock as a way of maintaining a reserve fund. Among other benefits, this allowed an association to offer a regular

166 David L. Mason, *From Buildings and Loans to Bail-Outs: A History of the American Savings and Loan Industry, 1831-1995* (New York: Cambridge University Press, 2004), 20

167 The figure was 641 out of 5,838 building associations. See: US Bureau of Labor, *Ninth Annual Report of the Commissioner of Labor: Building and Loan Associations* (Washington: Government Printing Office, 1894), 382-83

dividend rate to its members—rather than tying it to returns from loans—bringing these associations more directly into competition with bank and trust company savings facilities.[168] As David L. Mason demonstrated, innovations such as these helped to spur the rapid growth of building-and-loan associations at the end of the nineteenth century by making them more attractive outlets for saving.[169] When the US Commissioner of Labor surveyed the sector in 1893, the average age of associations was 6.3 years while fewer than one in five were ten years or older.[170] From 1888 to 1897 alone, the number of American associations jumped from roughly 3,500 to 5,872. In the later year, the associations controlled more than $600 million in assets.[171]

As had been true of mutual savings banks, the success of cooperative building and loan associations spurred more speculative ventures into the field during the late-1880s and 1890s.[172] Collectively known as "national" building and loan associations because they frequently organized local branches far from their headquarter city, these institutions issued capital stock to their directors in order to supplement member shares. Directors were often financiers, industrialists, or other wealthy investors who could effectively exercise control over the national association by allotting internal voting power on a per-share basis rather than the "one member, one vote" principle that most of the local cooperative associations used. As a result, national association directors frequently drew large salaries in addition to their disproportionate share of

168 Mason, *From Buildings and Loans to Bail-Outs,* 21

169 Ibid., 21-32

170 US Bureau of Labor, *Ninth Annual Report,* 327-28

171 Mason, *From Buildings and Loans to Bail-Outs,* 28 and H. Morton Bodfish, ed., *History of Building and Loan in the United States* (Chicago: United States Building and Loan League, 1931), 136

172 The earliest "national" started operation sometime between 1885 and 1887 in Minneapolis. See: Bodfish, *History of Building and Loan,* 100 and A. A. Winters, "A Review of the Growth, Methods, Failures, and Manners of the So-Called National Building and Loan Associations," *Financial Review and American Building Association News,* vol. xii, no. 9 (September 1893), pp. 228-29: 228

the profits. Considerably more expensive to administer than the much smaller local institutions and concerned with profit more than with increasing mortgage access, the national building and loan associations lent out mortgages worth only about eighty percent of their member shares and deposits compared to the nearly one hundred percent that local associations managed. Sensing profit, the growth of national associations was phenomenal.[173] In 1893, the US Commissioner of Labor reported that 226 of the 240 national associations identified were less than five years old.[174] Three years later, there were 361 nationals in operation controlling roughly $139 million in assets through branches located in every state.[175]

Demonstrating the speculative attention that novel methods of small finance attracted during the end of the nineteenth century, national associations went out of business almost as quickly as they entered it. Fear of competition led local cooperative building and loan associations throughout the United States to successfully pressure state governments for regulatory legislation, much of which applied to all associations but limited some practices more prevalent in national associations (such as high salaries for directors or administrators). Some states also imposed high barriers to entry for out-of-state associations, such as requiring them to post a large bond, either as a way of favoring local association interests, protecting local members against the possible failure of a "foreign" company, or both.[176]

National associations might have been able to overcome these restrictions had their

173 For an overview of national building and loan association organization, practices, and history, see: Mason, *From Building and Loans to Bail-Outs,* 32-37 and Bodfish, *History of Building and Loan,* 100-15

174 US Bureau of Labor, *Ninth Annual Report,* 327

175 Mason, *From Building and Loans to Bail-Outs,* 33

176 For an overview of the regulatory movement and the public debate that fueled it, see: Bodfish, *History of Building and Loan,* 105-14 and Mason, *From Building and Loans to Bail-Outs,* 34-36

business practices not exposed them to substantial risk. As late as 1893, their mortgages only went into foreclosure at an equivalent rate to those of local associations. But their habit of sending loans to the home office for approval meant they had less specific knowledge of the properties they were loaning on or the people they were loaning to. Likewise, their relatively high operating costs—related both to the expense of managing agents across a large geographic area and paying high salaries—meant that their profits were less than a third of those that local associations averaged on a per-shareholder basis. Consequently, when the depression following the Panic of 1893 caused both widespread unemployment and lower home values, many national associations were particularly ill-equipped to trim costs at the same time that they were exposed to greater losses. When the largest "national," the Southern Building and Loan Association, failed in 1897, it sparked runs that rapidly pushed many other national associations into bankruptcy. Almost none remained in business by 1900.[177]

The frenzy of speculation that the national associations represented ended up shaping the growth of their local cooperative counterparts. Their competition and failure encouraged greater government regulation, mobilization of local associations to lobby at a state and (eventually) national level, and an incentive for prospective members to gravitate towards smaller cooperative institutions.[178] In the context of the late-nineteenth century finance economy, the rise of the national building and loan associations also perfectly encapsulated the general advent of the belief that small savings could be economically significant when aggregated on a large scale. Even though the national associations' widespread failures did depress overall building and loan association growth—it took until 1905-06 for American membership and inflation-adjusted

177 This analysis of the decline of national associations draws heavily on the research of David L. Mason. See: Mason, *From Building and Loans to Bail-Outs,* 35-37. See also: Bodfish, *History of Building and Loan*, 114-15

178 Mason, *From Building and Loans to Bail-Outs,* 37-39 and Bodfish, *History of Building and Loan,* 115

assets to recover their 1897 peak[179]—they did not have any significant effect in discouraging that general principle. After all, the considerably larger pool of national aggregate savings bank deposits had already recovered from their brief dip at the outset of the depression and continued to grow during and after the "nationals" crisis.

Eventually, even the local associations' setback subsided and they continued to grow rapidly well into the twentieth century. By 1914, more than 3 million members comprised approximately 6,600 associations with aggregate assets exceeding $1.3 billion.[180] While that sum was still only one-third as large as the aggregate deposits held by mutual savings banks—which represented nearly three times as many depositors—it was greater than the roughly $1 billion in assets that industrial insurance companies held.[181] As R. Daniel Wadhwani pointed out, a key explanation for that success is that while most savings institutions were content to access small savings by offering deposit services alone, "building-and-loan associations flourished by drawing away business that otherwise might have gone to savings banks." They did this "by targeting specific social and ethnic groups, by locating within growing residential neighborhoods, and by offering amortizing mortgage loans rather than traditional ones."[182] Despite these important distinctions, building and loan associations shared one essential element with most of the other institutional finance innovations of the era: they based much of their operating capital on small savings gathered from many people rather than large investments from the wealthy.

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179 Bodfish, *History of Building and Loan,* 136. Estimated inflation is based on the consumer price index derived in: David and Solar, "A Bicentenary Contribution to the History of the Cost of Living in America," 16

180 Bodfish, *History of Building and Loan,* 136

181 The Spectator Company, *The Insurance Year Book, 1915-1916: Life, Casualty and Miscellaneous* (New York: The Spectator Company, 1915), 571

182 Wadhwani, "The Institutional Foundations of Personal Finance," 522

Building and loan associations also helped pave the way for another institutional advancement in working-class credit that had long-term consequences: credit unions. These organizations operated on similar principles but focused on much smaller loans and dispensed with collateral security requirements. Although Americans had begun to experiment on a limited basis with credit unions almost as early as they had with building and loans, these arrangements remained far less common until the twentieth century. Groups defined by a common interest such as a shared employer generally organized the early attempts, sometimes known as savings and loan associations. Whereas early building and loan associations often had legal charters as financial institutions and operated under state law, nineteenth-century American credit unions were extra-legal groups that could best be seen as particular iterations of the fraternal or mutual benefit societies that proliferated during the period.[183] For example, three-quarters of the 600 employees of the Boston *Globe* newspaper organized the Globe Savings and Loan Association in 1892. Open only to employees and still operating in 1908, the association made 4,579 loans to its members from its $53,319 in deposits that year. Nearly all of the loans were for less than $50 and more than half were for less than $5.[184] While these early credit unions bore a superficial resemblance to contemporary attempts at cooperative credit that the Farmers' Alliance (and the Populist movement in general) promoted, they operated on a significantly smaller scale oriented toward personal saving and consumption rather than the business operations that agricultural

183 There were some early attempts to correct this situation, including a bill to provide for the incorporation of credit unions that the Massachusetts legislature considered but failed to pass in 1871. Political economists and anti-poverty commentators also wrote frequently during the last third of the nineteenth century about the need to create similar laws as an encouragement to organize credit unions and protect their members. See: J. Carroll Moody and Gilbert C. Fite, *The Credit Union Movement: Origins and Development, 1850-1970* (Lincoln, NE: University of Nebraska Press, 1971), 16-17

184 Edson L. Whitney, *Cooperative Credit Societies (Credit Unions) In America and In Foreign Countries,* Miscellaneous Series, Bulletion of the United States Bureau of Labor Statistics, no. 314 (Washington, DC: Government Printing Office, 1922), 17

cooperative credit might finance.[185]

Credit unions gained a measure of formality when Massachusetts became the first state to pass a general incorporation law for them in 1909 as part of the same flurry of small-finance reform efforts that led to savings bank life insurance. Defining a credit union as "a cooperative association formed for the purpose of promoting thrift among its members," the state clearly identified the organizations' saving aspect as one of their key benefits. From that start, a few additional states—eight in all—passed credit union laws before 1920. It was not until the following decade that significant numbers organized credit unions in those states or elsewhere. Yet from this slow start, credit unions made significant progress. By 1930, an additional twenty-three states had passed credit union incorporation laws, more than a quarter-million members had joined roughly 1,100 unions throughout the United States, and they controlled aggregate assets of roughly $45 million while making annual loans valued at approximately $60 million.[186]

Although credit unions added a miniscule amount of capital to national investment during their early years, they could make a significant difference in the lives of the hundreds of thousands of people who used them and otherwise might have resorted to pawnshops, loan sharks, or friends for considerably more expensive loans (a point which their contemporary promoters repeatedly made).[187] Moreover, these early experiments unified several of the period's most important developments in the relationship between savings and institutional finance. By eschewing all forms of capitalization other than savings deposits, credit unions reenacted the efforts of mutual savings banks and building and loan associations before them to organize

185 See: Charles Postel, *The Populist Vision* (New York: Oxford University Press, 2007), 104-21

186 See: Moody and Fite, *Credit Union Movement,* 36, 76, 102-26; quotation on p. 36

187 Moody and Fite, *Credit Union Movement,* 31-32

finance on the basis of mass institutional saving rather than purely speculative investment. They also reduced that principle to its most extreme form in an attempt to prove that providing institutional outlets for the smallest savings—even pennies—could have a significant aggregate financial effect.[188] By successfully investing small savings in unsecured loans to people who most banks considered too poor to be worthy credit risks, credit unions also provided an important early example of the feasibility of operating a non-usurious institutional facility geared towards offering loans to small borrowers. Just as mutual savings banks had helped to demonstrate to their for-profit counterparts that a savings institution could be operated soundly, cooperative credit unions—along with building and loan associations—were among the earliest forms to demonstrate that a credit institution could be as well.

### *Conclusion*

Surveying the immediate origins of the new Federal Reserve system in 1914, political economist J. Laurence Laughlin of the University of Chicago noted that its context was one of rapid experimentation and diversification within the American finance sector:

> The problem of banking and currency reform was complicated by a confusion of mind, even among bankers, in regard to the various kinds of banking which might be carried on by any one institution. We were in the midst of an evolution, not only in our business, but in our credit, organization. The banking organism, which had seemed fairly homogeneous, began to be resolved (as if by some gigantic magnifying glass) into parts having separate functions and purposes. Already the trust companies . . . while retaining their original departments, had developed departments for commercial banking creating demand liabilities. Meanwhile national banks, although essentially commercial institutions, began to establish savings departments. Then, the growth of investment banking, and the promotion and distribution of securities to meet the phenomenal growth of savings by investors large and small, in a country of rapidly expanding wealth, assumed an overshadowing magnitude, and colored the whole character of American banking and finance.[189]

188 Over the long run, credit unions proved particularly effective at demonstrating this point. After fifty years of operation, more than 20,000 credit unions in 1960 held nearly $5 billion in deposits for more than 12 million depositors, representing a relatively small average deposit of about $413. See: Moody and Fite, *Credit Union Movement,* 359

189 J. Laurence Laughlin, "The Banking and Currency Act of 1913," *Journal of Political Economy,* vol. 22, no. 4

Setting aside its relevance to the creation of the Federal Reserve system—and the system's provisions to further encourage commercial banks to operate savings departments—Laughlin's analysis is striking for the way that he placed savings within the general context of institutional finance development in the early-twentieth century. Laughlin treated savings as simply another—even a particularly important—component of the rapidly diversifying institutional finance sector of the period. That this was obvious to him should not obscure how recently it had become so for others. Less than forty years earlier, both the Supreme Court and many state legislatures had based laws and judicial opinions on the premise that most savings banks were not—and should not be—businesses. They had done so at a time when relatively few other financial institutions explicitly handled savings transactions. Laughlin, by comparison, wrote in a year when the author of a new trade manual on the topic of *How to Advertise a Bank* began with a section on "How to Build Up Savings Deposits" *before* turning to the best ways of "Developing the Regular Departments" including commercial accounts, brokerage, trustee business, and safe deposits.[190]

While a changing economic calculus concerning the basis of capital aggregation relative to the cost of servicing small accounts explains many financiers' *desire* to pursue for-profit savings transaction businesses on a grand scale, the factors motivating the broad cultural and legal *acceptance* that they won are harder to pin down. An answer begins to emerge when one considers the timing of particular developments within the for-profit savings sector. Stock savings banks—and, to a lesser extent, savings departments in state commercial banks—were the first deposit institutions to gain such acceptance. It is noteworthy that they did so in regions whose main banking concerns involved determining ways to raise capital on more attractive

(April 1914), pp. 293-318: 300

190 A.W. Shaw Company, *How to Advertise a Bank* (Chicago and New York: A.W. Shaw Company, 1914), 3

terms than could be had by borrowing from elsewhere (particularly the banking centers of New York and New England). Only recently gaining the wage- and salary-earning population necessary to support widespread institutional savings, they did so at a time when the capital aggregating abilities of savings institutions had become one of their salient features. In other words, these states encouraged for-profit savings institutions as a financial incentive in order to induce their residents to organize them because their banking functions were more relevant in this context than was any attempt to encourage or protect small savers. The fact that some states such as Iowa and California were considerably more successful at creating a stock savings bank system than were those such as Missouri should not obscure the basic intention their legislators shared.

The next major for-profit groups to enter the savings sector were industrial insurance companies, trust companies, and certain private banks such as those that department stores organized. In these instances, the move into the savings deposit business reflected less an explicit acceptance of for-profit savings institutions than it did the continued legacy of loose regulation that applied to these classes as a result of their previous status as financial institutions for people with enough money to not require special state protection. In other words, their ability to develop savings businesses with few restrictions was the result of legislative inertia rather than of positive efforts to encourage such activity.[191] Indeed, this interpretation is bolstered by the fact that it was the *lack* of protection that these institutions afforded small savers that earned them considerable derision and frequent calls for tighter supervision—many of which eventually bore fruit over the course of the twentieth century. The later movement of national banks into the field reflected a

191 R. Daniel Wadhwani has recently pointed out that lobbying from commercial banking interests to oppose restrictions on their savings-related activities as well as the difficulty of enforcing uniform laws in the US due to its federalist division of government authority also played a role. See: Wadhwani, "The Institutional Foundations of Personal Finance"

similar situation, given that they were able to do so not by an express change in federal law but by the Comptroller of the Currency's official acknowledgment that there was nothing in the law that specifically *prohibited* such a business. In other words, they entered the field when they deemed it to be financially desirable to do so rather than by legislative inducement.

To a certain degree, the acceptance of for-profit savings was simply a specific instance of the broader contemporary American support for *laissez-faire* finance policies expressed as both a belief in the power of these businesses to effect beneficial social change and a reluctance to restrain them. For savings institutions in particular, this acceptance both relied on and helped to encourage the fact that increasing numbers of Americans began in the 1870s to associate institutional saving with outcomes—securing one's future against injury or retirement, gaining financial independence, the future ability to purchase a home, and the virtue that regular expressions of thrift inculcated, among others—rather than the specific act of making a savings deposit in a mutual savings bank. This certainly seems to have played a role in the success of institutions that offered alternative financial transactions for saving, such as building and loan associations, insurance companies, or employee stock purchase plans. Somewhat ironically, this view also reflected one plausible extension of rhetoric that mutual savings bank promoters themselves espoused for decades when they claimed that regular saving was the most effective means to a number of beneficial ends rather than a specific goal in itself.

The cultural dissociation of institutional saving from using mutual savings banks provided the rhetorical framework with which for-profit savings deposit institutions as well as all manner of alternative savings plans could plausibly argue that the essential service they offered—an opportunity to save—was more important as an indication of their social and economic value than the motivation underlying the offering or even the particular form it took. Thus when the centennial of the first US savings banks arrived in 1916, the American Bankers' Association issued a celebratory volume that conflated the legacy of its commercial savings bank members with that of mutual savings banks.[192] Likewise, most promoters of every class of financial institution or plan that attempted to engage with Americans of modest means presented it as a way of encouraging thrift and translating that virtue into secure and profitable long-term investment. "Savings" became the universal byword for any scheme that claimed to serve that purpose. This was true even of many financial transactions that gave one little short-term access to his or her money or had high rates of loss. As Lendol Calder pointed out, even turn-of-the-twentieth century home buyers who took out a mortgage frequently discussed their purchase in terms of "saving"—either as an explanation of how they acquired the money needed for a down payment, or, just as often, to describe the strict budgeting that was required to scrape together the money each month to pay down their loans.[193]

Antebellum mutual savings bank promoters pointed to their growing accounts as evidence that their institutions were inherently beneficial to society. In a similar manner, the promoters of this newly-diverse savings sector pointed to the variety of its institutions, the growing numbers of people it engaged, its expanding geographic footprint, and the immense capital it controlled as proof that saving was the essential basis for the nation's future economic growth. While financiers at the beginning of the nineteenth century drew their capital almost exclusively from economic elites, the financiers of the early-twentieth century increasingly found their fortunes in the "masses."

192 Edward L. Robinson, *One Hundred Years of Savings Banking* (New York: Savings Bank Section, American Bankers Association, 1917)

193 Calder, *Financing the American Dream,* 64-69

## Chapter Five

## The Thrift of Nations: Savings Institutions and National Progress, 1873-1910

### *Introduction*

Political economist William Graham Sumner mused in an 1899 essay on the "Power and Beneficence of Capital" that the ability to raise and direct investment capital was the main indicator of a society's capacity for progress. Yet rather than focusing on bankers or industrialists, he singled out American workers for praise in enabling this process. For Sumner, "the facts . . . show that the savings bank depositor is a hero of civilization, for he is helping in the accumulation of capital which is the indispensable prerequisite of all we care for and all we want to do here on earth." Although he acknowledged that "the presence of capital does not insure the extension of civilization" in and of itself, he still asserted that "an extension of civilization without an increase of effective capital or a dimunition of members is impossible."[1] For those who hewed to a similar analysis, savings institutions' unique ability to enlarge the base of participants actively engaged in aggregating capital—making investment a communal rather than an individual pursuit—played a key role in the cultural and social advancement of the United

1 William Graham Sumner, "The Power and Beneficence of Capital [1899]," in *Earth-Hunger and Other Essays By: William Graham Sumner,* ed. Albert Galloway Keller (New Haven, CT: Yale University Press, 1913), 345

States.

Sumner's thesis indicated one of the most influential unions of cultural theory and financial policy apparent in late-nineteenth and early-twentieth century economic and social thought. Operating from an assumption that cultural progress was fueled by continual investment in innovation and the recognition that a substantial portion of an industrial economy's liquid capital was held by workers as a result of their labor for wages or salaries, commentators increasingly argued that the establishment of a robust institutional finance sector for workers aimed at converting their cash into productive capital was not just a business imperative but a social one as well. This line of thought became so entrenched in American popular economic theory that, by the 1920s, President Calvin Coolidge considered the entirety of human history and came to the following conclusion: there was a distant past when people first began to save and "from that hour civilization began to appear. The foundation of it all was thrift."[2]

While many if not most of the new institutional entrants into the small finance industry during the late-nineteenth and early-twentieth centuries were clearly motivated by economic opportunity or legislative incentive rather than such grandiose impulses, these were not mutually exclusive. Bankers happily promoted or defended their work in similar terms to those which Sumner outlined. Moreover, numerous contemporary observers—ranging from academics to politicians to civic-minded reformers—judged the developing small finance industry against such a standard. As American competitive awareness of other nations' efforts to increase their own savings rates as well as concerns about how to defend capitalism in an age of severe social and political turmoil each increased in urgency during the period, the prospect of using institutional savings to secure and advance the nation took on even greater import. Influenced by

2 Case File 87, Series 1, Library of Congress, Manuscript Division, Calvin Coolidge Papers

such national and international concerns, Sumner and like-minded interpreters re-oriented political and popular discussions of institutional savings from those centered on the ways they might help individual workers to the ways they might help the nation.

There were several consequences for this developing ideology concerning institutional saving. For one thing, it provided an intellectual justification for the expansion of commercial savings institutions that occurred simultaneously. Since the primary purpose of institutional saving in this view was to channel otherwise "idle" capital into investment, the increase in financial intermediaries serving this function was more important than the particular nature of those institutions. More abstractly, the shift in logic took the older antebellum notion that savings banks might turn workers into capitalists in order to provide them with the skills and resources necessary to avoid penury and turned it to a new purpose: workers' function as "capitalists" now lay in their contribution to the national welfare rather than to their own. In this interpretation, the seeds of using finance as a basis for participatory democracy were sown.[3]

In this context, using savings account figures as a proxy for measuring *individual* virtue in the antebellum tradition transitioned to become a way to measure *national* achievement in comparison to the rest of the world or even the history of humanity. But for the numerous politicians, academics, journalists, and social reformers who espoused these and similar views, the patchwork network of local savings institutions that seemingly missed large areas of the country and its population could be a source of grave worry. Those who expressed these concerns collectively elevated the promotion of saving to the status of a general federal priority

3 For two studies of some of the most important legacies of this view, see: Julia C. Ott, *When Wall Street Met Main Street: The Quest for an Investors' Democracy* (Cambridge, MA: Harvard University Press, 2011) and Janice M. Traflet, *A Nation of Small Shareholders: Marketing Wall Street After World War II* (Baltimore, MD: The Johns Hopkins University Press, 2013)

for what was effectively the first time.[4] This newly-defined national interest created the context in which a partnership between social reformers and government policymakers developed the first federally-owned and operated financial institution in 1910: the United States postal savings system. The coordination and encouragement of mass institutional finance has been a central concern of federal policymakers ever since.

### *Savings in the world*

Even as the economic and cultural importance of American institutional saving became more apparent over the course of the nineteenth century, workers became increasingly important financial actors in other parts of the world. Though international developments in savings institutions during this period differed somewhat from those in the United States, they did not go unnoticed by American journalists, government officials, and finance professionals. Newspapers, for example, frequently printed summaries of the annual savings statistics of foreign countries and noted important international developments such as when Great Britain established the world's first postal savings system in 1861. In typical fashion, the Comptroller of the Currency's first-ever detailed accounting of American savings banking included "a comparison of the condition of similar institutions in the United Kingdom" with the reasoning that these figures might "help in forming a judgment of [savings banks'] value and force in the business of the community."[5] And an official at the 1877 annual meeting of the American Bankers' Association

4 As discussed in Chapters Two and Three, the US government had directly-intervened in the savings banking sector in two ways prior to this era: by beginning to tax savings bank depositors during the Civil War and by establishing the Freedman's Savings and Trust Company immediately after it. But the former action was a war measure that exploited institutions organized and regulated at the state level while the latter was conceived of mainly as a social welfare measure for former slaves rather than as a savings bank for the nation's general benefit.

5 US Comptroller of the Curreny, *Annual Report* (1873), xl

used the claim that "you will find that nowhere in the old world [of Europe] is the evil of deposit taxation, whether of Savings Banks or of other banks, recognized or known" as the starting point for a disquisition about why the practice should be abolished in the United States.[6]

The international "Congress of Provident Institutions" which met in Paris as part of that city's 1878 world's fair marked the beginning of a new phase of savings advocacy. As a circular letter inviting American participants explained, "the object of the Congress . . . is for the comparative study of legislation, methods of operation and responsibility, the scientific bases, amelioration, reforms, statistics, and economic and moral results of provident institutions, according to the experience of the various countries of the civilized world." The meeting would include the study of "savings banks, school savings banks, bureaus of savings in manufactories and workshops, societies of mutual relief, insurance, popular banks, [and] co-operative societies."[7] In its emphasis on the wisdom of pursuing new types of working-class financial arrangements, its willingness to find them abroad, and its determination to identify the "scientific bases" of anti-poverty work, this meeting indicated a new ideological approach to savings in much of the world.

International meetings such as that held in Paris reflected a larger phenomenon in which Americans interested in social, political, and intellectual topics of all kinds regularly engaged with their counterparts abroad during the late-nineteenth century.[8] As a newspaper article detailing the upcoming "Scientific Congress" explained, "the tendency toward a larger analysis

6 American Bankers' Association, *Proceedings of the Convention of the American Bankers' Association . . . 1877* (New York: American Bankers' Association, 1877), 98

7 "Provident Institutions," New York *Herald,* 27 April 1878, p. 4

8 For a thorough review of this development, see: Daniel T. Rodgers, *Atlantic Crossings: Social Politics in a Progressive Age* (Cambridge, MA: The Belknap Press of Harvard University Press, 1998)

as a step toward a completer [sic] and more reliable synthesis in branches of affairs which concern all nations equally . . . has been strikingly manifested in this century in congresses for prison reform, conferences to consider international law, to secure uniformity of weights and measures, to promote social science, and for other kindred ends." Savings institutions were a logical addition to this tradition because they "are so important in their industrial, financial, beneficial, national and individual relations, and are growing so much more numerous and important over all the world." Moreover, the article insisted, "the world is now at a stage where, owing to greater knowledge, intercourse and competition, every prospering country must enjoy as many advantages of every kind as are attainable."[9]

The significant expansion of savings institutions in countries throughout the world from the mid-nineteenth century onward lent credence to that interpretation. Early in the period, Great Britain continued its pioneering role in developing working-class finance institutions when it created the world's first postal savings system in 1861. With some variations in specific operating procedures, postal savings banks were centrally-managed facilities that accepted small deposits and paid interest on them. The countries that established them over the last third of the nineteenth century wanted to extend institutional finance access to poor workers while drawing on a new supply of working capital for investment on behalf of their national treasuries. Governments turned to postal systems to serve these functions because of the expediency of using an existing network of publicly-accessible offices and infrastructure for coordinating nationwide fund transfers.[10] By 1909, at least thirty-four postal savings systems operated throughout the world. Concentrated in Europe and European colonies but also extant in places such as Japan, Canada,

9 "A Provident Institutions' Congress," *North American* (Philadelphia), 1 May 1878, p. 2

10 For an overview of postal savings development in the nineteenth century, see: James Henry Hamilton, *Savings and Savings Institutions* (New York: The Macmillan Company, 1902)

and Russia—though not yet the United States—depositors used postal savings systems on all six populated continents.[11]

Non-postal savings banks also proliferated over the same period, especially in western Europe. Just as many European countries had developed their first savings banks when Great Britain and the United States did, their use expanded dramatically starting at about the same time that American mutual banks' did. For example, the districts that would become Germany had roughly 280 savings banks operating in the mid-1830s, but more than twice that number by 1860. Even more remarkably, the country added nearly 1,500 additional institutions by 1880. France's savings bank system numbered fewer than fifteen institutions in 1830, but in the forty years following 1840 it grew from 290 savings banks to 530. In 1881, France followed the British example and organized its own national savings bank—an institution that increased its deposits considerably faster than did the country's local savings banks but did not overtake them. Similarly, Italy doubled its number of savings banks between 1860 and 1880. Great Britain's atypical *contraction* in privately-operated savings banks over the same period—its numbers dropped from 623 in 1860 to 442 in 1880—corresponded almost entirely with the growth of its postal savings system.[12] From 1860 to 1913, British independent savings banks' share of all bank assets dropped from 13 to 5 percent while the postal banks' share grew to 12 percent.[13]

Despite the near-ubiquity in the overall trend towards increased savings facilities and

11 For a review of worldwide postal savings systems in 1909, see: US Comptroller of the Currency, *Annual Report* (1909), 83-89

12 R. Daniel Wadhwani, "The Institutional Foundations of Personal Finance: Innovation in U.S. Savings Banks, 1880s-1920s," *Business History Review,* vol. 85, no. 3 (Autumn 2011), pp. 499-528: 504-5; for France, see: André Liesse, *Evolution of Credit and Banking in France,* Report of the National Monetary Commission (Washington, DC: Government Printing Office, 1909), 165

13 Daniel Verdier, *Moving Money: Banking and Finance in the Industrialized World* (Cambridge, UK: Cambridge University Press, 2002), 60n.

deposits, there was tremendous variation in the nature of savings bank organization across political boundaries. Countries including Germany and the Scandinavian nations gravitated towards a system of local savings banks akin to those in the United States—with the important distinction that they were sometimes municipally-owned rather than private institutions. (This was usually the case in Germany.) For their part, Great Britain, Belgium, and Canada developed increasingly centralized control over their savings banks through their nationally-owned facilities. Meanwhile, countries such as Italy charted a middle course: it developed a centralized postal savings system that successfully coexisted with locally-organized banks over the course of the nineteenth century.[14]

These disparate developments affected their respective countries in ways that were similar to the contemporary experience of institutional savings diversification and growth in the United States: far more depositors worldwide used savings institutions by the early twentieth century than had in the mid-nineteenth century and savings deposits accounted for a much greater percentage of national financial assets as a result. For example, per capita savings bank and postal savings accounts swelled to between 30 and 39 percent of the total populations of Germany, France, Great Britain, Belgium, Sweden, the Netherlands, and Japan by 1910.[15] In

14 For an overview of national variation in European banking development—including in the savings sector—during the nineteenth century, see: Verdier, *Moving Money,* 39-73. For the German case in particular, see: Jeffrey Fear and R. Daniel Wadhwani, "Populism and Political Entrepreneurship: The Universalization of German Savings Banks and the Decline of U.S. Savings Banks, 1908-1934," in *Business in the Age of Extremes: Essays in Modern German and Austrian Economic History,* ed. Hartmut Berghoff, et al. (Washington, DC and New York: German Historical Institute and Cambridge University Press, 2013), 98-105. For an overview of British savings institutional development, see: H. Oliver Horne, *A History of Savings Banks* (New York: Oxford University Press, 1947)

15 As Sheldon Garon has pointed out, this represented a per capita distribution of savings accounts that was roughly three times that of the United States if compared to American mutual and stock savings figures or twice as great as the United States if all American commercial savings deposit accounts are included. See: Sheldon Garon, *Beyond Our Means: Why America Spends While the World Saves* (Princeton, NJ: Princeton University Press, 2012), 92-100

Germany as in the United States, savings institutions controlled between a quarter and a third of financial intermediaries' assets by 1880 while savings banks controlled roughly half of all Italian bank assets.[16] As Sheldon Garon has described, Japan's postal savings system became "the state's principal *financial* mechanism for funding economic growth and national power," particularly after it decided in 1884 to transfer supervision of the system's assets to its Ministry of Finance—which then proceeded to invest them on behalf of the national government's proprietary interests.[17]

### *Institutional savings, social economics, and the rise of the social sciences*

The 1878 Congress of Provident Institutions that met in Paris represented several of the most important social, intellectual, and cultural approaches that contemporaries of this institutional savings development used to evaluate its meaning. For one thing, the meeting's organizers explicitly framed the gathering as both a recognition of a worldwide trend in the field and as a forum for comparing the diverse institutions related to savings. For another, they expressed a belief that this comparison of actual "experience" was the basis of a "scientific" evaluation that could yield an objective determination about their relative benefits—not only in concrete "economic" terms but also in presumably less-definable "moral" ones. And in both the international cooperation they hoped to foster and their assertion that the distinct nations to be studied were linked through their shared membership in the "civilized world," the Congress's organizers betrayed their belief in the ability to discern universal truths about the nature and best practices of savings institutions.[18]

16 Wadhwani, "The Institutional Foundations of Person Finance," 505

17 Garon, *Beyond Our Means,* 148-51; emphasis in original

18 All of these terms were explicitly used in the meeting's announcement. See above, and: "Provident Institutions,"

Similar motivations inspired the organizers of the "exposition of social economy" held at the 1889 Universal Exhibition in Paris, which also featured an examination of several types of working-class savings institutions. While the underlying purpose of the fair as a whole was to showcase French industrial development, the social economy section presented efforts to improve the lives of industrial workers as a way to justify that development on social terms. Its fifteen categories of exhibition comprise a telling blend of explicitly economic areas of study—

> "remuneration of labor," "profit-sharing, co-operative production," "trade organizations," "apprenticeship," "mutual aid socieites," "banks of pension and life annuities," "insurance," "savings," "distributive (or consumptive) co-operation," "co-operative loan associations," "institutions created by employers," "*grande et petite industrie*"

—with those related to workers' general social existence: "laborers' dwellings," "workingmen's clubs and recreation," and "*hygiène sociale.*" As one contemporary explained, the exhibit was "an attempt to establish the relation of the material, intellectual, and moral advance of the worker to the advance in science, invention, art, and industry," and to demonstrate "alongside the great record of industrial progress" that comprised the bulk of the fair's exhibits, "a parallel study of social and moral progress."[19]

Janet R. Horne has noted that the organizers of the 1889 exposition of social economy represented a relatively conservative strain within the French social reform community. One of its major organizers was France's "chief promoter of profit-sharing" while another was a former businessman and mayor of Le Havre. The general director of the entire fair also actively worked to exclude socialist input on the social economy section. Those who did ultimately create it were

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New York *Herald,* 27 April 1878, p. 4

19 E. Cummings, "Social Economy at the Paris Exposition," in *Quarterly Journal of Economics,* vol. 4, no. 2 (January 1890), pp. 212-21: 212-16

"decidedly in favor of industrialization and economic growth as a precondition for a stable regime that aspired to improve the material conditions of its citizens' lives" and believed that "applied science and technology would trace the path to progress and modernity and eventually to social peace." As Horne astutely observed, of "the two main approaches to social reform presented by the exhibit . . . one stressed neo-paternalistic practices, whereas the other promoted worker self-help and autonomy." Government interventions such as postal savings banks or the recently-instituted German social insurance program were not included.[20] Yet it is telling that the American mutual savings bank model represented in a single institution both approaches that this conservative view of social economy embraced.

The strand of social economic thought that this represented was one of many competing visions of what such an intellectual approach could accomplish, however. More generally, the field's adherents emphasized the social and cultural aspects of economic transactions while asserting that an economic analysis rooted in empirical observation could be used as a tool for social reform—particularly anti-poverty initiatives and the rapprochement of opposing economic and social classes in an era increasingly defined by industrial capitalism and growing inequities in wealth distribution.[21] Especially in the United States, one of the major expressions of social economic thought was an explicit attempt to return the field of economics to questions of morality after a period dominated by the "old, old commercial questions" and "matters of dollars

20 Janet R. Horne, *A Social Laboratory for Modern France: The Musée Social and the Rise of the Welfare State* (Durham, NC: Duke University Press, 2002), 62-76; quotations on pp. 64-5 and 76

21 For an overview of several of the most prominent aspects of social economic thought, see: Rosanne Currarino, "The 'Revolution Now in Progress': Social Economics and the Labor Question," *Labor History,* vol. 50, no. 1 (February 2009), pp. 1-17; Rodgers, *Atlantic Crossings,* 11-30; and Jeffrey Sklansky, *The Soul's Economy* (Chapel Hill, NC: University of North Carolina Press, 2002), 171-78

and cents" only, in the words of political economst Edwin R.A. Seligman.[22] As Elizabeth M. Sage has explained in the context of the French intellectual tradition, this understanding of social economics "was nothing more concrete or distinct than a 'sensibility'" shared by political economists who were concerned with the social and moral effects of economic developments. Consequently, the field could encompass innumerable political beliefs and conclusions.[23]

In the United States, for example, the term had a wide enough semantic range that early labor leaders such as Samuel Gompers and George Gunton—who believed that most academic political economists were devoted to promoting capitalist interests at the expense of workers—considered themselves to be "social economists." (Gunton even established a journal titled the *Social Economist*.)[24] At the same time, many contemporaries around the world frequently included middle-class progressive reformers in this circle as well. For example, the organizers of the social economy exhibit at the 1900 Paris Universal Exposition invited settlement house pioneer Jane Addams to serve as a judge.[25] Graham Taylor, a leader in the Social Gospel movement and an associate of Addams, founded the School of Social Economics in 1895 in a similar interpretation of the worldview as the first American institution to teach classes on social work.[26] Meanwhile, the coterie of academics who founded the American Economic Association

22 Quoted in: Currarino, "The 'Revolution Now in Progress,'" 5

23 Sage has also instructively noted that "one of the challenges of writing as an historian about nineteenth-century social economy is how to grapple with its lack of a firm outline. . . . Historians have often mirrored political economists' own confusion over social economy, disagreeing over its definition, origin, and history." See: Elizabeth M. Sage, *A Dubious Science: Political Economy and the Social Question in 19th-Century France,* Studies in Modern European History, vol. 65 (New York: Peter Lang, 2009), 78

24 On labor leaders' appropriation of the term "social economics," see: Lawrence B. Glickman, *A Living Wage: American Workers and the Making of Consumer Society* (Ithaca, NY: Cornell University Press, 1997), 57

25 Rodgers, *Atlantic Crossings,* 11

26 Gary Dorrien, *Social Ethics in the Making: Interpreting an American Tradition* (Malden, MA: Wiley-Blackwell, 2011; orig. 2008), 44

(AEA) in 1885—including Henry Carter Adams, Richard T. Ely, John Bates Clark, and Edwin Seligman—and who stressed the role of state regulation in controlling the excesses of *laissez-faire* capitalism also fell under the rubric.[27]

In contrast to generally anti-capitalist social economists such as Gunton and his socialist counterparts in Europe, however, the academics of the AEA represented one of the intellectual bridges between the type of social economic thought evident at the 1878 and 1889 exhibitions and the American development of the field. To begin with, many of them were immersed in the transnational intellectual community that the meetings sought to foster, having conducted graduate study in Germany prior to establishing their careers in the United States. While its members generally tended to endorse more state-interventionist approaches compared to those who compiled the 1889 exhibit, they nevertheless shared an affinity to explore institutional solutions to address social economic problems. Lastly, practicioners of the branch of economics that the AEA represented held a deep-seated belief that the examination of the type of historical examples which such exhibits displayed was the only appropriate way to create what the founding statement of the group called "an impartial study of actual conditions of economic life" as opposed to theoretical propositions based solely on the assumption of universal principles.[28]

As the general affinity of the AEA's members to social economic analysis suggests, this last point in particular influenced the broader development of the professional social sciences during the last third of the nineteenth century.[29] It certainly influenced the group of reformers

27 Currarino, "The 'Revolution Now in Progress,'" 4-6 and Thomas Bender, *A Nation Among Nations: America's Place in World History* (New York: Hill and Wang, 2006), 266-67

28 For an overview of the origins of the AEA and its members general intellectual affinities, see: Currarino, "The 'Revolution Now in Progress'"; Bender, *A Nation Among Nations,* 263-68;  171-79; and Sklansky, *The Soul's Economy,* 171-79. Quoted in: Currarino, "The 'Revolution Now in Progress,'" 5

29 See: Peter Novick, *That Noble Dream: The 'Objectivity Question' and the American Historical Profession*

who aligned themselves with the American Social Science Association (ASSA), a group whose founding mission in 1865 was to examine "those questions relating to the Sanitary Condition of the people, the Relief, Employment and Education of the Poor, the Prevention of Crime, the Amelioration of the Criminal Law, the Discipline of Prisons, the Remedial Treatment of the Insane, and those numerous maters [sic] of statistical and philanthropic interest which are included under the general head of 'social science.'" Including departments at its origin devoted to education, public health, jurisprudence, and "economy, trade and finance," the ASSA was the first American national association devoted to the study of economic problems.[30] In 1873, it added a "department of social economy" in a reflection of the growing prominence of the field within the social sciences.[31]

The ASSA provided another link between international and American social economics efforts. For example, New York financier John Pomeroy Townsend referred to savings banks in both England, France, and Belgium during a wide-ranging 1877 address he delivered at an ASSA meeting on the topic of savings institutions. He also approvingly quoted the French economist Augustin de Malarce who claimed that "it is the Savings Bank which has taught the workman how he can become a capitalist . . . and in amassing the excess called savings in a fruitful place and in complete security, he learns how capital is formed and how it can be at first prudently

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(NewYork: Cambridge University Press, 1998), 47-60; Thomas L. Haskell, *The Emergence of Professional Social Science: The American Social Science Association and the Nineteenth-Century Crisis of Authority* (Urbana, IL: University of Illinois Press, 1977); and Dorothy Ross, *The Origins of American Social Science* (New York: Cambridge University Press, 1991)

30 Betsy Jane Clary, "The Evolution of the Allied Social Science Associations," in *American Journal of Economics & Sociology,* vol. 67, no. 5 (November 2008), pp. 985-1005: 986-87

31 American Social Science Association. Department of Social Economy, "The Prison Question," *Journal of Social Science,* no. vii (November 1874), pp. 357-74: 357

employed."[32] Beyond the ASSA, Townsend's connection to international savings development efforts ran even deeper: he eventually became the Senior President of the United States for the Permanent Association of the Congress of Provident Institutions that continued to meet every five years to exchange information and experience related to savings institutions through the end of the nineteenth century.[33]

Distinguished by their emphasis on statistical or other observational analysis as a basis for proposing seemingly "scientific" methods of social improvement and a profound belief in the ability of institutions—both state and private—to counter the negative effects of capitalist development, the new breed of social reformers who gravitated to the mantle of social economics gained substantial influence both within the United States and abroad in government, academic, and popular debates about how best to aid poor workers and to reduce overall instances of poverty. Their focus on poor people made savings institutions a natural source of interest. As James Henry Hamilton, a sociology professor who wrote an early history of savings institutions, explained: "the practice of saving seemed . . . to constitute the most important field of social economics, or applied sociology . . . [because] the extent of the savings habit is certainly a more reliable key to the substantial well being of the people" than issues concerning working conditions or wages that he deemed more superficial.[34]

32 John Pomeroy Townsend, *Savings Banks: A Paper Read Before the American Social Science Association, at Saratoga Springs, September 5, 1877* (New York: L.H. Bigelow & Company, 1877), 18 and 23

33 "General Notes," *Journal of the Society of the Arts,* vol. 36, no. 1855 (8 June 1888), p. 864 and "International Congress at Paris in 1900," *Publications of the American Academy of Political and Social Science,* no. 237 (1 November 1898), p. 4. Townsend was not the only savings advocate connected to the ASSA. Robert Porter addressed the group the following year to advocate for the adoption of postal savings banks in the United States. See: Robert P. Porter, *Reprint from the Penn Monthly for June, 1878. Post-Office Savings Banks: A Paper Read at Cincinnati, May 22d, 1878, in the Annual Session of the American Social Science Association* (Philadelphia: Press of Edward Stern & Co, 1878)

34 Hamilton, *Savings and Savings Institutions,* 3-4

Hamilton was typical of his cohort of social scientists in that he had studied in Halle, Germany, before returning to the University of Wisconsin to complete his PhD. His education also demonstrated another way that the international context influenced American thought concerning savings institutions: his longer work grew out of a study of German municipal and postal banks, a topic that his advisor at Halle suggested to him. It was also explicitly comparative in nature. Regarding postal savings systems, for example, he concluded that their "influence extends now to every continent and to every race of civilized people" and that for many nations, most notably the United States, that had yet to adopt such a system: "the time of large service will come, and there is at least no harm in being ready for it."[35]

*Savings and civilization: the economics of cultural progress*

With their intense devotion to quantitative analysis of human organization, the emerging social sciences both reflected and helped to foster a more general academic and popular belief that the world was composed of social and ethnic hierarchies that could be rigorously defined and therefore used to quantify cultural achievement in a manner that could be compared across time and space. The goal of these projects was to defend or discard specific social or political developments through seemingly objective means. Evidence for a particular course of action could be garnered by showing its promoters' nation or ethnic group to be at or near the top of the rankings; if found lacking, the same list could point to the most promising initiatives that should be borrowed from those at the top in order to close the cultural achievement gap.[36] This was one of the major impulses that motivated the organizers of many of the late-nineteenth and early-

35 Ibid., 3-6 and 409

36 For a synthetic survey of these developments in the United States, see: Rebecca Edwards, *New Spirits: Americans in the 'Gilded Age,' 1865-1905,* 2nd ed. (New York: Oxford University Press, 2011), 142-59

twentieth century world's fairs, which frequently were government-sponsored attempts to explicitly celebrate national achievement relative to the rest of the world.[37] It likewise influenced the development of late-nineteenth century educational institutions such as universities and museums.[38] As Janet Horne explained in the context of describing the social economy exhibit at the 1889 Paris fair: "by characterizing social reform as inherently modern and progressive," its promoters "suggested that human societies evolved according to a hierarchical order of complexity. [This] . . . became a common feature of an imperialist discursive strategy to define civilization itself as an evolutionary hierarchy with complex Western industrial societies at its pinnacle."[39]

Social economists and related reformers viewed the international context in which new ideas about the relationship between institutional saving and social progress developed as a more rigorous field of observable experience than a more narrow focus on just a single country would enable. For Americans who shared this sentiment, it often fostered a keen interest in engaging the *analysis* that their international counterparts promoted alongside the raw data that they could provide. Ideas that Europeans advanced concerning the relationship between institutional savings and the promotion of "civilization" were therefore quickly disseminated in the United States, helping to influence a similar body of work that Americans themselves began to produce in the late 1870s.

37 See: Horne, *A Social Laboratory for Modern France;* Robert W. Rydell, *All the World's a Fair: Visions of Empire at American International Expositions, 1876-1916* (Chicago: University of Chicago Press, 1987); and Alan Trachtenberg, *The Incorporation of America: Culture and Society in the Gilded Age,* 25th Anniversary Edition (New York: Hill and Wang, 2007)

38 See: Julie A. Reuben, *The Making of the Modern University: Intellectual Transformation and the Marginalization of Morality* (Chicago: University of Chicago Press, 1996), 133-75 and Steven Conn, *Musueums and American Intellectual Life, 1876-1926* (Chicago: University of Chicago Press, 1998)

39 Horne, *A Social Laboratory for Modern France,* 68-69

One French essay reprinted in an 1872 issue of *Popular Science,* for example, offered a method with which to "assign . . . respective ranks to two civilized nations" by means of comparing their national savings. Because saving represented a "sacrifice [of] the present for the future," the contemporary status of what its author called "material civilization . . . is itself the result of foresight and past privations." The conclusion was this: "the nations which are at the head of material civilization are those whose institutions have most favored saving."[40] A monograph on *Thrift* by the British essayist Samuel Smiles that was published and distributed in the United States in 1876 started with the assertion that "thrift began with civilization," going on to explain that "it is the savings of individuals which compose the wealth—in other words, the well-being—of every nation . . . so that every thrifty person may be regarded as a public benefactor."[41] A few years later, German William Roscher's *Principles of Political Economy* was translated and published in the United States. Among other assertions, Roscher believed that "where civilization is at its highest, the inclination to save, as a rule, is very marked" and he warned that "the increase of capital effected by saving soon finds a limit unless such limit is widened by the progress of civilization."[42]

While it is true that American promoters of institutional thrift for the working classes did occasionally refer to saving as a "civilized habit" prior to this period, such references were notably rare and almost always emphasized the *personal* development of the savings bank depositor rather than the *social* development of the civilization that depositor lived in. As discussed in Chapter Three, for example, some of the Northern missionaries working in the

40 L. Dumont, "Civilization as Accumulated Force," *Popular Science Monthly,* September 1872, p. 606

41 Samuel Smiles, *Thrift* (New York: Harper & Brothers, 1876), 13-14

42 William Roscher, *Principles of Political Economy,* trans. John J. Lalor (Chicago: Callaghan and Company, 1882), 162

South Carolina Sea Islands during the Civil War proudly asserted that they were "entirely successful in demonstrating the capacity of the freedmen for self-support in a condition of freedom . . . and the readiness with which they adopt the manners and habits of civilized life"—one of which was the use of a savings bank set up by the local Union commanding officer.[43]

The savings depositor in this older interpretive model was encouraged to achieve an already-established threshold of "civilized" behavior rather than aiding in his or her society's progression towards an as-yet-unheard of *further* stage of civilization, however. Advocates for the new interpretation of savings institutions that emerged in the context of late-nineteenth century international competition and concern for cultural hierarchy instead emphasized that the primary goal of institutional saving was to promote future social advancment. In this related but significantly-altered vision, promoters of institutional saving argued first and foremost for the benefit that would accrue to the national economy through higher levels of capital aggregation and investment. This, in turn, would be directed towards the finance of social and cultural endeavors that would encompass national "progress." Dovetailing with the growing recognition that savings institutions were a particularly effective means of aggregating inexpensive capital in a wage-earning economy, the desire to promote "civilization's" advancement led social economists to perceive savings institutions as an effective means to serve this purpose. Individuals might still reap the rewards of this general improvement—indeed, many social economists passionately defended such development as a moral course of action for this reason—but the older emphasis on improving individual virtue or self-sufficiency as a laudable end in itself was diminished within if not entirely absent from these theories.

43 Educational Commission for Freedmen, *First Annual Report of the Educational Commission for Freedmen* (Boston: Prentiss & Deland, 1863), 11, 15

Apart from the broader shift in the currents of intellectual discussion that the advent of social economics and (more generally) the international progressive movement represented, Europeans likely found a receptive audience in the United States because the seeds of many of their arguments had been planted here independently. On the level of cultural memory, for example, they plausibly existed in the legacy of the colonial tradition of what Max Weber saw as "the ascetic compulsion to save," a reflection of New England Puritans' valorization of self-denial for the purpose of community investment.[44] Although such a notion was notably absent in most antebellum advocacy for or interpretation of *institutional* saving, such as savings banks, the idea arguably retained a legacy in more abstract period narratives of self-sacrifice as a form of civic virtue.

More concretely and immediately, an essential initial condition for the new theory was present in the interpretation of savings bank deposit and investment figures that state regulators and political economists such as Francis Bowen had begun to advance in the late 1850s as indications that these institutions were significantly affecting national finance. Coming into the 1870s, political economists including Henry Carey and David Wells had gathered evidence to support this interpretation through their analysis of Civil War financing. As Carey said in 1865: with growing savings bank deposits "we witness a manifestation of greater power for further progress."[45] But Carey—like Wells, Bowen, and most of their contemporaries—still considered that "power" mainly in terms of economic and industrial development. This might lead to greater things in terms of material comfort, but the widespread acceptance of viewing savings as the primary engine driving *cultural* progress lay a few years ahead.

44 Max Weber, *The Protestant Ethic and the Spirit of Capitalism,* Talcott Parsons, trans. (New York: Charles Scribner's Sons, 1930), 172

45 Carey, "The Farmers' Question," 99

As European theorists and commentators continued to be published in the United States, however, the theme was quickly picked up by Americans as well. As one American journalist argued in the late 1870s context of the Panic of 1873, "with the frugal, thrifty and saving habits of the French, our people would to-day be the richest and most prosperous people on the globe, whereas now private and public debt weighs like an incubus upon the whole country, and pauperism is increasing more rapidly than in any other civilized land."[46] France in particular became a source of frequent praise for its savings prowess, which American observers claimed had allowed it to rapidly resume its economic growth and regain its international political influence after losing the Franco-Prussian War. In his general survey of business and national development, *Highways of Progress,* the railroad magnate J.J. Hill typified this approach by referring to France's ability to internally finance most of its national debt via savings institutions. He likewise asserted that through its "holding of foreign securities" it "controls the purse strings of Europe" and therefore many of the actions of its fellow national governments. As Hill explained, "the funds for this international financing are obtained largely from the savings of the industrious and frugal small farmers of France."[47]

Bankers themselves espoused similar views in order to justify their contributions to society. In 1913, for example, an American Bankers' Association official urged his fellow financiers to consider the millions of American workers who still failed to patronize savings institutions "as not merely the bankers' opportunity, but something which should be considered his privilege and his duty, for so long as these ulcers are permitted to thrive in the midst of our economic being, just so long will these millions be diverted from our financial institutions and

46 Edward Searing, "School Savings Banks," *Pennsylvania School Journal,* vol. 26, no. 12 (June 1878), p. 408

47 James J. Hill, *Highways of Progress* (New York: Doubleday, Page & Company, 1910), 29

our economic growth as a nation retarded." To understand the national urgency of such a task, he claimed that one need look no further than the American "ratio of savings depositors [to] population." His conclusion was grim: "when we compare this country with other great countries upon this basis"—including Japan, France, Germany, England, Switzerland, and Sweden—the United States was found lacking. Noting this state of affairs, the official claimed that "it behooves us as bankers to sound a warning note, not merely because of our own future interests, but because upon the thrift of its people depends the life of the nation."[48]

While specific international comparison provided the basis of one source of civilizational savings rhetoric, observers just as frequently pointed their attention towards the United States. As John Stahl Patterson explained amidst a wide-ranging 1884 consideration of social reform proposals, "the savings of labor . . . have built our railroads, steamships, telegraphs, [and] manufactories." In other words, they "have increased the wealth, resources, and refinements of civilization."[49] A 1913 essayist in *Munsey's Magazine* similarly noted that "all capital really begins with small savings . . . [and all] the great fortunes of the United States originally grew" from such a start. His broader lesson was that "the nations of the world that have prospered owe their progress to thrift, because the sum of small savings forms the unshakable fabric of national credit. The countries that neglect it do so at the price of permanent prosperity."[50]

Political economist Richard Ely demonstrated how easily this newer vision of institutional savings as a promoter of national or even world-historical progress could blur with its original

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48 E.G. McWilliam, "The Banker's Opportunity," *United States Investor,* 10 May 1913, pp. 776 and 809

49 John Stahl Patterson, *Reforms: Their Difficulties and Possibilities* (New York: D. Appleton and Company, 1884), 10. The same essay was reprinted as "Wages, Capital and Rich Men," *Popular Science Monthly,* October 1884, pp. 788-95

50 Hugh Thompson, "The Development of Thrift," *Munsey's Magazine,* vol. xlviii, no. iv (January 1913), pp. 640-646: 640-41

predecessor as a mechanism to achieve a previously-established standard. In a manner at once reminiscent of both Justice William Strong's decision in the *Huntington* case and the promotional materials of institutions such as the Freedman's Bank, Ely grouped savings banks with "churches, and educational and benevolent institutions," asserting that "savings banks are to be commended to the special consideration of the legislature . . . [and] ought to be fostered in every proper way as preventives of pauperism and crime." But he added that they should also be encouraged "as agents of civilization, elevating the people, rendering them truly independent, and increasing the wealth of the community," noting that "most of the capital they accumulate would either be idle, stored away in old chests or stockings in secret hiding-places, or would not exist at all, but would have been wasted, were it not for savings banks."[51] In the relative balance he attached to the older model of savings institutions as instruments of social control and the newer model that viewed them as aggregators of capital for use by the "community" to promote "civilization," Ely symbolized the ideological transition he was living through.

By the early-twentieth century, the idea was ubiquitous in economic popular culture. Andrew Carnegie, who had created one of the first employee savings funds in the 1880s, wrote typically in *The Empire of Business* that "one of the fundamental differences between savage and civilized life is the absence of thrift in the one and the presence of it in the other. When millions of men each save a little of their daily earnings, these petty sums combined make an enormous amount, which is called capital, about which so much is written."[52] Edward A. Woods, an insurance executive writing to promote that product in 1909 noted that the "savage is distinguished from the civilized man by his thoughtlessness for the morrow," that "thrift,

51 Richard T. Ely, *Taxation in American States and Cities* (New York: Thomas Y. Crowell & Co., 1888), 340

52 Andrew Carnegie, *The Empire of Business* (Garden City, NY: Doubleday, Page & Company, 1913), 47

providence, [and] self-denial are synonyms of civilization," and that savings banks were the best example of the "gigantic agencies for promoting these things [that] were unknown a few centuries ago."[53]

While the idea took on the same notion of universal principle that antebellum institutional savings theories about the nature of poverty and personal responsibility did, it even more easily influenced the legacy of theories about the special importance saving could play for specific marginalized groups within the United States. Ending an address on the importance of capital accumulation as the means "to get hold of the spiritually best and highest things in life," for example, Booker T. Washington explained to his audience that "the civilization of New England and of other such prosperous regions rests more, perhaps, upon the savings banks of the country than upon any other one thing." For his African-American students at the Tuskegee Institute, many of whom no doubt knew well the story of the Freedman's Bank disaster, Washington's lesson was that "we cannot get upon our feet, as a people, until we learn the saving habit; until we learn to save every nickel, every dime and every dollar that we can spare."[54]

### *Investing in civilization: workers as capitalists*

Adherents to the developing theory that institutional savings promoted civilization through increased investment frequently advanced a corollary: by creating the basis of mass participatory finance capitalism, savings institutions could align the economic and social interests of all members of society and thus eliminate one of the greatest challenges to maintaining the level of "civilization" that had already been achieved: antagonism between

53 Edward A. Woods, "Life Insurance and Social Progress," *The World To-Day,* vol. xvii, no. 5 (November 1909), pp. 1195-1200: 1198

54 Booker T. Washington, *Character Building: Being Address Delivered on Sunday Evenings to the Students of Tuskegee Institute* (New York: Doubleday, Page & Company, 1903), 270 and 276

capitalists and laborers. Like the first proposition, the corollary relied on a shift in emphasis from the individual to the aggregate but its focus was the old premise that these institutions could create "little capitalists." While the original model had encouraged workers to acquire the "habits" of capitalism as a means to foster *individual* self-reliance, this new interpretation sought to convince economic and political elites that savings institutions could promote a shared sense of *class* interest between wage earners and property owners.

The appeal of any institution that promised such an outcome was heightened by the severe political and social turmoil that economic disputes of the late-nineteenth century engendered. In the United States (as in the world), a developing labor movement drew adherents who believed in the *absence* of shared interests between workers and capitalists. At the same time, disputes between the two sides increasingly disrupted economic production through strikes and other measures while the aggressive response of industrial employers aligned with governments—and their police forces and armies—frequently ended in violence. As discussed in Chapter Four, rather than seeking to ameliorate many of the conditions that workers took action to protest (such as unsafe working conditions, long hours, or low wages), employers frequently looked to welfare capitalist practices that they thought would win minds without altering the essential nature of profitable business practices.[55]

It was in this context that historian Daniel Rodgers provided a good working definition of the conservative subset of social economists that gravitated towards savings institutions as agents of social advancement. Paraphrasing the French economist Charles Gide, he noted that while

55 The relevant historiography on this topic is vast but as a starting point, see: Trachtenberg, *The Incorporation of America,* 70-100; David Montgomery, *The Fall of the House of Labor: The Workplace, the State, and American Labor Activism, 1865-1925* (New York: Cambridge University Press, 1987); Leon Fink, *Workingmen's Democracy: The Knights of Labor and American Politics* (Urbana, IL: University of Illinois Press, 1985); and Paul Krause, *The Battle for Homestead, 1880-1892: Politics, Culture, and Steel* (Pittsburgh: University of Pittsburgh Press, 1992)

"political economy was the science of the augmentation of wealth," social economists "embraced every effort—within the constraints of political economy itself—to temper, socialize, and mutualize the pains of the capitalist transformation."[56] Put another way: this sort of social economist looked for answers to what many contemporaries of the age referred to simply as "the labor question," which Nelson Lichtenstein productively summarized as the search to resolve "the dichotomy between the rights and privileges of citizenship and the power of concentrated capital."[57] Understood in these terms, the social economists offered savings institutions as a way to enable all citizens to "own a share" of the nation's capital via the institutions' investment of their deposits without diminishing private business owners' concentrated control of it.

Some observers believed that savings banks had already served this purpose. As the California Board of Bank Commissioners wrote in 1880: "in the old system of public economy mankind was divided into two classes, the capitalist and the laborer, but through the agency of the savings banks, in later years, our political economy must be written anew, for behold, the laborers have become the capitalists in this new world!" After surveying the growth of savings bank deposits that were "loaned to the rich on bond and mortgage," they explained that savings banks functioned to align workers with the interests of their employers by producing reciprocal benefits. As the commissioners put it: workers' "savings aggregated as capital minister to public enterprises, and these public enterprises demand laborers for their prosecution, and thus return to labor in the form of wages what they have borrowed from it in the form of capital. . . . Other 'unions' are formed as combinations of labor *against* capital, but here is a combination of labor

56 Rodgers, *Atlantic Crossing,* 12

57 Nelson Lichtenstein, *State of the Union: A Century of American Labor,* rev. ed. (Princeton, NJ: Princeton University Press, 2013), 6

*and* capital."[58]

Similarly, after a wide-ranging 1910 article published in the *Annals of the American Academy of Political and Social Science* which stressed savings bank officials' varied outreach to their communities, the treasurer of a Massachusetts bank explained how each individual initiative was an aspect of a single overarching strategy. "It is obvious," he wrote, "that the people of the United States are naturally the thriftiest in the world. The children of the immigrant who comes here unable to read or write, get at least a common school education and go to work. They earn money and they save it; and they become, as a whole, as the history of every New England manufacturing city proves, better citizens than their fathers." To sum up: "Such is the civilizing influence of America."[59] In a cultural context in which revitalized nativists frequently stigmatized immigrants as labor radicals,[60] the implication for the relationship between savings banks and class consciousness was clear.

For his part, William Graham Sumner deplored the most prominent branch of social economics on the grounds that its proponents proceeded from positions of avowed social policy rather than universal human truth in their analysis of economic relations.[61] Yet given that he ardently believed in the inherent morality of his *laissez-faire* vision and viewed economic relations as the basis of social ones, in the matter of savings institutions he came to remarkably similar conclusions about the relationship between their social and economic functions. For

58 Quoted in: George L. Henderson, *California and the Fictions of Capital* (New York: Oxford University Press, 1999), 111

59 Frederic C. Nichols, "The Operation of the Mutual Savings Bank System in the United States, and the Treatment of Savings Deposits," in *Annals of the American Academy of Political and Social Science,* vol. 36, no. 3 (November 1910), pp. 162-75, 175

60 See: John Higham, *Strangers in the Land: Patterns of American Nativism, 1860-1925* (New Brunswick, NJ: Rutgers University Press, 2001; orig. 1955), 175-82

61 Bender, *Nation Among Nations,* 267-68

example, Sumner opened the same speech in which he called the "savings bank depositor . . . a hero of civilization" with an anecdote about "an address [given] by a social agitator who said: 'I can get along with anybody in my audiences except these mean, stingy, little fellows who have saved up a few hundred dollars in the savings bank and then have borrowed enough more to build a little house of two tenements, one of which they rent. When I begin to talk about interest, and rent, and Henry George, they get up and go out by the whole seat-full at a time.'" As Sumner fondly remembered, "the statement was the most eloquent recognition I have ever heard of the power and beneficence of capital. It has always remained in my memory as a confession by an opponent of the education effected by savings and of the benefit conferred on society by savings banks."[62]

Promoting institutional savings to diminish the general antagonism between laborers and capitalists was sometimes applied to more specific policy issues as well. Most prominently, it was vigorously deployed by defenders of the gold standard during the debate in the last two decades of the nineteenth century over whether to allow silver specie to back US currency. Charles Francis Adams, admitting that he was "a capitalist,—a greedy capitalist, or even a 'gold-bug,' if any one cares so to designate me," nevertheless encouraged savings bank depositors to think of themselves as creditors who would stand to lose if the introduction of silver deflated the currency.[63] The US Secretary of the Treasury accepted that workers themselves held such a view when he asserted that "in the United States the depression of trade is great, caused by the natural

62 William Graham Sumner, "The Power and Beneficence of Capital [1899]," 345

63 Adams was careful to distinguish between capitalists and workers in terms of their overall economic status and other points of class difference, but his implicit point on the silver issue was that workers who used savings banks had the same interest that other owners of capital who lent money but didn't borrow it held. Charles Francis Adams, *The Wage Earner and the Savings Bank Depositor vs. The Short Silver Dollar. Credit to Whom Credit is Due!* (Dedham, MA: 1892), 6

unwillingness of those whose savings are little as of those whose capital is large, to risk its loss in falling prices and the hazard of a silver basis."[64] Horace White, an editor at the *Nation,* was perhaps more hopeful than sanguine about this state of affairs when he wrote in 1896 in that magazine that "the time has come for every man who has saved anything, even though it be only ten dollars in a savings bank, to fight for the ownership of it. The demand for a free-coinage is a demand for a division of property."[65]

As the general trend towards a more liberal definition of what constituted institutional savings developed to include not only commercial banks but alternatives such as stock ownership, similar arguments were adapted in support of these plans. Interestingly, many advocates for employee share ownership generally admitted that capitalists and workers each deserved some of the blame for labor strife. For example, the real estate developer and philanthropist William E. Harmon opened a 1911 address to a meeting of New York's Academy of Political Science by avowing that "if a dozen men were asked to put their finger on the most serious problem confronting civilization, at least half would consider some phase of industrialism or capitalism as representing the knottiest problem and constituting the most serious menace to universal well-being." He then insisted that "the antagonism between labor and capital . . . is simply the result of the fact that capital and labor have not a large enough common interest" rather than any "moral" failing on either side. His solution: "to make the wage-earner a capitalist," by fostering the purchase of corporate securities on an installment basis.[66]

64 US Secretary of the Treasury, *Annual Report* (1886), xxii

65 Quoted in: David M. Tucker, *Mugwumps: Public Moralists of the Gilded Age* (Columbia, MO: University of Missouri Press, 1998), 104

66 William E. Harmon, "Investments on the Instalment Plan," *Proceedings of the Academy of Political Science in the City of New York,* vol. 2, no. 2 (January 1912), pp. 94-103: 94 and 96

In a similar vein, the political and social economist John Bates Clark considered the large industrial trusts that emerged at the end of the nineteenth-century to have a mixed record, concluding that "if we can draw the fangs of the monster and tame him to good uses, we can get all that is possible to get out of material civilization." Among those advantages would be "workers acquiring capital, while still earning wages in the mill; . . . [with] production moving so steadily that bonds of great corporations, and even the stocks, may become common and safe forms of investment of workmen's savings." As a result, "the sharp line of demarcation between the capitalist class and the laboring class will be blurred and at many points obliterated. The men who work will have a proprietary interest in the tools of labor and a share in what the tools produce."[67] It was due to this train of thought that Bates was a major promoter of the type of employee stock purchase plans discussed in Chapter Four.[68]

To be sure, there were critics of all of these views. For example, George Gunton and Ira Steward were major proponents of the movement for the eight-hour workday and general advocates for improvements in workers' standard of living as measured by their ability to consume desirable goods.[69] For them, institutional saving of any sort was an impediment to this goal because "the rate of wages, and, consequently, the social prosperity of the masses, is not kept up and promoted by the influence of those whose standard of living is below the maximum or the average, but by the constant pressure of the unsatisfied desires of those whose standard of living is the highest in their class. In other words, social progress and civilization are promoted,

67 John Bates Clark, *Control of Trusts: An Argument in Favor of Curbing The Power of Monopoly by a Natural Method* (New York: MacMillan, 1905; orig. 1901), 9-11

68 See also: Ott, *When Wall Street Met Main Street,* 25-30

69 See: Lawrence B. Glickman, "The Virtue of Consumption," in *Thrift and Thriving in America: Capitalism and Moral Order from the Puritans to the Present,* ed. Joshua J. Yates and James Davison Hunter (New York: Oxford University Press, 2011), 271-74

not so much by saving as by consuming wealth."[70] Self-denial, in other words, was only a virtue to those who had already achieved a high standard of living.

Political economists themselves also offered dissenting views. Frank Taussig, an early member of the AEA, seemed to follow the prevailing logic that "through one or another of the many channels which modern society offers, the funds saved are turned over to the active managers of industry: through the savings banks of the poor, or the purchase of securities by the well-to-do, or the operations of life-insurance societies." But he then asserted that "the great mass of hired laborers, and even the great mass of those independent workmen" probably didn't earn enough money to make any substantial savings.[71] The Massachusetts Bureau of Labor Statistics studies that the statistician Carroll D. Wright pioneered in the 1870s had, of course, come to much the same conclusion.[72] Francis Amasa Walker similarly believed that workers under-utilized savings banks, though he viewed a decline in the "interest in saving" rather than "the ability to save" to be the real culprit.[73]

However appealing such voices of dissent might be to workers themselves, the critics did little to diminish the general belief amongst academics, policymakers, bankers, and business owners that savings institutions had the power to effect *some* positive change—whether economic, social, or both—amongst poor people. The fact that savings deposit figures continued to grow rapidly as the nineteenth century turned into the twentieth combined with the persistent

70 Gunton finished the work after Steward's death. See: George Gunton, *Wealthy and Progress: A Critical Examination of the Labor Problem* (New York: D. Appleton and Company, 1887), 95-96

71 F.W. Taussig, *Wages and Capital: An Examination of the Wages Fund Doctrine* (New York: D. Appleton and Company, 1899; orig. 1896), 95 and 97

72 See: Chapter Two

73 Francis A. Walker, *Discussions in Economics and Statistics, Volume I: Statistics, National Growth, Social Economics* (New York: Henry Holt and Company, 1899), 85

belief that this was driven by wage workers served to encourage all but the most skeptical observers outside of the working classes themselves. As the expression of such views multiplied, they continued to foster new inquiries into the best means of securing those benefits.

### *Postal savings and the national ascendance of working-class finance*

The development of this ideology of savings and civilization not only accompanied the significant expansion of small finance institutions throughout the world but also the diversification of their sector within the United States. Indeed, a great deal of the American intellectual effort applied to this area of inquiry was intended to analyze the results of that institutional development, to interpret its social meaning, and to advance both policy prescriptions and public appeals designed to encourage its further positive development. International comparison was a spur to domestic improvement or a means of self-assurance, but it was rarely an end in itself. So although social economists generally coalesced around the principle that institutional saving was laudable in the abstract, their conclusions about whether or not the American practice of saving had met its full potential were far more mixed. Everyone could agree that savings deposit growth had been substantial, but because the United States featured tremendous institutional and geographic variation it was difficult to conclusively determine whether or not that growth had achieved the levels necessary to fully sustain American "civilization."

William McKinley characterized one school of thought on the matter. He claimed shortly before his assassination that the United States was "in a state of unexampled prosperity" which was "bringing comfort and happiness" to workers and "making it possible [for them] to lay by savings for old age and disability." He asserted "that all the people are participating in this great prosperity [which] is . . . shown by the enormous and unprecedented deposits in our savings banks."[74] Only a few years later, his successor Theodore Roosevelt accepted the prominent belief that "the depositors in our savings banks . . . are all capitalists, who through the savings banks loan their money to the workers—that is, in many cases to themselves—to carry on their various industries." But he worried that more could be done to promote that process. While Roosevelt believed that "very much of this movement must be outside of anything that can be accomplished by legislation," he also countered that "legislation can do a good deal." For Roosevelt, finally enacting an American system of "postal savings banks will make it easy for the poorest to keep their savings in absolute safety" with the attendant benefits to both themselves and society.[75]

A full accounting of the history of the debate over and final enactment of a US postal savings system is beyond the scope of this study. The Congressional legislative history alone included the introduction of at least eighty bills on the topic dating from 1873 to 1910 before one of them finally passed.[76] Nevertheless, a quick sketch of one important arc of advocacy should demonstrate that many of the system's major proponents were subject to the influence of broader contemporary discussions about international savings awareness, ideologies connecting savings to national progress, and the fear of underutilizing national capital resources—and that it was largely that vision which shaped the final organization of the US postal bank system. For more-detailed reviews that touch on many of the same issues, there are several extant sources.[77]

74 William McKinley, *The Last Speech of Wm. McKinley: President of the United States* (Canton, PA: The Kirgate Press, 1901), 11-12

75 "Last Message of Roosevelt," New York *Times,* 8 December 1908

76 Members of the House of Representatives introduced at least 50 bills to establish postal savings systems from 1873 to 1910; members of the Senate introduced at least 30 bills to do so from 1878 to 1910. For the list of bills, see: House Rpt., no. 1445, 61st Cong., 2nd Sess. (1910), 63-66. One scholar claims that 100 bills failed before passage. See: Jean Reith Schroedel, *Congress, The President, and Policymaking: An Historical Analysis* (Armonk, NY: M.E. Sharpe, 1994), 56

77 For a detailed history of postal savings advocacy in the United States, see: Edwin W. Kemmerer, *Postal*

The first proposal that a US Postmaster General made for the enactment of a postal savings system tellingly articulated a narrow vision of its potential. The 1871 plan was to use the system primarily as a means to finance a proposed postal *telegraph*—a far greater priority for the department at the time.[78] As that report noted, "the Post-Office Department is now prepared to undertake the organization and management of the telegraph . . . [and] can aid materially in raising the money needed for the purchase through post-office savings banks." The remainder of the brief request was devoted to demonstrating the potential for government financing that postal savings represented by referring to the British system's record of deposit growth.[79] The emphasis in this early vision was entirely focused on what a postal savings system could do for the US government and only through that what it might do for its citizens. In this, it owed more to the recent legacy of Civil War finance as interpreted by people such as Henry Carey as it did to the ideas that would coalesce in the social economics movement.

In 1873, a renewed proposal refashioned the system more broadly as one for "gathering and wisely employing the immense wealth scattered among the people" based on the belief that "the people of the United States hold the reins of financial as well as political power." Although this "power" was no longer restricted to being directed towards the finance of a postal telegraph system specifically, the fundamental understanding that a postal savings bank system's financial function would be to raise money for the federal government remained intact. Added to that

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*Savings: An Historical and Critical Study of the Postal Savings Bank System of the United States* (Princeton, NJ: Princeton University Press, 1917). For two detailed accounts of postal savings advocacy within the US government, see: Daniel P. Carpenter, *The Forging of Bureaucratic Autonomy: Reputations, Networks, and Policy Innovation in Executive Agencies, 1862-1928* (Princeton, NJ: Princeton University Press, 2001), 149-63 and Schroedel, *Congress, The President, and Policymaking: An Historical Analysis*, 44-56

78 See: Richard R. John, *Network Nation: Inventing American Telecommunications* (Cambridge, MA: The Belknap Press of Harvard University Press, 2010), 124-33

79 US Postmaster General, *Annual Report* (1871), xxxvi-xxxvii

function, however, was the social economic one that "it can be shown that postal savings depositories will serve to fortify the national credit, make more equable the financial operations of the country, cultivate the habits of thrift among the industrial classes, and illustrate the excellence of our institutions by protecting and augmenting the accumulations of self-denying toil, and thus in time merging the workman into the capitalist."[80]

Starting within the emerging American awareness of international savings developments, postal savings advocacy quickly incorporated the influence of the fuller range of social economic theory and practice concerning savings institutions. In an 1878 meeting of the ASSA, Robert Porter devoted his entire paper to the subject. He claimed that "the important question now before the American people is, how best to encourage habits of prudent economy and thrift, especially among the vast masses of the people who either spend their entire income or hoard it in the secret drawer, the buried pot, the old stocking, or the bed-tick" and then provided a detailed review of the international adoption of postal savings banks to demonstrate their efficacy in resolving this problem.[81]

In the decades that followed, postal savings advocates—including a succession of postmaster generals and US presidents—repeatedly returned to the twin propositions that a failure to provide a postal savings system in the context of widespread international adoption threatened American "civilization" and that institutional savings could provide a substantial benefit to national finance through capital aggregation.[82] While frequently focused more on the

80 US Postmaster General, *Annual Report* (1873), xxiv and xxviii

81 Robert P. Porter, *Reprint from the Penn Monthly for June, 1878. Post-Office Savings Banks: A Paper Read at Cincinnati, May 22d, 1878, in the Annual Session of the American Social Science Association* (Philadelphia: Press of Edward Stern & Co, 1878), 3

82 Carpenter, *Forging of Bureaucratic Autonomy,* 150-52

interest of their own regions than of the United States as a whole, these advocates were joined by a range of rural advocacy groups and politicians (predominantly located in the South and West)[83] who looked to postal savings as a way to increase local capital aggregation and investment in a manner not dissimilar to many of their attempts to encourage stock savings banks, trust companies, or other novel institutional savings arrangements. When postal savings advocates implemented a system in the American-occupied Philippines in 1906, they did so in the short-term to raise local investment capital in the absence of a strong commercial banking system. In the long-term, the goal was, as one of the program's administrators explained, to "modify the principles and customs of [Filipino's] native societies" by fostering an embrace of capitalist market relations.[84]

Tellingly, this developing social economic support for postal savings periodically translated into Congressional legislative action primarily only in times of national economic crisis. This was particularly evident during the introduction of postal savings bills to Congress in the late 1870s (following the Panic of 1873) and again in the mid-1880s (in connection to the emerging Populist movement and its criticism of industrial capitalism as well as federal and state economic policy).[85] In the absence of those moments that increasingly revealed the negative consequences of a developing institutional savings sector that was geographically fragmented, inconsistently regulated, and generally exposed to increasing investment risk, federal support for postal savings declined.

83 Elizabeth Sanders, *Roots of Reform: Farmers, Workers, and the American State, 1877-1917* (Chicago: University of Chicago Press), 232-24

84 For an excellent overview of the United States-instituted postal savings system in the Philippines, see: Theresa Marie Ventura, "American Empire, Agrarian Reform and the Problem of Tropical Nature in the Philippines, 1898-1916," unpublished diss. (Columbia University, 2009), 186-219; quotation on p. 199

85 Schroedel, *Congress, the President, and Policymaking,* 46-49

Thus it was that advocacy for the creation of a domestic postal savings system got its final successful coalition of legislative support in response to the rapid devastating effects of the Panic of 1907 on the American financial system. What began as a relatively contained crisis amongst New York City banks connected to commodity speculation took on a dimension unlike any financial panic before it when depositor fears of instability shifted from the member banks that could appeal for relief from the New York Clearing House Association to several prominent trust companies that fell outside of any similar support network. The runs on the trust companies that ensued—and the failure of several prominent ones—revealed to many contemporaries the negative consequences of their recent, rapid, and largely unregulated move into the retail deposit business. Lingering fears over the federal government's inability to contain financial industry collapses such as the Panic of 1907 were stoked by the severe recession that followed it.[86]

Contemporary analysis of the financial crisis lent support to the idea that a postal savings system might prove useful as a way to prevent similar crises in the future. Most immediately, the diminished confidence in for-profit banking that it caused directly led to revitalized movements to enact deposit guaranty systems as well as the postal savings system. Defenses of the two measures were often related because one of the salient features of the proposed postal savings system was that its resources would be backed by the US Treasury.[87] For example, the Democratic Party's official plank supporting postal savings explicitly framed it as the party's secondary goal in the event that a bank guaranty system could not be secured.[88] In general, the

86 This summary is drawn primarily from: Elmus Wicker, *Banking Panics of the Gilded Age* (New York: Cambridge University Press, 2000), 83-113 and Jon Moen and Ellis W. Tallman, "The Bank Panic of 1907: The Role of Trust Companies," *Journal of Economic History,* vol. 52, no. 3 (September 1992), pp. 611-30

87 Kemmerer, *Postal Savings,* 2-6

88 See: *The Campaign Text Book of the Democratic Party of the United States: 1908* (Democratic National Committee: 1908), 15

panic and ensuing recession also reenforced the idea that savings depositors were more integrated than ever into the American financial system—a situation that promised profit to financiers but exposed themselves to the risks of widespread banking panics and depositors to the risks of failed savings institutions. For social economists and others who were always looking for more documented experiences to elucidate their theories, the Panic of 1907 revealed the deep connections between mass saving and modern finance.

Moreover, supporters of postal savings had coalesced around an operational plan by 1907 in which retail deposits made in the government banks would be pooled and then placed as institutional deposits in local banks where they would draw just enough interest to cover expenses and interest payments. This deviated considerably from both the early American proposals for postal savings and most of their international counterparts and drew the ire of some postal savings advocates who viewed it as an unsavory concession to the commercial financiers whose failure to provide a safe, affordable, and widely-accessible national finance system necessitated postal banks in the first place. To a certain degree, such a plan was indeed intended to ameliorate the concerns of the commercial banking lobby that was the main source of organized opposition to a postal savings system it viewed as a competitor to its members' own business interests.[89] But for those who adhered to the now-dominant American ideology of institutional savings rhetoric that determined the value of a program largely by its ability to aggregate capital (rather than the particular method) and which ultimately viewed one of the major benefits of mass institutional saving to be its ability to advance capitalism, this could just as easily be seen as a *more* virtuous form of postal banking compared to other national systems

89 See: Carpenter, *Forging Bureaucratic Autonomy,* 153; Schroedel, *Congress, the President, and Policymaking,* 52-6

that took "the people's money" and supposedly invested it on behalf of the government rather than the depositors.

It also theoretically made the proposed system particularly attractive to both financiers and policymakers in the wake of the Panic of 1907 specifically. As Postmaster General George von Lengerke Meyer explained in a 1908 essay, postal savings systems' "desirability and peculiar efficacy in averting financial panics was not appreciated until last fall, at which time the money received through the postal banks would have strengthened many institutions, for, as fast as withdrawals were made from the [commercial] banks and placed in the postal banks for safe-keeping, [they] would have been returned to the [commercial] banks."[90] The belief that a postal savings system organized on this basis would prevent deleterious depositor runs also served to address the long-expressed fear of an inadequate money supply that was stoked by the widely-accepted belief that hoarding in the aftermath of the recent financial crisis was preventing a full recovery.[91] Both ideas reflected the dominant view of more general savings proponents that savings institutions' chief function was to ensure the full exploitation of available capital—that is, to prevent hoarding and to ensure investment—rather than to alleviate the perhaps legitimate concerns of small depositors that a bank might fail and eliminate their deposited savings in the process.

The proximate fears of the panic years combined with the now essentially conservative postal savings plan to win broad political support for such a system. In addition to Theodore Roosevelt's endorsement, 1908 also marked the first time that both the Republican and

90 George V. L. Meyer, "Postal Savings-Banks," *North American Review,* vol. 188, no. 633 (August 1908), p. 248-9

91 Harold G. Vatter, *The Drive to Industrial Maturity: The U.S. Economy, 1860-1914* (Westport, CT: The Greenwood Press, 1975), 261-64

Democratic national party platforms included planks supporting postal savings.[92] In his capacity as postmaster general, George Meyer took this support as a sign that his old arguments in favor of a system might reach a more receptive audience than in the past. In order to provide "evidence of the demand" for such facilities, Meyer wrote a popular essay that mostly included anecdotes of postmasters who reported turning away people who wanted to deposit their savings at post offices. In particular, he singled out "foreigners" who were accustomed to postal savings programs in their native countries. As Meyer noted, Americans living near the Canadian border reportedly used that country's postal savings facilities as well. In addition, he cited the growing numbers who purchased postal money orders in the United States and suggested that this course of action might in some cases be a way of gaining a measure of institutional security for one's savings in the absence of a bank.[93]

Meyer explained that such demands existed in large part because the private market had not furnished adequate savings facilities by itself. While he acknowledged that "in some parts of the United States the need of postal savings banks is not as urgently felt as in others," he nevertheless painted a bleak overall picture of access to savings institutions. Evincing a belief in the social economic power of statistical observation to reveal an essential truth, Meyer wrote that "in New England, the average distance of the savings bank from the post office is about fifteen miles; in the middle and western states it is about twenty-five miles; in the southern states thirty-three miles, and in the Pacific slope states fifty-five miles." Because post offices were more evenly spread throughout the United States, Meyer claimed that "the postal savings bank would

92 Schroedel, *Congress, the President, and Policymaking,* 49-50

93 Meyer's article appeared in the January 1909 issue of *Woman's World,* long excerpts of which were reprinted in several newspaper articles, including: "Postal Savings Would Bring $500,000,000 Out of Hiding," Trenton (NJ) *Evening Times,* 12 January 1909, p. 11 and "Postal Banks a Real Need Says Mr. Meyer," Albuquerque (NM) *Morning Journal,* 26 January 1909, p. 7

reach every community" where privately-organized savings banks had not.[94]

This was hardly the first time that an advocate of postal savings had argued that the low density of savings banks required a government response. Meyer himself had referred to the same figures in past essays and addresses.[95] The specific phrasing of the argument stretched back at least as far as the Postmaster General's 1891 Annual Report.[96] Yet the fact that the average distances that Meyer cited were nearly identical to those in that earlier study—the lone variation was New England, which located the average nearest savings bank within a more favorable ten miles of a post office in 1891—reinforced the perception that the private institutional savings market had failed to adequately respond to the demand fueled by changes in both the growth and geographic distribution of the American population during the intervening two decades. Moreover, Meyer claimed, the citation of averages obscured what was often a more dire circumstance: "there are many localities where there are no savings banks and in some cases no banks of any kind." From communities like these, according to Meyer, "fully half a billion dollars not today placed in any bank . . . might be brought back into circulation through the agency of postal savings banks."[97]

In an attempt to protect themselves from what they feared to be government interference with their private economic interest, the American Bankers' Association sought one last time to

94 Ibid.

95 For example, see: George V. L. Meyer, "Postal Savings-Banks," *North American Review,* vol. 188, no. 633 (August 1908), p. 249 and [George von Lengerke Meyer], *Address of Mr. Meyer, Postmaster-General, at the Banquet of the New England Postmasters' Association, Boston, Mass., October 12, 1907* (Washington: Government Printing Office, 1907), 10

96 US Postmaster General, *Annual Report* (1891), 46 and 93; quotation on p. 93

97 See: note 74, above. Meyer's assertion that the failure of privately-organized savings banks to meet the market demand for their services resulted in "fully half a billion dollars" in lost deposits suggested a shortfall of about 15% compared to optimal saturation given the estimated $3.1 billion deposited in US mutual savings banks in 1909. See: Appendix 3

"prove the fallacy of the argument . . . that the Savings Banks of the United States are not adequate to the ends of the public, and that in many parts of the country there are no facilities whatever for taking care of the savings of our citizens."[98] The organization claimed that Meyer based his argument "on the incomplete and erroneous statistics published by the Comptroller of the Currency," resulting in a "libel on our banks to say that they do not offer sufficient facilities for our [Americans'] saving." Rather than disputing Meyer's figures about savings bank distribution, however, the ABA argued that it was the underlying logic of his metric that was fundamentally flawed. According to the group, "to reckon only as Savings such amounts as are deposited in the mutual and a few stock savings banks . . . is inaccurate and misleading." The ABA instead claimed a far more expansive view in which "the actual savings of our people may be said to primarily consist of":

1. The amounts deposited in Mutual and Stock Savings Banks.
2. The amounts deposited in the Savings Departments of State Banks, Private Banks and Trust Companies.
3. The amounts deposited in the Savings Departments of National Banks.
4. The accumulations of Building and Loan Associations. . . .
5. The accumulations of Life Insurance Companies. . . .
6. The deposits in School Savings Banks. . . .
7. The private investments of small savings in bonds. . . .
8. The savings invested in homes and homesteads.

According to the ABA, limiting consideration of saving to the deposits in savings banks diminished by nearly a factor of three the total savings accumulated by Americans. In the group's eyes, such a definition failed to include the almost $6 billion held by the savings departments of 2,000 national banks and 15,000 state or private commercial banks and trust companies, the assets held by nearly 5,500 building and loan associations, and policies in force from more than 800 life insurance companies. All of these sources, according to the ABA, should properly have

98 William Hanhart, *Committee on Postal Savings Banks, Savings Banks Section, American Bankers Association* (New York: 1909), 1

been counted alongside the almost $3.7 billion in deposits in the approximately 1,500 savings banks on which figures such as Meyer's were based.[99]

That this final stage of the debate over postal savings pitted two sides against each other that agreed on the broad benefits of mass institutional saving, the desire to channel the capital it aggregated into private rather than government investment, and its potential to align class interests based on shared investment was a remarkable illustration of the narrow range of political and social economic visions that an ideology that associated mass institutional savings with the advancement of civilization specifically defined as the result of capitalism could allow. As expressed by the ABA and Meyer, the debate was largely one about what constituted adequate savings facilities and who could best provide them than it was a principled discussion about the merits of basing national financial policy or private economic pursuit on the promotion of savings institutions in the first place.

In this context, Thomas Carter of Montana delivered one of the last Senate addresses concerning the ultimately successful postal savings measure that he sponsored. Carter argued that the "United States enjoys the unique, although not flattering, distinction of being the only first-class power on the globe to deny to the people the privileges and the blessings enjoyed under . . . [postal savings systems] by the citizens and subjects of nearly every other nation in the civilized world." He also explained that "the prime purpose of the measure is to encourage thrift among the masses of the people by furnishing widely distributed, convenient, and absolutely safe depositories wherein small sums may be placed" and that "all thoughtful men agree that the best interests of government and society are promoted by encouraging habits of industry, frugality, and thrift. The thrifty man is rarely a bad citizen, and good citizenship is the embodiment of

99 Ibid., 1

respect for law and order." In an assertion of the specific importance of providing a *government* savings facility, he also added that "the man whose earnings are being husbanded and cared for by the Government will be more loyal and devoted to the institutions of his country."[100]

Each of these claims represented a variation on the central tenet of the social economics vision of institutional savings that the primary beneficiary of such programs was the nation rather than the individual. The international comparison was framed in terms of the way that it questioned the United States' status as a "first-rate power." The reason to "encourage thrift" is that it produced "good citizenship," a variation of the belief that a sense of participatory capitalism would tend to diminish social activism. While Carter specifically encouraged a government-driven vision of institutional saving—rather than institutional savings more generally—his formulation nevertheless framed the benefit as one that accrued to the "country" as a whole. This is not to say that the older ideas of promoting individual economic security or achieving a new level of personal virtue were not also present in Carter's vision, just that these assertions were balanced if not outweighed by the newer social economic tendency to focus on the aggregate.

The particular defense of promoting American postal savings as a bulwark to capitalism was clear throughout Carter's address, in stark opposition to the goals of the more state-oriented systems prevalent in other nations, earlier American proposals, or even the portrait of the current plan that its opponents painted. Immediately before his discussion of the nation's deserved shame for failing to promote a basic benefit of the "civilized world," for example, he assured his fellow members of Congress several times that the system would produce either a "small" or

100 "Speech of Hon. Thomas H. Carter, of Montana," George von Lengerke Meyer Papers, Massachusetts Historical Society, Box 34, Miscellany, I-Po; Folder 34.11.

"moderate" profit to the post office. After his disquisition on the inculcation of positive values and good citizenship, he added that "in addition to all this, be it remembered that, through the confidence inspired by the Government, the postal savings banks will bring into circulation millions upon millions of money now dormant and in hiding." And in answer to an interjected question from a fellow senator, Carter replied that "the bill provides the rate of interest, but does not undertake to provide to whom the [commercial] bank shall loan the money" that it would by law receive on deposit from the postal system.[101]

Carter's defense of the ultimately successful bill thus clearly demonstrated the influence of the conservative social economists' tendencies to emphasize aggregate rather than individual outcomes (albeit with the explicit belief that these would help all members of the aggregate), to measure American "progress" relative to that of other nations, and to promote a vision of "civilization" premised on the advancement of capitalist practices and broadly-distributed class interest. Given this, the debate that George Meyer and the ABA represented was almost entirely reduced to a question of whether the privately-organized banking sector alone could effectively cultivate the nation's potential savers or whether the government could be utilized to augment them by operating a less-profitable area of business and diverting much of the resources it did manage to "uncover" to the commercial banking sector rather than to itself. Postal savings advocacy might have started as the intent to create a government finance facility apart from commercial ownership, but it ended as an attempt to reap the indirect benefits of institutional saving for the interest of national monetary policy and its direct benefits for commercial banks.

The bill's final form reflected this change in perspective from the original 1871 plan and many that followed it. In addition to the provision that all postal deposits would be placed in

101 Ibid.

national banks located near the post office of origin with no specific restrictions on what the bank could do with them, it also fixed interest at a generally-below market annual rate of 2 percent and limited individual accounts to $500.[102] The bill's authors designed these provisions to protect commercial banks from competitive interest rate wars and fights over more profitable large deposits. The supposed benefits to depositors were greater geographic access to deposit banking and the security of the US government. These were, to be sure, potentially useful to many savers who through wariness or lack of access failed to access either a for-profit or mutual savings institution. They may even have been a worthy trade-off for reduced interest payments. After all, the system did slowly but steadily attract depositors over its first twenty years of existence. Then during the 1930s, its usage rapidly expanded as depositors flocked from commercial savings institutions amid the bank failures that characterized the outset of the Great Depression.[103] But regardless of definable benefits to the individual depositor, the system also explicitly attempted to integrate more of them into the national commercial banking sector than the sector's operators declined or were unable to reach. Far from an extension of the original mutual savings bank principle to the national level or an attempt at centralized state or socialist control of finance, the eventual US postal savings system intended to amass the nation's resources in the joint names of capitalism and "civilization."[104]

102 For the complete text of the original act, see: Kemmerer, *Postal Savings,* 133-43. By comparison, banks were generally paying interest rates of about 3.5 percent on savings deposits in 1910. See: Maureen O'Hara and David Easley, "The Postal Savings System in the Depression," *Journal of Economic History,* vol. 39, no. 3 (September 1979), pp. 741-53: 744

103 See: O'Hara and Easley, "The Postal Savings System in the Depression"

104 Elizabeth Sanders made a similar point but in the specific language of ca. 1910-era Republican party politics rather than the broader discourse of savings institutions discussed here. In her estimation, even the banking interest was secondary to the national one. As Sanders put it: "the system did indeed draw out the hidden savings of distrustful immigrants and offered no real competitive threat to banks. Still, the postal savings system was not a victory for banks, which had opposed it, or for poor immigrants, who were furnished secure local depositories but at an interest rate far below market and far below that offered by European postal savings

*Conclusion*

That observers who believed in the deep connection between social experience and capitalist economic development would be drawn to the promise of institutional savings as a means of social improvement is hardly surprising. Daniel Rodgers pithily summarized the dominant American social economic view current at the turn of the twentieth century as the belief that "the most promising counterforce to the injuries of industrial capitalism was the enlightened conscience of capitalism itself."[105] But while true of the social economists of this era, that view was also strikingly similar to that of earlier generations of social reformers interested in questions of poverty. Indeed, such a belief echoed a particularly strong ideological current that stretched back at least as far as the early-nineteenth century reformers who founded such groups as New York's Society for the Prevention of Pauperism.[106] It was, with minor variations, the basic philosophy with which savings bank advocates had promoted their institutions from the very beginning when they encouraged poor workers to become "little capitalists" as a way of protecting themselves from the most severe privations of unemployment, sickness, or old age. Even the new social economists' international orientation and attempts to quantitatively measure the effects of their efforts were not entirely new: the lively early-nineteenth century trans-

institutions. Instead, this legislative achievement of the Taft years was a modest victory for the New Nationalist vision. A program advocated by rural and labor spokesmen for the benefit of their constituents had been imprinted with the grander designs of Republican officials to centralize the nation's financial resources and enhance exective discretion." It also, she notes, "integrated the physcially isolated and urban working-class immigrants into the modern industrial system and harnessed their meager savings for national economic expansion." See: Sanders, *Roots of Reform,* 235-36

105 Rodgers, *Atlantic Crossings,* 17

106 As Jeffrey Sklansky argued, "social scientists in the Gilded Age frequently recalled important elements of eighteenth-century moral philosophy. . . . The movement from political economy to social psychology"—within which he positions social economics as a late-stage aspect of—"is best understood as a slow, subtle shift in the center of gravity of American social science and social thought, not a sharp, clean break with the past." See: Sklansky, *The Soul's Economy,* 11

Atlantic reform discourse provided the first American savings bank organizers with their inspiration and models. In each of these areas, then, the social economists' advances might be thought of as differences in degree rather than in kind.

Matters of degree could be quite important, however. Although the direct exposure of antebellum savings advocates in the United States to their counterparts abroad was largely limited to an elite group of socially-minded philanthropists and government correspondents, the social economics movement leveraged the technological advances in the speed (and lowered cost) of transportation, communication, and publishing during the second half of the nineteenth century to facilitate countless international meetings, academic and professional exchanges, and correspondence networks, as well as the widespread dissemintation through academic, government, and popular channels of information concerning economic and social economic developments at home and abroad.[107] Within this distinct observational context, what most distinguished social economists and their fellow travelers at the turn of the twentieth century from their predecessors at the turn of the nineteenth was not so much how they approached the problems of capitalism as how they understood capitalism itself as a world-historical development and a common element of "advanced" human experience.

As Howard Brick demonstrated, the word "capitalism" first emerged in a sustained way during this period as an analytical tool used by political economists to describe a particular phase of economic development that they understood to define the "modern" societies of their era.[108] Whereas the earliest savings institutions in the United States and Great Britain held the promise of individual moral reform and local stability, social economists in the late-nineteenth century

107 See: Rodgers, *Atlantic Crossings,* and Bender, *Nation Among Nations,* 246-88

108 See: Howard Brick, *Transcending Capitalism: Visions of a New Society in Modern American Thought* (Ithaca, NY: Cornell University Press, 2006), 1-22

elevated access to savings institutions to the rank of a requirement of a "modern" nation and to a new status as a pillar of "civilization" based on a line of thought that viewed investment as the origin of cultural advancement, capital aggregation as the basis of investment, and mass saving as the most important source of capital aggregation.

Developing dialectically with the new inclination and ability to easily observe and compare systems of economic development throughout the world, this vision helped to recast mass institutional savings' social economic function to meet both the competitive challenges of a new era and a more grandiose vision of the importance of capitalism in American life. For many contemporaries, promoting overall institutional saving became more important than developing it in any particular *form.* As a result, increasing access to savings institutions for the first time became a national imperative in the United States and other countries with pretensions to industrial power while adherents to this belief minimized the importance of negative individual outcomes within an institutional savings system that, on the aggregate, was expanding.

Within this context, advocates of capitalism utilized a new language of American nationalism to justify government *economic* policies on the basis of their potential to advance *social* and *cultural* progress through national investment, thus obscuring the fact that they increasingly defined this progress in terms of increased capitalist development that they simply claimed—rather than demonstrated—would benefit all members of society. This cast the universally-recognized and growing crises of developing industrial capitalism as a situation related to workers' insufficient education or access to capitalist institutions rather than to their structural exclusion from many of its benefits. Since savings institutions remained the primary point of interaction between the majority of American workers and the US finance economy, the frequent results of this worldview were the development of social economic policies, like the US postal savings bank in its finished form, that encouraged workers—both through ideological persuasion and by excluding other institutional options—to embrace their capitalist context rather than trying to fundamentally alter it to meet their material, social, or political desires.

## Chapter Six

## The Littlest Capitalists: School Savings and Social Economics, 1878-1914

### *Introduction*

While adherents to the social economic analysis of institutional saving that developed from the 1870s to the early 1900s influenced the debate over whether to create a United States postal savings system, its proponents failed to see their vision enacted through nearly forty years of advocacy. During the same period, the financiers who operated savings institutions felt increasing pressure to engage new depositors and increase deposits in the face of the competition that the diversifying savings sector created and their general legal inability to transact retail business in any location other than their bank headquarters. This developing body of social economic theory and the bankers' quest to increase their business shared much in common. For mutual savings bank directors, in particular, the social economic emphasis on institutional saving as a form of social improvement overlapped well with the enduring quasi-public mission of their institutions. But even the directors of for-profit savings banks, trust companies, and their companions found common ground with the social economists who believed that increasing deposits was a crucial national undertaking. After all, this increase was a key element of their business model since institutional savings' financial power lay in its ability to aggregate small capital from a large body of depositors. Lastly, social economic theorists—and, especially, their observations of novel savings institutions in other countries—helped to inspire renewed activity among both savings institutions and third-party philanthropic and government organizations that sought to expand access to extant savings infrastructure in order to promote their own financial and social missions.

In order to better understand the practical implications of social economics—in terms of both its theory and how it disseminated—it is therefore useful to examine in detail one of the few institutional savings developments of the period that all three of these cohorts embraced in their effort to foster new depositors. School savings banks were the only institutional savings outlets that Americans' adopted in any significant numbers during this period that were: (1) directly and almost-exclusively inspired by foreign examples; (2) developed and implemented by a combination of social economic intellectuals, progressive reformers, and government agents; (3) operated in conjunction with both non-profit *and* for-profit savings institutions; and (4) which encompassed an explicit attempt to rapidly expand the American savings depositor base in an enduring manner as an expression of the belief that savings institutions could foster a better nation. Although prior studies or scholarly mentions of these programs that used elementary and secondary schools as mediators between children and savings institutions have focused overwhelmingly on their development from World War I through the Great Depression,[1] tracing

1 For example, see: Lisa Jacobson, *Raising Consumers: Children and the American Mass Market in the Early Twentieth Century* (New York: Columbia University Press, 2004), 56-69 and James Davison Hunter, "Thrift and Moral Formation," in *Thrift and Thriving in America,* ed. Joshua J. Yates and James Davison Hunter (New York: Oxford University Press, 2011), pp. 242-63: 249-56. For two brief examinations of the earlier period that still emphasize the greater importance of the post-1914 banks, see: David M. Tucker, *The Decline of Thrift in America: Our Cultural Shift from Saving to Spending* (New York: Praeger, 1991), 66-69 and Sheldon Garon,

school savings' gradual introduction and steady spread throughout the United States prior to 1914 reveals much about the way that savings advocates used the new cultural, intellectual, and institutional movements of the period to expand the financial facilities available to all workers on a platform of social advancement.

Early school savings banks were important for other reasons as well. They collectively introduced hundreds of thousands of future adult workers throughout the United States to institutional saving while educating them in the basic mathematical skills that would allow them to utilize those institutions. They were also innovative in their structure, representing one of the earliest solutions to the problem of the pre-branch banking era of how to extend the geographic reach of financial institutions that were only legally allowed to transact their business at a single location. Although school savings programs were chiefly concerned with this problem as it related to children, they directly influenced financiers who considered the issue in more general terms.

*Antecedents and origins of school savings at home and abroad*

A short item appeared in a San Francisco newspaper in May 1877 entitled "School Savings Banks in France." Explaining that "the institution of school savings banks has been in existence in France only a few years," the article detailed their remarkable growth, reporting that the number of active programs supposedly grew from 1,300 in February 1876 to 3,200 by the end of that year. After reviewing other relevant statistics—including the engagement of more than 200,000 student depositors nationwide—the piece ended by detailing the mechanism

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*Beyond Our Means: Why America Spends While the World Saves* (Princeton, NJ: Princeton University Press, 2012), 115-19. For one of the rare lengthy scholarly treatments of the early phase of school savings adoption, see: Ashley Cruce, "A History of Progressive-Era School Savings Banking: 1870 to 1930," Washington Univerity Center for Social Development Working Paper 01-3 (August 2001) through which the novel system worked, explaining that:

> "the working of the school funds is of the most simple description: the children set apart a portion of the small sums given to them by their parents and hand it to their teachers, who receive even the smallest amounts and inscribe them in a register with a check margin. Each juvenile depositor, therefore, has an account open, and as a voucher a sheet showing the amount of the various sums paid in. When the total of successive deposits reaches a franc, the teacher hands over the sum to the savings bank and procures a pass-book for the child. After this is delivered, the teacher continues to receive the diminutive contributions until they again amount in each individual case to a franc, when the sum is once more transferred to the parent establishment, and so the process is repeated."[2]

The benefits of this system were no doubt obvious to any reader steeped in the virtuous language of American savings bank promotion. Yet the reporter's detailed explanation betrayed the fact that no similar program existed in the United States. Many savings banks and their advocates—both in the United States and Europe—had from their earliest years claimed that their institutions served an educational purpose, but this was quite different from formally associating them with schools or creating programs designed exclusively for children.

Most savings banks *had* always accepted and in some cases actively solicited deposits from children, however. As early as 1817, the Philadelphia Saving Fund Society described the types of depositors who might benefit from its services. Along with "an apprentice," a male and female "domestic," a journeyman and master "mechanic," and "a father of a family," it included "children" as potential depositors. In suggesting the specific benefits to accrue to children through use of a savings bank, the PSFS explained that they "might be early initiated into habits of saving, and instead of squandering their pennies in useless trifles, they might be induced to save them until they amounted to a sum sufficient to purchase a comfortable article of dress."[3] When New York's Society for the Prevention of Pauperism applied to the state legislature in

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2 "School Savings Banks in France," *Daily Evening Bulletin* (San Francisco), 19 May 1877, p. 3

3 Philadelphia Saving Fund Society, *Articles of Association of the Saving Fund Society, with an Explanation of the Priniciples of the Institution and Its Objects. . .* (Philadelphia: W. Fry, printer, 1817), 18

1820 for the Bank for Savings in the City of New York's charter, it specifically stated the bank's intention to accept as deposits "such small sums of money as may be saved from the earnings of tradesmen, mechanics, labourers, minors, servants, and others."[4] Such deposits for minors could have salutary benefits even if they were made in trust rather than by the children themselves: as the first annual report of the Bank for Savings explained, the true "blessing" of these deposits was that "while it is calculated to excite the gratitude of the young beings for whose use these deposits have been made, it holds out to them, when arrived at maturity, the example and the means by which succeeding generations are to be benefited and improved."[5]

Thirty-four years later, the Six-Penny Saving Fund of Philadelphia claimed in similar fashion that its business was to accept deposits from "mariners, tradesmen, clerks, mechanics, laborers, minors, servants, and others," and its charter specifically authorized the bank's trustees to pay to "any minor . . . such money, or any part thereof, as he or she may have deposited to his or her credit, or any interest or dividend accruing thereon, without the assent or approbation of the parent or guardian of such minor." The bank also specifically protected children's deposits from their guardians. (The same clause offered protections for married women against their husbands or their husbands' creditors, as well.)[6] A few years later, the Greenwich Savings Bank in New York turned a similar policy into an advertising point, announcing on the back of its 1856 annual report that "this Institution receives the deposits of ONE DOLLAR and UPWARD from

4 Bank for Savings in the City of New York, *Charter and By-Laws of the Bank for Savings in the City of New-York* (New York: Printed by Mahlon Day, 1832), 3

5 Bank for Savings in the City of New-York, *First Report of the Bank for Savings in the City of New-York. . .,* (New York: Clayton & Kingsland, 1820), 10

6 Six-Penny Saving Fund of Philadelphia, *An Act Incorporating the Six-Penny Saving Fund of Philadelphia* (Philadelphia, 1854), 6

all classes of persons, including MINORS and MARRIED WOMEN."[7] Not all savings banks were quite as inclusive. For example, New York's Institution for the Savings of Merchants' Clerks barred deposits from children under 12 years old.[8] However, savings deposits from children were widely accepted before the Civil War. One study of the Philadelphia Saving Fund Society estimated that approximately 15 percent of accounts in 1850 were either opened by minors themselves or in trust for them.[9] In 1860, the Boston Five Cents Savings Bank declared that just over one-third of its depositors were minors, though it did not specify what percentage of these accounts were held in trust.[10]

In addition to the youth business conducted by many savings banks during the antebellum era, some non-financial institutions also considered ways to encourage children to save. When a group of religiously-affiliated social reformers organized the Boston Industrial Home as an anti-poverty measure in the 1850s, they included in their plan a "Penny Savings Bank" along with educational, religious, and employment departments. Their aim was to minister to that "important and interesting class of neglected street children . . . [who] possess the elements of great and useful men, but, entirely neglected by society, they grow up in ignorance and vice, without a knowledge of the true value of money, and without any object in its accumulation." Despite its particular application to children, the penny bank's organizers did not intend to limit its use exclusively to them: it was also "for the benefit of all the industrious poor, who might

7 Greenwich Savings Bank, *Annual Report of the Trustees of the Greenwich Savings Bank* (New York, 1856), 8

8 Institution for the Savings of Merchants' Clerks, *Savings Bank. Eighth Annual Report. . .* (New York, 1856), 3

9 George Alter, Claudia Goldin, and Elyce Rotella, "The Savings of Ordinary Americans: The Philadelphia Saving Fund Society in the Mid-Nineteenth Century," in *The Journal of Economic History,* vol. 54, no. 4 (December, 1994), pp. 735-67: 741n.22

10 The report listed 7.284 depositors as minors in 1860, out of a total depositor population of 22,449. See: Boston Five Cents Savings Bank, *Sixth Annual Report of the Treasurer of the Boston Five Cents Savings Bank . . .* (Boston: Printed by Fred Rogers, 1860), 6

otherwise squander their earnings."[11] The superintendent of the News Boys' Lodging-House that Charles Loring Brace's Children's Aid Society organized in New York City similarly experimented with what he called a "bank" for his charges at some point in the late 1850s or early 1860s: a locked drawer into which each tenant could place money through his own dedicated slot in the top but not retrieve it until two months had passed. At the end of this period, Brace claimed that each "depositor" saw how much they had saved this way and "the increase seemed to awaken in them the instinct of property, and they at once determined to deposit the amounts in the City Savings Banks, or to buy clothes with them."[12]

Beyond these specific instances of individual savings institutions being directed at or designed for children, from the 1830s onward it was common for Sunday school promoters in the United States to include thrift lessons as part of their teaching activities and to produce tracts for children that extolled the virtues of thrift in general and savings institutions in particular.[13] The immediate antebellum period witnessed "the gradual embrace of self-interest as a motivational tool displayed within popular advice books marketed to male youth," a trend which continued after the war years.[14] The wildly popular novels of authors such as Horatio Alger, Jr., demonstrated how savings banks could stand for the institutional expression of these abstract trends in popular culture of the nineteenth century. The act that encapsulated the decision by

11 Boston Industrial Home, *Plan of the Boston Industrial Home, for the Penitent Friendless and Unfortunate* (Boston: Printed by Stacy and Richardson, 1854), 3-8

12 Charles Loring Brace, *Short Sermons to News Boys: With a History of the Formation of the News Boys' Lodging-House* (New York: Charles Scribner & Co., 1866), 27-28

13 Rohit Daniel Wadhwani, "Citizen Savers: The Family Economy, Financial Institutions, and Social Policy in the Northeastern U.S. From the Market Revolution to the Great Depression," unpublished diss. (University of Pennsylvania, 2002), 74-75

14 Rodney Hessinger, *Seduced, Abandoned, and Reborn: Visions of Youth in Middle-Class America, 1780-1850* (Philadelphia: University of Pennsylvania Press, 2005), 127. David M. Tucker demonstrated that these antebellum activities continued to the end of the nineteenth century. See: Tucker, *Decline of Thrift,* 55-69

Dick Hunter—the protagonist of Alger's first serialized story, published in 1868 as the book-length *Ragged Dick; or, Street Life in New York with the Boot-Blacks*—to prepare for the fact that "in seven years he would be a man" was to open a savings account. The narrator noted that "now, for the first time, he felt himself a capitalist; on a small scale, to be sure, but still it was no small thing," adding elsewhere that "it was wonderful how much more independent he felt whenever he reflected upon" his bank book and the sum it represented. Only after this first step did Dick move on to the other acts that would grant him personal improvement and upward social mobility, such as learning to read and write.[15]

Like their American counterparts, early British savings banks also accepted deposits from children. Yet unlike in the United States, the idea of creating savings programs exclusively for a young clientele was considered nearly from the advent of organized savings in England and Scotland. The earliest institution resembling a school savings bank may have been the "children's bank" of Tottenham, England, associated first with that city's charitable Female Benefit Club in 1798 and later, after its founding in 1804, the city's Benefit Bank. As an 1818 description of the "children's bank's" operations explained, "any person . . . may enter a child into the [Female Benefit Club's savings program] . . . and pay for them monthly, any sum from a penny upwards, which, when amounting to Twenty Shillings, will be transferred into the Tottenham Benefit Bank, and the child allowed five per cent. interest yearly."[16] While the lack of connection to a school distinguished this program from later institutional savings efforts aimed exclusively at children, the practice of using a third party to collect children's deposits until they reached a sum

15 Horatio Alger, *Ragged Dick; Or, Street Life in New York with the Boot-Blacks*, edited by David K. Shipley (New York: Random House, Inc., 2005; orig. Pub. 1868), 80-82

16 *Annals of Banks for Savings: Containing an Account of Their Rise and Progress. . . .* (London: Luke Hansard & Sons, 1818), 51

sufficient for a formal savings bank to accept anticipated a key element of the later programs.

According to a prominent early treatment of the subject, the first "school savings bank" proper originated in Mans, France, in 1834. This was the earliest savings bank that the French economist Augustin de Malarce identified when his country's minister of public instruction tasked him in the late 1870s to research these institutions' origin and operation. As a later American summary of his findings explained: "if the first penny bank was established at Greenock [Scotland], in 1837; if school savings banks have been tried at Verona (Italy), in 1844, in Saxe-Weimar and Württemberg in 1846, in Prussia and Switzerland in 1851, in Hungary in 1860, in Belgium in 1839 and 1840, we are able to state that France has had a school savings bank since 1834." With that start, the institutions spread steadily: "from 1836 to 1840 attempts to establish school savings banks were made at Amiens, Grenoble, Lyons, Paris, &c. . . [and] Périgueux."[17] The frequency with which school savings bank proponents retold this basic story beginning in the 1870s elevated it to a sort of creation myth for the movement, although later historians of school savings pushed their origin back as early as 1818, to a still different French program.[18] As was true with regular savings banks, however, the precise origins of relatively isolated local examples mattered less to the group of reformers who made the institutions widespread than the mere fact that some precedent—however distant—provided a rationale for their own efforts.

Tellingly, the 1870s and 1880s—the period when school savings advocacy first became an international movement—saw the widespread repetition of a *competing* origin story that portrayed school savings plans as the inspired invention of a progressive academic rather than

17 US Bureau of Education, *Circulars of the Information of the Bureau of Education: No. 4—1881, Education in France* (Washington, DC: Government Printing Office, 1881), 38

18 Lisa Jacobson, *Raising Consumers,* 59

the slow evolution of local experimentation. According to this history, school savings banks originated with an 1873 entry in the competition for the Guinard Prize, an award given every five years by a committee based in Ghent, Belgium to the person—according to one later description—"who should produce a work or make an invention for elevating and placing the proletaire in the ranks of the bourgeois." The winning entry, "Lectures on Savings in the Schools," came from Francois Laurent, a professor of civil law at the University of Ghent. After winning the prize, Laurent saw the Belgian government print and distribute 12,000 copies of his pamphlet, establishing school savings as a feature of the Belgian educational and financial landscapes.[19]

While Laurent may not have been the first person to promote a school banking plan and certainly was not the first to try to entice children to use savings banks, his essay and subsequent labors to promote this idea started what would become a worldwide movement to establish school savings. Even before the Belgian government worked to execute his plan, Laurent himself met with other social and educational reformers—including Augustin de Malarce—at the Vienna World's Fair in 1873 to discuss his concept of reform. While earlier examples of school savings banks had either remained locally-circumscribed experiments or fallen out of use, this refocused attention in the context of developing transnational social economics discourse proved sufficient to establish school savings as a central component in international educational and social reform movements after the mid-1870s.[20] According to one contemporary source, more than 4,000 schools in France established school savings programs from 1874 to 1877 alone. The growth in deposits resulting from this increase was substantial enough that de Malarce attributed a great deal of the rise in overall French savings deposits during these years to the establishment of

19 Sara Louisa Oberholtzer, "School Savings Banks," *United States Bureau of Education Bulletin,* 1914, no. 46 (Washington, DC: Government Printing Office, 1914), 11

20 Ibid., 11

school savings programs.[21]

It appears that knowledge of European school savings programs did not spread widely—if at all—in the United States prior to Laurent's essay and presentation in Vienna. The first American school savings experiment appears to have been the "High School Savings Fund" that the Boys' High School of Lancaster, Pennsylvania, instituted only a few years later in 1877. It is unclear whether this was an independent innovation or drew on a European example.[22] Yet the Vienna meeting did directly influence at least one American, S.T. Merrill, to push for expansion of savings facilities domestically. Attending the fair as a commissioner for the state of Wisconsin, he eventually worked successfully to push a law through the Wisconsin state legislature that in 1877 allowed the creation of the state's first mutual savings banks. Four years later, Merrill founded the Beloit Savings Bank in his home town. In 1882, he helped to establish a school savings program in the Beloit public schools.[23] While trying to attract support for the latter proposal, Merrill published an article in a local newspaper that cited the spread of similar programs in France and Belgium and minced no words in explaining the salutary effects of his system: "there is no lack of enthusiasm on the part of the friends and promoters of this scheme for inculcating habits in saving in the present generation. They say: 'The boy is treated like a man, performs the act of a man, receives the deposit-book of a man, and hence feels like a man. The children show their bank-books in their homes, and there repeat the lessons of the school,

21 Edward W. Brabrook, "Abstract of a Report Published by the Italian Government on the International Statistics of Savings Banks," in *Journal of the Statistical Society of London,* vol. 40, no. 4 (December 1877), pp. 614-30: 626

22 "School Savings Banks," in *Pennsylvania School Journal,* vol. 26, no. 12 (June 1878), pp. 420-21: 420

23 Savings Bank Division. American Bankers Association, *School Savings Banking During School Year of 1927-1928: Ninth Annual Report on Systems Throughout the United States* (New York: American Bankers Association, 1928), 3

thus making impressions that have had a marked influence in improving the condition of whole communities.'"[24] By describing savings as a responsible adult act, Merrill fit squarely within the cultural milieu of American saving that had developed by the mid-nineteenth century. Yet by explicitly drawing on European inspiration and by arguing that children could effectively become at once both the objects and disseminators of savings ideology, he was charting nearly unprecedented ground in the United States.

Even as Merrill stressed European precedents, he also added (unaware of the Lancaster experiment) that "the only practical illustration of this system in this country [the United States] that has come to the knowledge of the writer is found at the Training School for Indian Youth at Carlisle, Pa." He explained that "for the labor they perform in the workshops connected with the school they [the school's students] receive a small compensation . . . a part of which they have been induced to deposit in the Carlisle Savings Bank." Merrill then quoted a letter from Captain R.H. Pratt, the superintendent of the school, dated 5 December 1881: "there are very few of them [students] who fail to make deposits of some portion of their pay, generally about half. The sums to this date aggregate some $800, deposited by about seventy students. In my judgment we are teaching these Indian children one of the most important lessons of life by this means."[25]

In the absence of widespread notice of the Lancaster program, Pratt fielded inquiries from observers who wanted to learn from his experience as the "first" American administrator of school savings banks during the 1879-1880 school year. In answer to a questionnaire sent in 1889 by the author of an early history of school savings banks, Pratt elaborated that his idea "was simply the result of my judgment that in teaching Indians the uses of money we must necessarily

24 S.T. Merrill, "School Savings Banks," Wisconsin *State Journal,* 2 January 1882, p. 1

25 Ibid., 1

have the money, that to teach them to save it and be economical, it was of the utmost importance to our success that we do it practically and not theoretically." As Pratt continued: "I therefore established a system of paying students a very small sum for work." To augment the pedagogical value of earning wages, students "were encouraged to make deposits [in the school savings bank] and each one was provided with a Bank book."[26] By 1889, the US Commissioner of Indian Affairs reported that schools such as Carlisle routinely employed "Indian pupils engaged in learning trades, to each of whom a few cents a day are paid." In a statement that disturbingly failed to acknowledge the general propriety of paying wages for labor, at least where Native Americans were concerned, he added that "these payments are justified by the fact that the pupils work more willingly and industriously and learn more rapidly under the incentive of small wages than they would if they were not thus recompensed for their labor; and, moreover, they thus learn the value of small earnings and small savings."[27]

Pratt claimed that he was unaware of other attempts at combining savings banks with schools.[28] This claim is plausible. The concept that institutional saving could have beneficial educational effects was an enduring cultural trope with more than a half-century of development by the late 1870s. The Freedman's Savings Bank had more recently made the concept of using savings institutions to integrate former slaves into free society a matter of federal policy. It is hardly far-fetched to think that a representative of the federal government—particularly an Army

26 "RH Pratt to Mrs. S.L. Oberholtzer," 2 November 1889, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania, Box 15, Folder 1

27 US Bureau of Education. Department of the Interior, *Report of the Commissioner of Education for The Year 1887-88* (Washington, DC: Government Printing Office, 1889), 1004

28 As Pratt explained, he hadn't borrowed a plan from anyone else "but [had created] one of my own entirely . . . [i]t was established and grown up by me without any knowledge that a School Savings Bank System was thought of elsewhere." See: "RH Pratt to Mrs. S.L. Oberholtzer," 2 November 1889, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania, Box 15, Folder 1

officer—charged with a similar task regarding Native Americans might also link the concept of active citizenship to wage labor and institutional saving. This is particularly evident when one considers that the school Pratt helped to organize at Carlisle was the first of what became a national system that the Department of the Interior operated as a way to transition the federal government from a policy of either confining Native Americans to reservations or engaging them on the battlefield into what became popularly-known as "assimilation"—attempts to eliminate traditional Native American ways of life and replace them with what were deemed the "civilized" standards and habits of white Americans. As one typical advocate of the assimilation movement explained in 1900: "we are coming to recognize the great truth that if we would do justice to the Indians, we must get at them, one by one, with American ideals, American schools, American laws, the privileges and pressures of American rights and duties."[29] If schools were the means to this end, then it was not a great leap to imagine that other American institutions—including savings banks—would need to be brought into them.

### *Progressive education, social economics, and the entrenchment of school saving*

Regardless of whether Pratt was aware of other school savings efforts, his idea both reflected and helped to advance the interests of much broader networks of social reformers operating within the areas of education and economics. While Pratt applied their insights to the specific question of how to "assimilate" Native Americans, he drew on more general conceptions about the nature of elementary and secondary educational institutions that were gaining currency

29 Robert A. Trennert, "From Carlisle to Phoenix: The Rise and Fall of the Indian Outing System, 1878-1930," in *The Pacific Historical Review,* vol. 52, no. 3 (August 1983), pp. 267-91; quotation on page 268. See also: Frederick E. Hoxie, "Introduction: American Indian Activism in the Progressive Era," in *Talking Back to Civilization: Indian Voices from the Progress Era,* edited by Frederick E. Hoxie (Boston and New York: Bedford/St. Martin's, 2001)

in the United States and elsewhere during the 1870s and 1880s. Although wide in scope, two of this progressive education movement's key elements were its emphasis on utilizing public schools to train future citizens and the replacement of rote learning with exercises intended to encourage "practical" student engagement with a subject through experimentation.[30] Since demonstrating the supposed advantages of capitalist finance to workers by exposing them to actual financial institutions as a way to create a better citizenry had long been the essential "pedagogy" of savings banks, it is little wonder that a progressively-oriented educator of the late nineteenth century would be attracted to the promise of introducing students to savings banks. As David Nasaw explained, in the context of schooling "the progressives were the first to realize that the emerging industrial order required of its wageworkers a new set of internalized character traits."[31] School savings promised a way to encourage that internalization.

The fact that the post-Laurent and post-Pratt school savings programs fit into the broader social economics and progressive educational movements with their avowedly international focus was explicitly noted in early American observations of their development. No doubt influenced by the 1878 "Congress of Provident Institutions" in Paris, one American compendium of developments in education produced that year discussed the savings systems of countries including France, Belgium, and Switzerland, and then noted that "a considerable literature on the subject of school savings banks has been produced in the several countries in which they have been introduced." The author of the item went on to list the titles of books and pamphlets

30 See: William J. Reese, *Power and the Promise of School Reform: Grassroots Movements During the Progressive Era* (Boston: Routledge & Kegan Paul, 1986), passim. and David Nasaw, *Schooled to Order: A Social History of Public Schooling in the United States* (New York: Oxford University Press, 1981; orig. 1979), 87-104 and 114-45. See also: Maurice R. Berube, *American School Reform: Progressive, Equity, and Excellence Movements* (Westport, CT: Greenwood Press, 1994), 14ff.

31 Nasaw, *Schooled to Order,* 102

published in Vienna, Budapest, Leipzig, Paris, and several cities in England, assuming that readers would be able to gain access to such works.[32]

More explicitly connected to the fair was the correspondent for the Massachusetts Bureau of Statistics of Labor, who reported on his six-month-long perusal of its exhibits. Noting numerous displays of "institutions of benevolence intended to relieve every kind of distress" among the working poor—including mutual assistance societies, cooperatives, vocational training, societies for the protection of apprentices, and savings banks—he dismissed the necessity of a detailed report on these aspects of the fair because "all these things exist in the United States, or have been tried and discarded." What *was* worthy of being dwelled upon, however, were school savings banks—the one idea that "has been tried in some European countries" (he mentioned France, Belgium, and Italy), was to his knowledge unknown in the United States, and yet "it seems to me, is capable of being transplanted to American soil."[33] As a newspaper in Lowell, Massachusetts, explained this correspondence to a more popular audience: "the writer regards this [school savings] system as one of the most powerful means of elevating the condition of the future French workman, and he recommends a trial in this country."[34] Shortly thereafter, reports on European school savings banks (especially in France) began to occur with some regularity in American newspapers.[35] Even an occurrence as seemingly trivial as an announcement that the Minister of Public Instruction in New South Wales, Australia, was

32 Henry Kiddle and Alexander J. Schem, eds., *The Year-Book of Education for 1878* (New York: E. Steiger, 1878), 171-72

33 Massachusetts Bureau of Statistics of Labor, *Tenth Annual Report . . . January, 1879* (Boston: Rand, Aberg, & Co., 1879), pp. xv-xvi

34 "Statistics of Labor," Lowell *Daily Citizen,* 22 Februay 1879, p. 2

35 See, for example: "General Notes," Indianapolis *Daily Sentinel,* 28 November 1879, p. 4; "Educational," *Daily Inter Ocean* (Chicago, Illinois), 21 February 1881, p. 12

instituting a school savings bank system merited mention.[36]

As early as 1881, the federal Bureau of Education (at that time a branch of the Department of the Interior) distributed both narrative and statistical information about the French system that gained wide notice throughout the United States.[37] Apparently based on the same statistics, an article in that year's New York *Tribune* noted the significant numbers of French students now depositing in school savings banks, adding that "the incalculable trouble of maintaining such a system, and the patience with which it is carried and urged by the inspectors of schools, show how much in earnest the thoughtful classes in France are in cultivating this habit of thrift." The author then included a challenge of sorts to readers: "even thoughtful Englishmen, Irishmen and Americans would be inclined to shrug their shoulders at the spectacle of babies hardly out of their cradle laying by their pennies and carrying bank-books, but for their answer we have the French peasant, clean, sober, gay, with busy hands and a full pocket, satisfied to remain in the home of his fathers, while the same classes in other nations are running to and fro all over the world to keep from starvation. He laughs who wins."[38] The article was reprinted several weeks later in Portland, Oregon.[39] Picking up on the same theme—and using some of the same words—as the *Tribune*'s article, a Wisconsin newspaper noted that "the French are the most systematic in their thriftiness of any people on the face of the globe," adding that "one evidence of this is the success of school savings banks" and that "the world has yet many lessons to learn from

36 "Australasian News," (San Francisco) *Daily Evening Bulletin*, 2 October 1886, p. 4

37 US Bureau of Education, *Circulars of the Information of the Bureau of Education: No. 4—1881, Education in France* (Washington, DC: Government Printing Office, 1881), 37-40

38 "Significant Figures," New York *Tribune,* 7 May 1881, p. 4

39 "French Thrift," *Morning Oregonian,* 25 May 1881, p. 2

France."[40] As another commentator explained, "if one wishes to successfully acquire the habit of saving he should begin in childhood. Like new tricks by a dog, few learn it after they have advanced in years." Harkening back to the rhetoric of the earliest savings banks, this author continued rather pointedly that "not a few men who have found their way to prison for theft attribute their fate to the fact that they were spendthrifts in their boyhood and young manhood."[41]

The international observation of school savings banks was fostered in part through the same social scientific organizations that helped to create a sustained inquiry of nearly every institutional savings development throughout the world during this period. Typical of these social scientific advocates of school savings banks were two reformers already discussed in Chapter Five. As one of them, the New York financier John Pomeroy Townsend, explained in a wide-ranging 1877 address delivered before a meeting of the ASSA on the topic of savings institutions: "if it is believed that a proper way to make good citizens, is to give them an opportunity honestly to acquire property, then the way should be opened to them early in life." Not surprisingly, Townsend had already made plans to attend the 1878 Paris World's Fair when he gave this address, and he quoted Augustin de Malarce, among other authorities, in support of creating school savings programs.[42] Similarly demonstrating the ecumenical nature of social economists when it came to remedies for society's ills, Robert Porter's 1878 address before the ASSA, though focused specifically on postal savings banks, linked their development alongside school savings systems to explain why the French had lately been so successful at raising savings

40 [no title], *Wisconsin State Journal,* 17 May 1881, p. 2

41 "School Savings Banks," Cincinnati *Commercial Tribune,* 3 July 1881, p. 4

42 John Pomeroy Townsend, *Savings Banks: A Paper Read Before the American Social Science Association, at Saratoga Springs, September 5, 1877* (New York: L.H. Bigelow & Company, 1877), 18-19 and 23

deposits—and to illustrate the path that Porter thought the United States should follow.[43]

The connection between school savings and the "practical" element in educational reform was frequently present in early American commentaries on school savings banks. As John Pomeroy Townsend explained when discussing the rationale behind British school savings programs, "the best means of causing the spirit of economy to penetrate the habits of the people is to teach it to their children, and make them practice it." Formalizing the activity in a school setting held certain advantages: "this [practice] can be best accomplished in the public schools, where the managers and teachers have constant opportunities of enforcing and illustrating the advantages of saving."[44] In praising the French and Belgian school savings systems, a columnist writing in *Harper's Weekly* in 1884 similarly noted that "the school banks form a part of the system that would make education a practical thing, and more than ever useful in preparing the youth of the nation for active life." Yet again, the innovation lay in extending savings opportunities to *children,* rather than in changing the inherent logic about why poor people *in general* should avail themselves of savings institutions. In a statement that could easily have been written fifty years earlier, the columnist explained simply that "our young men of business have too often never learned early in life how to save . . . their salaries are too small . . . compared to the demands of a growing love of pleasure. They soon overstep their legitimate expenses; they rush into speculation; they fall at last into crime."[45]

An 1885 newspaper article appearing in the New York *Sun* (reprinted at least as far away

43 Robert P. Porter, *Reprint from the Penn Monthly for June, 1878. Post-Office Savings Banks: A Paper Read at Cincinnati, May 22d, 1878, in the Annual Session of the American Social Science Association* (Philadelphia: Press of Edward Stern & Co, 1878), 14-15

44 John Pomeroy Townsend, *Savings Banks*, 24

45 Eugene Lawrence, "The School Savings-Bank," in *Harper's Weekly,* vol. 28, no. 1438 (12 July 1884), p. 447

as Macon, Georgia) further illustrates the position of school savings banks at the intersection of social economics, progressive education, and industrial capitalism. Describing J.H. Thiry, a proponent of Long Island City's school savings experiment, the article reported that his program was based on the premise that "economy must be taught . . . like any other virtue, by causing it to be practiced." School savings programs were particularly useful in this endeavor, Thiry argued, because "a man must learn to save when he is young or he never will learn." That school savings programs were squarely in line with the progressive ideology of the new social economists was evidenced by his claim that "future laborers especially must learn the great importance of small savings. If laborers knew better how to save what they get there would be less socialism and nonsense afloat."[46]

Amid sustained and widespread documentation of the practice of school savings programs abroad and considering how neatly their premise encapsulated some of the most prominent social reform theories of the period, it is hardly surprising that Americans increasingly experimented with school savings in the early 1880s. Less than two years after Pratt instituted his system at Carlisle, a San Francisco newspaper reported in 1881 that "the Elmira [New York] School Board of Education is considering a proposition to establish school savings banks in connection with each of the district schools of the city."[47] Just a few months later, the Wisconsin State Teachers' Association discussed "a resolution favoring the establishment of such [school savings] banks," though they ultimately referred the matter to a committee rather than acting on the resolution.[48] At least one school in Connecticut started a school savings program in 1887; by 1889, it had 150

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46 "School Savings Banks," *Telegraph and Messenger* (Macon, Georgia), 9 May 1885, p. 6

47 "Notes on Education," *Evening Bulletin* (San Francisco, California), 10 September 1881, p. 5

48 "Educational: Meeting of Wisconsin Teachers and School Superintendents," Wisconsin *State Journal,* 2 January 1882, p. 8

student depositors with total deposits of $300.[49] The same year, a New York state legislator noted the success of a school savings bank operating in his district and attempted "to have a law passed allowing any public school to conduct similar institutions on the same general plan as regular savings banks are conducted."[50] By 1889, cities as dispersed as San Diego and Sioux City, South Dakota, featured school savings programs.[51]

In yet another academic paper describing savings institutions for a meeting of the American Social Science Association, John Pomeroy Townsend summed up this early progress by noting that "it is gratifying that this useful branch of the general system is at last in successful operation in 35 schools in 5 different states." He then added with a mixture of incredulity and relief that "it seems an anomaly that an enterprising people should have so long delayed the extention of a system whose principles they had approved so thoroughly for two generations, but at last we are assured that School Savings Banks will increase in number as their usefulness is demonstrated."[52] By 1890, more than 150 schools in 34 cities throughout the country had instituted school savings programs.[53] [See Figure 6.1] That this provided a base for further growth was indicated in places such as New Jersey, which by 1896 had savings programs in 39 schools—three-quarters of which started operation the year before.[54] In 1905, a report on

49 "The Dwight School Savings Bank," New Haven *Evening Register,* 22 March 1889, p. 3

50 "Trials of a Bachelor," New York *Herald,* 21 January 1889, p. 8

51 "Public School Savings Banks," Springfield (MA) *Republican,* 6 October 1889, p. 2; Aberdeen (South Dakota) *Daily News,* 21 March 1890, p. 6

52 John Pomeroy Townsend, *Savings Banks in the United States: A Paper Read Before the American Social Science Association at Saratoga Springs, September 7, 1888* (New York, 1888), 14-15

53 Figure 6.1 adapted from: Thiry, *School Savings Banks,* 48

54 "Sociological Notes," *Annals of the American Academy of Political and Social Science,* vol. 7 (January 1896), 172

education in Duluth, Minnesota (which also explained that "the modern tendency of education is toward the practical") declared that school savings programs had been operating there for several years.[55]

*The power of promotion: standardizing school savings*

While the initial growth of American school savings programs up to around 1890 is attributable to the combined efforts of social economics propagandists and local innovators, its entrenchment and standardization was largely spearheaded by two particularly active promoters whose efforts illustrate the influence that school savings banks had acquired as examples of practical social economics by the end of the nineteenth century. One was J.H. Thiry, the pioneering founder of Long Island City's first school savings program in 1885. The other was Sara Louisa Oberholtzer, who came to school savings through temperance advocacy and linked the two movements, helping to assure a prominent and active base of support for the continued spread of school savings programs.

While other early advocates of American school savings programs had learned about similar experiments in Europe through their participation in international reform circles, Jean Henri (later "John Henry") Thiry experienced them firsthand during a childhood and early professional career spent in his native Belgium, where he was both a teacher and a minor government official. Emigrating to the United States in 1859 in his late thirties, Thiry was a successful book dealer in Manhattan until leaving business sixteen years later to settle in neighboring Long Island City. Apparently restless in retirement, Thiry took an interest in local

55 W.G. Joerns, "Notes on Municipal Government. Education Organization and Progress in American Cities. A Symposium on Present Educational Conditions and Needs. Duluth," in *Annals of the American Academy of Political and Social Science,* vol. 25—business management and finance (January 1905), 187

Figure 6.1:
School Savings Banks in the United States, 1890

| **Cities and Schools Which Have Adopted The System** | **No. of School Houses with SSBs** | **Date of Introduction** | **[Statistics] Up To [date]** | **Number of Scholars On Register** | **Depositors** | **Amount Collected** | **Amount Due Depositors** |
|---|---|---|---|---|---|---|---|
| Long Island City, NY | 12 | 16 March 1885 | 2 May 1890 | 7,000 | 3,219 | $25,794.79 | $20,558.31 |
| Carlisle Industrial Indian School, PA | 1 | 15 June 1881 | 1 January 1890 | 695 | 435 | $12,000.00 | $5,950.00 |
| Rutland, VT | 4 | 1 February 1886 | 1 January 1890 | 1,200 | 624 | $2,634.00 | $2,334.00 |
| Elmira, NY | 4 | 7 October 1886 | 1 January 1890 | 1,758 | 726 | $3,905.00 | $2,603.00 |
| Bay Shore, Long Island, NY | 2 | 30 September 1885 | 1 January 1890 | 350 | [statistics not received in time] | [statistics not received in time] | [statistics not received in time] |
| Islip, Long Island, NY | 1 | 30 September 1885 | 1 January 1890 | 242 | 150 | $915.00 | $405.00 |
| McCook, NE | 2 | 4 October 1886 | 1 January 1890 | 365 | [statistics not received in time] | [statistics not received in time] | [statistics not received in time] |
| Lincoln, NE | 6 | 1 February 1887 | 1 January 1890 | 4,500 | 1,742 | $10,895.99 | $4,564.55 |
| Amsterdam, NY | 7 | 4 April 1887 | 1 January 1890 | 2,432 | 721 | $9,800.47 | $6,625.39 |
| Hornellsville, NY | 5 | 3 January 1888 | 1 January 1890 | 2,000 | 742 | $3,729.25 | $3,070.91 |
| YMCA, Bowery, New York City | 1 | 12 April 1888 | 1 January 1890 | 1,210 | 615 | $2,166.56 | $1,561.00 |
| Jamestown, NY | 5 | 3 September 1888 | 1 January 1890 | 2,875 | 983 | $2,397.66 | $1,871.89 |
| Buffalo, NY, Schools 24 & 17 | 2 | 20 October & 9 November 1888 | 1 January 1890 | 1,602 | 768 | $1,892.00 | $1,648.78 |
| Kingston, NY | 2 | 3 December 1888 | 1 January 1890 | 512 | 169 | $293.65 | $380.91 |
| Olean, NY | 6 | 3 January 1889 | 1 January 1890 | 2,000 | 1,000 | $4,315.40 | $2,887.48 |
| Cazenovia, NY | 1 | 7 January 1889 | 1 January 1890 | 300 | 169 | $526.30 | $479.77 |

Figure 6.1 (cont.):
School Savings Banks in the United States, 1890

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Winfield, Long Island, NY | 1 | 4 March 1889 | 1 January 1890 | 140 | 59 | $190.31 | $147.76 |
| YMCA, Twenty-third St., N.Y. City | 1 | 14 October 1889 | 1 January 1890 | 450 | 50 | $651.64 | $651.64 |
| Harrisonburg, VA | 1 | 1 November 1889 | 1 January 1890 | 240 | 65 | $63.17 | $59.26 |
| Orangeburgh, SC | 1 | 11 November 1889 | 1 January 1890 | [statistics not received in time] | [statistics not received in time] | [statistics not received in time] | [statistics not received in time] |
| Brooklyn, NY, School No. 31 | 1 | 16 December 1889 | 1 January 1890 | 1,532 | 750 | $302.91 | $302.91 |
| Pottstown, PA | 18 | 30 December 1889 | 9 June 1890 | 1,883 | 1,180 | $6,297.60 | $4,952.40 |
| Norristown, PA | 6 | 2 January 1890 | 28 April 1890 | 2,121 | 1,056 | $3,348.40 | $3,348.40 |
| Shannonville, PA | 1 | 9 January 1890 | 1 March 1890 | 60 | 15 | $5.70 | $5.70 |
| Cheltenham, PA | 1 | 9 January 1890 | 28 April 1890 | 110 | 58 | $38.22 | $38.22 |
| Chester, PA | 13 | 24 February 1890 | 18 March 1890 | 2,764 | 1,351 | $1,090.62 | $1,090.62 |
| West Chester, PA | 3 | 24 February 1890 | 18 March 1890 | 818 | 456 | $544.07 | $544.07 |
| Conschohocken, PA | 1 | 7 April 1890 | 18 March 1890 | 601 | 231 | $298.94 | $298.94 |
| West Grove, PA | 1 | 7 April 1890 | 28 April 1890 | 121 | 48 | $18.95 | $18.95 |
| Wilkesbarre, PA | 4 | 5 May 1890 | 6 May 1890 | 1,784 | 521 | $174.69 | $174.69 |
| Juniata, NE | 2 | 22 September 1890 | 10 November 1890 | 169 | 66 | $31.32 | $31.32 |
| Omaha, NE | 40 | 20 May 1890 | 31 October 1890 | 12,000 | 2,600 | $3,411.10 | $3,240.27 |
| South Omaha, NE | 7 | 14 November 1890 | 15 November 1890 | 1,047 | 75 | $18.97 | $18.97 |
| Greenville, OH | 2 | 27 October 1890 | 9 November 1890 | 893 | 285 | $82.02 | $82.02 |
| Philmont, NY | 1 | 7 October 1890 | 15 November 1890 | 250 | 118 | $67.63 | $67.63 |
| **Totals** | **166** | | | **56,024** | **21,047** | **$97,902.33** | **$70,014.76** |

education, eventually winning election to the post of school commissioner. In 1885, he helped to institute one of the earliest American school savings programs.[56]

Thiry quickly began to publicize this work, publishing the first of his many overviews of school savings history and methods in 1886 and speaking on the subject before the American Social Science Association in 1888.[57] He also exchanged numerous letters with other school savings advocates both in the United States and abroad—he counted both Francois Laurent of Belgium and Augustin de Malarce of France among his correspondents—from which he supplemented published materials on the subject to compile nationwide and international statistics on these programs' implementation. He then disseminated these figures in his own published writings and by sharing them with members of the press and government officials.[58]

These activities elevated Thiry to his status as a prominent early advocate of school savings in the United States. But what eventually earned him the title of "father of school savings" was his effort to ease barriers to implementing new school savings programs by standardizing their methods of operation while printing and distributing the forms and other materials that any teacher, principal, and bank required to operate a school savings program along the lines that he devised. The importance of this innovation cannot be overstated: by 1890,

56 Much of this biography draws on a brief unpublished sketch of Thiry's life written by Sara Louisa Oberholtzer at the request of W. Espey Albig, an official with the American Bankers' Association involved in its school savings efforts. See: [S.L. Oberholtzer] to W. Espey Albig, 29 June 1928, Box 10, Folder 6, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania. See also: Savings Bank Division, American Bankers' Association, *School Savings Banking During School Year of 1927-1928: Ninth Annual Report* (American Bankers: New York, 1928), 2, and: Oberholtzer, "School Savings Banks" (1914), 14

57 See: John Henry Thiry, *School Savings Bank. December, 1886. Supplementary Suggestions and Additions to the History, Rules and Regulations of the Penny School Savings Bank in the Public Schools* (Long Island City, NY: Press of Daily and Weekly Star, 1886) and J.H. Thiry, "The Early History of School Savings Banks in the United States," *Journal of Social Science,* no. xxv (December 1888), pp. 165-75

58 *Report of the Secretary of the Interior. . .Volume V, Part 2* (Washington, DC: Government Printing Office, 1891), 655-68

Thiry claimed that fully half of the 1,065 individual classrooms (in 166 schools) operating in the United States were using bank books, deposit slips, and other miscellaneous components based on his own copyrighted designs. He allowed them to use these free of charge on the condition that they send him bi-annual statistics on the progress of their programs.[59]

As with most savings advocates before him, Thiry believed that the benefits of school savings would be fully realized only if students practiced saving regularly. His counsel was that once a week, "in calling a name, the child must say if he has anything to deposit: 'Yes, one cent' or, 'yes, five cents' or whatever sum he has." Teachers would mark this sum (or note that there were no savings) both on the attendance sheet and on the student's deposit card. At the end of the roll, the teacher was supposed to count all of the money deposited collectively by the class, check it against the individual totals marked in the roll-book, and place the deposits in a sealed envelope to deliver to the school's principal. On the last deposit day of every month, the teacher would also include a list of the students indicating their total individual deposits to be forwarded to the school's partner bank along with deposit slips so that these amounts could be credited to the individual students' accounts. Once every three months, students' bank books would also be forwarded to the bank for balancing. The only exception was for students whose total deposits had not yet reached a minimum amount (Thiry recommended fifty cents); these students' deposits would be pooled in a general account controlled by the school's principal until they reached the required threshold for regular accounts.[60]

Because students were supposed to take pride in their efforts, "at their request, the principal will allow the little depositors to take their bank books home once a month, say on a

59 J.H. Thiry, *School Savings Banks in the United States: A Manual for the Use of Teachers* (New York: The American Banker, 1890), 25

60 Ibid., 22-23

Friday, to be returned the following Monday." To reinforce the lessons they were supposed to learn, the covers of Thiry's bank books had aphorisms printed on them such as: "the habit of saving is an essential part of a true practical education" and "good principles and good habits are in themselves a fortune." Thiry's system also allowed for withdrawals to be made once a month at the same time that deposits were forwarded to the bank. Yet the fact that he believed these systems should discourage students from withdrawing their money was indicated by his further advice that only "at vacation, or when a pupil leaves school, [should] the bank book . . . be surrendered to the child who may deposit or withdraw money directly from the bank" rather than doing so through the approbation of his or her teacher and principal as would otherwise be required. Thiry presented the system as a way to bring the deposit services of a savings bank to students who otherwise might not be able to get to a bank's physical location while also allowing students whose deposit balances might not meet the minimum requirements of a bank to still be able to use one. But he also intended it to be strictly supervised by teachers and administrators who firmly desired to promote *saving* rather than spending. While they could not legally withhold deposits from their student owners, they could certainly *discourage* withdrawals.[61]

This system's appeal to many contemporary reformers reflected changing perceptions of children's economic functions and abilities during the late-nineteenth and early twentieth centuries. As Lisa Jacobson has demonstrated, the 1870s marked the earliest moments in which US advertisers began to target children as potential consumers of their products—not necessarily as today's purchasers (due to their relative lack of spending power) but as "the future buyers of tomorrow."[62] This development represented contemporary notions about childhood psychology

61 Ibid., 23 and 26

62 Jacobson, *Raising Consumers,* 18-26; quotation on p. 20

that simultaneously stressed children's loyalty and impressionable natures, suggesting that although they could be easily influenced to form new preferences and habits, once formed they would be hard to break.[63] For those contemporaries who centered their reform efforts on winning this battle for children's impulses, school savings programs seemed like an ideal way to achieve a similar goal to that of advertising: they would form the habit of thrift in children when the stakes were small so that regular saving would be an ingrained action by the time the stakes were large.

Thus, school savings programs had particular appeal to a new generation of social activists who wanted to curb children's consumption because they seemed to offer an attractive alternative to "wasteful" spending. As a brief note in an educational journal illustrated: "if the school savings bank will turn the pennies which are now worse than wasted on cigarettes and chewing gum into channels of benevolence and other worthy uses, it will merit the everlasting gratitude of parents and the country."[64] When the public schools of Brookline, Massachusetts, instituted a school savings program in 1890, one newspaper similarly praised it because "the beginning of the formation of habits of thrift among boys and girls cannot be too strongly commended, and the formation of this habit is a part of that sound morality which the public school has a right to inculcate."[65]

### *School savings and the temperance movement*

A commentator describing the recently instituted school savings program of Bloomington, Indiana, in the early 1890s noted that although it was "too early to draw any definite conclusions as to the effects on the pupils, . . . it may be taken for what it is worth that confectioners report a

63 Ibid., 20-21

64 *Journal of Pedagogy,* vol. 3, no. 4 (December 1889), p. 84

65 "School Savings Banks," New York *Tribune,* 23 January 1890, p. 7

perceptible and continued fall in sales of candy and chewing gum since the organization."[66] While such "evidence" would have appealed to any turn-of-the-century social reformer who believed that poverty was largely the result of poor people's own lack of self control and that habits of thrift learned early would carry on through life, it held a particularly strong appeal for the newly-resurgent temperance movement. Although usually marked by an explicit appeal to evangelical Christianity that was not always present in other early supporters of school savings, the temperance movement nevertheless shared much in common with contemporary progressive efforts of all stripes. Temperance advocates believed in simultaneously attacking their identified problem on many fronts, explicitly connected the need for temperance to broader changes in society and the economy, and self-consciously borrowed and experimented with approaches from around the world. While temperance had been a feature of American society and politics since the early nineteenth century, the new movement enjoyed a resurgence in both political power and cultural reach as the nineteenth century gave way to the twentieth. The formation of the Woman's Christian Temperance Union (WCTU) in 1874 was an important turning point for this new temperance movement. The rapid international spread of the WCTU was indicated by the formation of a World's WCTU in the early 1890s that claimed more than three-quarters of a million dues-paying members by the early twentieth century and more than forty national affiliates by the 1920s.[67]

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66 W.F. Harding, "A Successful School Savings Bank," in *Annals of the American Academy of Political and Social Science,* Vol. 4 (September 1893), 98

67 Ian R. Tyrrell, *Woman's World/Woman's Empire: The Woman's Christian Temperance Union in International Perspective* (Chapel Hill, NC: The University of North Carolina Press, 1991), pp. 1-34; see also: Norman H. Clark, *Deliver Us From Evil: An Interpretation of American Prohibition* (New York: Norton, 1976), James H. Timberlake, *Prohibition and the Progressive Movement, 1900-1920* (Cambridge, MA: Harvard University Press, 1963), and Jonathan Zimmerman, *Distilling Democracy: Alcohol Education in America's Public Schools, 1880-1925* (Lawrence, KS: University Press of Kansas, 1999)

That school savings programs would attract temperance advocates is hardly surprising. Temperance had long been one strain of savings rhetoric in the United States and abroad—savings bank proponents frequently cited temperance as one of the virtues that regular use of a savings bank was supposed to encourage in its depositors. But for the new generation of temperance advocates who believed in both the power of institution-based social change and the relationship between economics and morality, the supposed power to control children's financial habits held particular appeal. Viewed in the light of temperance thought, the repeated anecdotes of children saving rather than spending their money on candy, cigarettes, pool playing, and other supposed vices were opportunities not merely to instill thrift in children, but through thrift to teach them self-control and self-denial. As one historian described the WCTU's approach: "while temperance reform by itself did not guarantee virtue, intemperance was associated with every vice."[68] Just as their parents might be encouraged to forgo alcohol and tobacco, so too might student depositors be praised for steering clear of candy. As Sara Louisa Oberholtzer, the most prominent liaison between the WCTU and the school savings movement, wrote in 1910: "better than the money saved is the testimony of the principals of those schools that 'the children have been much benefited in health and habits, [with] cheap candy shops near the schools closed for lack of trade.'"[69] For many temperance advocates of this period, candy was a gateway drug. School savings offered an attractive alternative.

Oberholtzer had learned of Thiry's work in school savings only a few years after it commenced, at an 1888 meeting of the American Economic Association held at the University of

68 Katherine Harris, "Feminism and Temperance Reform in the Boulder WCTU," in *Frontiers: A Journal of Women Studies,* vol. 4, no. 2 (Summer 1979), pp. 19-24: 19

69 "Bits of the Report of Mrs. S.L. Oberholtzer, World's W.C.T.U. Superintendent of School Savings and Thrift Teaching given in Glasgow Scotland, June 1910," typescript manuscript, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania, Box 10, Folder 4

Pennsylvania, not far from her home.[70] Descended from early Quaker migrants to Pennsylvania, Oberholtzer was already a novelist, poet, and newspaper correspondent of some renown before she became aware of school savings programs, and she maintained all of these activities throughout her association with Thiry.[71] Indeed, school savings themselves were a relatively late addition to her social reform activities. While she was still a child, her parents aided runaway slaves. In 1886, she joined the Woman's Christian Temperance Union, where she immediately took a leadership role at both the local and county level. She later went on to help found the American Anti-Tobacco Society.[72] This commitment to temperance drew Oberholtzer to the school savings movement. She then used her position within the the WCTU to engineer its commitment to school savings as the long-time director of the group's School Savings Bank Department.

With her already-established interest in temperance and her new awareness of the school savings idea, Oberholtzer began in late 1889 to write prominent early American advocates of the system—including R.H. Pratt, S.T. Merrill, and Thiry—in order to learn about how their programs operated and their relative success.[73] It was in Thiry, whose desire to systematize, quantify, and proselytize school savings programs complemented her belief in the powers of large institutional networks such as the WCTU to effect change, that Oberholtzer found a partner.

70 Cruce, "A History of Progressive-Era School Savings Banking," 10

71 "Mrs. Oberholtzer, Poet, Dies at 89," New York *Times,* 4 February 1930, p. 21

72 Lynn Ann Catanese, "Oberholtzer, Sara Louisa Vickers," *American National Biography Online* <http://www.anb.org/articles/15/15-00519.html>, February 2000.

73 Oberholtzer saved the replies to these letters. See: "R.H. Pratt to S.L. Oberholtzer," 2 November 1889; "S.T. Merrill to S.L. Oberholtzer," 28 February 1890; and "J.H. Thiry to S.L. Oberholtzer," 19 October 1889, Folder 1, Box 15, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania. The same folder contains replies from additional educators and state officials whom she also contacted at about the same time for information regarding school savings programs.

In reply to an early letter, Thiry enclosed examples of the forms for use with his method of school savings and also offered that if Oberholtzer "expect[ed] to be the apostle of the School Savings Bank for Norristown"—the suburb of Philadelphia where she then lived—she could use his copyrighted forms "with the customary conditions that you will be willing to give me twice a year the statistics of the operations of S.S.B.[s] in your locality."[74]

Over the coming weeks and months, Oberholtzer continued to write Thiry for advice about how to set up local school savings programs. In one letter, she asked how best to respond to a Philadelphia savings bank that would only open school savings accounts with the signatures of all the student depositors—a normal requirement for a bank but irregular for a school program.[75] In another, Thiry encouraged her to stick as closely as possible to his plan's "rules and regulations . . . [because] their framing have been the object of the most scrupulous study."[76] They traded information about local developments in Pennsylvania and New York as well as printed materials promoting the school savings cause.[77] By mid-November 1889, Thiry wrote that he was happy to be working with her because "by united efforts more and effective good can be accomplished."[78] And by the time the new year came, Oberholtzer had sent Thiry a volume of her poetry and (having not yet met in person) they exchanged portraits of themselves and their

74 "J.H. Thiry to S.L. Oberholtzer," 19 October 1889, Folder 1, Box 15, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

75 "J.H. Thiry to Sara Louisa Oberholtzer," 31 December 1889, Folder 1, Box 15, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

76 "J.H. Thiry to Sara Louisa Oberholtzer," 28 November 1889, Folder 1, Box 15, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

77 "J.H. Thiry to Sara Louisa Oberholtzer," 19 October 1889, Folder 1, Box 15, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

78 "J.H. Thiry to Sara Louisa Oberholtzer," 16 November 1889, Folder 1, Box 15, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

spouses.[79] Shortly after that, Thiry began a letter to Oberholtzer with the lament that "when I have no news from you during one week I feel that something is wanting in my existence."[80] From this rapid blossoming, their informal partnership to spread school savings programs both in the United States and abroad lasted until Thiry's death in 1911.

During these two decades, Thiry continued to speak and publish widely on the subject of school savings while also attempting to compile national statistics regarding their progress. Oberholtzer did the same while always clearly deferring to Thiry, whom she often mentioned as the main originator of school savings in the United States. As early as 1890, she appears to have offered to write his biography, a proposal he gracefully declined.[81] After her initial forays into organizing school savings programs in her hometown during the winter of 1889-90, Oberholtzer worked tirelessly to institutionally organize the school savings mission that had begun as the efforts of mutually sympathetic but independent advocates such as Thiry. To this end, she spoke on the subject at the national WCTU's annual meeting in 1890 and achieved the creation of a school savings department within the organization.[82] The following year, she successfully organized a similar department for the international iteration of the WCTU during that organization's first meeting and became the superintendent of the international department as well as the American one.[83]

79 "J.H. Thiry to Sara Louisa Oberholtzer," 31 December 1889, Folder 1, Box 15, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

80 "J.H. Thiry to Mrs. Oberholtzer," 29 January 1890, Folder 1, Box 15, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

81 "[J.H. Thiry] to Sara Louisa Oberholtzer," 2 February 1890, Folder 1, Box 15, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

82 Sara Louisa Oberholtzer, "School Savings Banks," *Annals of the American Academy of Political and Social Science,* vol. iii (July 1892-June 1993), pp. 15-29: 22

83 Ibid., 22

As Oberholtzer later recalled, the school savings department was "one of the original departments of the World's Woman's Christian Temperance Union." She explained the group's interest in terms that drew on both the traditional connection between savings and temperance and the newer social economics language of capitalist change and the power of using economic institutions and practices as the basis of social reform. In Oberholtzer's mind, "we recognized then the close relation of thrift and economy to temperance, that the arousal of thought and action in regard to self-help was the best weapon and safe-guard in the industrial conflict for the supermacy [sic] of right and pure living; that extravagance in the drink habit needed to be guarded against from an economical standpoint and we have proven over and over again, in the years that have followed, the wisdom of that forethought."[84] The motto featured on the letterhead of the School Savings Bank Department of the National WCTU distilled these ideas in similar language: "The inculcation of thrift insures wiser living and decreases pauperism, intemperance and crime. Institute School Savings Banks; increase wealth, happiness and moral responsibility."[85]

Although Oberholtzer received little financial support from the WCTU, it did provide her with a network of volunteers and contacts that disseminated school savings literature and monitored existing programs. By mid-1891, Thiry wrote to her that he "rejoice[d] to see that the W.C.T.U. Newspapers endorse and advocate the S.S.B. system."[86] By the following year,

84 "Bits of the Report of Mrs. S.L. Oberholtzer, World's W.C.T.U. Superintendent of School Savings and Thrift Teaching given in Glasgow Scotland, June 1910," typed manuscript, Folder 4, Box 10, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

85 [list of state and county superintendents for the savings bank department of the WCTU], Letterbook, Box 12, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

86 "J.H. Thiry to Mrs. Oberholtzer," 27 April 1891, Folder 1, Box 15, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

Oberholtzer was fielding requests from educators and bankers about how to establish school savings in their own towns while also using her office to send out questionnaires asking for information about already established programs—information that she shared with Thiry as he compiled statistics measuring school savings growth.[87] Within less than a decade of activity, Oberholtzer reported that her department had distributed more than 80,000 pages of literature on the subject within the United States.[88]

Even while claiming that "the work has made more W.C.T.U. headway in the United States . . . than elsewhere," Oberholtzer's position within the world's WCTU enabled her to extend school savings systems internationally. In doing so, she turned what had initially been borrowed from abroad into a tool of American influence in the rest of the world and anticipated a similar trajectory for US postal savings advocates operating in places like the Philippines. She proudly cited school savings advancements in Canada, Mexico, Australia, and southern Africa, and closed her report to the 1897 meeting of the World's WCTU with the rhetorical question: "will you not in all lands . . . spread this [sic] glad tidings of self-help, that will make the saloons close their doors when the children are older as it does now the cigarette and candy shops near the school houses where School Savings Banks are in use?"[89] Within the United States, WCTU state chapters from Massachusetts to Oregon organized school savings departments to augment Oberholtzer's national and international propaganda with activism at the local level.[90]

87 See, for example: "Went Grover to Mrs. S.L. Oberholtzer," 8 June 1892; "W.H. Hoff to Madame Sara L. Oberholtzer," 21 July 1892; and "J.H. Thiry to Mrs. Oberholtzer," 13 March 1893, Box 12, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

88 S.L. Oberholtzer, "School Savings Bank Report," in *Report of the Fourth Biennial Convention . . . of the World's Woman's Christian Temperance Union* (London: The White Ribbon Company, 1897), pp. 128-32: 130

89 Ibid., 130-32

90 See: Katharine Lent Stevenson, "Organization and Accomplishments of the Woman's Christian Temperance Union: Massachusetts," in *Annals of the American Academy of Political and Social Science,* vol. 32 (November

With these and other initiatives, including a quarterly report on school savings activities called *Thrift Tidings* that she began distributing in 1906, Oberholtzer—and through her, Thiry—leveraged the WCTU's social stature to help promote school savings. While they were far from the only activists working to promote school savings in the two decades before World War I, a sense of their importance can be seen in the frequency with which other school savings advocates referred to one, the other, or both of them as the pre-eminent authorities on the topic. They were the only active source collating and distributing the national statistics that the federal government—first in the annual reports of the Bureau of Education and later in those of the Comptroller of the Currency—used to monitor school savings' progress, which meant that they subsequently became the basis of both government and journalistic reports on the programs. It likewise fell to Thiry (probably with Oberholtzer's aid) to create the exhibits related to American school savings for the 1893 Colombian Exposition in Chicago and the 1900 Universal Exhibition in Paris.[91]

The pair's influence also took more direct forms. Each of them fielded questions from and offered advice to school savings administrators and educators throughout the United States. By the early 1900s, Oberholtzer further systematized Thiry's program by developing a catalog of propaganda (in the form of pamphlets, fact cards, and books) and supplies (including bank books, deposit envelopes, and ledgers) that were available at a fixed price to anyone who wished to purchase them. While it is unclear whether Oberholtzer undertook this as official WCTU business, the price list did indicate that she was the superintendent of the organization's national

1908), pp. 43-60: 45-46; and John E. Caswell, "The Prohibition Movement in Oregon: Part 1, 1836-1904," in *Oregon Historical Quarterly,* vol. 39, no. 3 (September 1938), pp. 235-61: 256-57

91 See: J.H. Thiry, *Seventh Anniversary of the Introduction of the System of School Savings Banks in the United States* (New York: The American Banker, 1892), 24-25; "School Savings Bank Statistics," in *The West Virginia School Journal,* vol. 20, no. 1 (April 1900), p. 53

and international school savings department. As she noted, "these supplies are not on sale elsewhere in the United States." Oberholtzer's papers at the Historical Society of Pennsylvania contain dozens of examples of these cards personalized for schools throughout the country, bearing further testament to her and Thiry's influence.[92]

Though Oberholtzer herself doggedly promoted the movement through the 1920s, the WCTU dropped its School Savings Department in 1916 along with many other divisions to focus its energies on the final passage of the Eighteenth Amendment.[93] In its absence, other organizations such as the American Bankers' Association, the National Education Association, the National Thrift Campaign, and several offices within the federal government devoted to war financing began to exert their influence to significantly increase the presence of school savings programs while also somewhat decoupling them from the temperance cause. Still, it is safe to say that these organizations could only step in to promote school savings because of the groundwork laid by Thiry, Oberholtzer, and the many local officials, bankers, and educators who patiently expanded the school savings movement in the United States from the late 1870s to the early 1910s. Although Thiry's 1890 survey identified only 166 school savings programs with about 21,000 depositors, Oberholtzer's national survey of school savings banking in 1913—estimated to include only about three-quarters of all participating schools—indicated that more than 1,200 schools had instituted school savings in just over 200 cities located throughout the United States (concentrated in the east, northeast, and midwest). Collectively, these programs involved more

92 "Price Circular of School Savings Banks' Literature and Supplies," Box 10, Folder 1, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

93 "Sara Louisa Oberholtzer to Mr. B.F. Johnson," 9 April 1919, Box 12, Folder 1, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

than 210,000 students. The majority had been established in the previous fifteen years.[94] [See: Figures 6.2 and 6.3]

Figure 6.2:
School Savings Banks in the United States, 1913

| | | Number of Scholars | | Total | | |
|---|---|---|---|---|---|---|
| Regions | Number of cities | On register | Depositors | Deposited | Withdrawn | Balance due depositors |
| New England States | 54 | 209,489 | 36,538 | $334,223.17 | $191,854.35 | $142,368.82 |
| Eastern States | 80 | 976,457 | 77,836 | $2,560,429.97 | $2,036,825.26 | $523,604.71 |
| Southern States | 4 | 8,808 | 597 | $651.50 | $212.00 | $439.50 |
| Middle Western States | 44 | 208,239 | 78,533 | $1,030,892.57 | $661,494.01 | $369,398.56 |
| Western States | 4 | 14,101 | 1,779 | $10,425.77 | $2,395.75 | $8,030.02 |
| Pacific States | 15 | 75,695 | 15,037 | $368,395.85 | $250,769.85 | $117,626.00 |
| Total United States | 201 | 1,492,789 | 210,320 | $4,305,018.83 | $3,143,551.22 | $1,161,467.61 |

Figure 6.3:
Number of Cities With School Savings Programs in the United States, 1913
(by date of initiation)

| Year commenced | No. of cities |
|---|---|
| 1885-89 | 2 |
| 1890-94 | 18 |
| 1895-99 | 14 |
| 1900-04 | 26 |
| 1905-09 | 38 |
| 1910-12 | 93 |
| Start date not indicated | 17 |

94 For Figure 6.2, see: US Comptroller of the Currency, *Annual Report* (1913), 77; for Figure 6.3, see: US Comptroller of the Currency, *Annual Report* (1913), 794-97

*Extending their reach: the banking context of school savings*

All savings advocates who were influenced by social economics shared a belief that a large portion of the population did not contribute to institutional savings because they did not regularly encounter a savings institution. While children were a particularly obvious example of this phenomenon—and particularly attractive targets due to their potential to be compulsorily "trained" in saving from an early age—savings institution directors and social reformers viewed many adult members of the working classes similarly. As the nineteenth century wore on, savings institutions increasingly worried that years of encouraging working-class depositors to find their own way to a bank might not have been an effective strategy of growth. In its place, savings institutions sought new ways to find depositors outside of the physical confines of the bank. Their partnership with school savings programs—along with some employee thrift plans, briefly discussed in Chapter Four—were among their earliest attempts to do so.

In the long-term, this desire influenced many savings institutions to support attempts to increase branch banking. Prevailing interpretations of the national banking statutes prior to the 1920s prohibited those institutions from establishing new branches (there were limited circumstances under which they could *acquire* them).[95] Laws regulating branching by state-chartered banks varied widely. As late as 1922, one-third of states allowed no branch banking, while the others generally prohibited the establishment of new branches or allowed it only under special circumstances. These conditions might include specific capital requirements, geographic restrictions, or institutional distinctions (such as allowing only trust companies to branch).[96]

95 See: Charles W. Calomiris, *U.S. Bank Deregulation in Historical Perspective* (New York: Cambridge University Press, 2000), 58-67; W.F. Gephart, "The Present Branch Banking Controversy," *American Economic Review,* vol. 12, no. 4 (December 1922), pp. 728-34; and Howard H. Preston, "Recent Developments in Branch Banking," *The American Economic Review,* vol. 14, no. 3 (September 1924), pp. 443-62

96 See: Gephart, "The Present Branch Banking Controversy," 728-34

Given these conditions, prohibitions on branching unsurprisingly applied to most mutual savings banks, either under a state's general restriction or through specific legislation designed to protect savings bank depositors in particular. For example, New York allowed trust companies to branch but it specifically barred mutual savings banks from doing so—except via mergers—until 1923.[97] Massachusetts may have been the first state dominated by mutual savings banks to allow them to establish branches, doing so in 1908. But the law was fairly restrictive, specifying that a bank could open a branch only "in the city or town in which its [main] banking house is located, or in towns not more than fifteen miles distant therefrom in which there is no savings bank at the time." These branches were also limited to taking deposits—they could not disburse withdrawals or conduct any other bank business.[98]

While debate over the propriety of branch banking in any form continued into the 1920s, some commentators began to favor allowing savings institutions specifically to establish branches because of the peculiar nature of the savings business itself. In doing so, the influence of contemporary recognition of the economic importance of aggregating savings from as broad a depositor base as possible was once again evident. A comment in *The Bankers' Magazine* emphasized the public service that such institutions filled, noting that "savings is partly a matter of habit, and whatever tends to create the habit"—such as more readily-accessible depositories—"will add to the savings deposits of the country."[99] Arguing that savings bank branches would be beneficial if limited to taking deposits, as they were in Massachusetts, another banker

97 "In and Out of the Banks," *Wall Street Journal,* 16 April 1923, p. 4; "Five New Branches in New York," *Savings Banks Journal,* vol. IV, no. IV (June 1923), 205; " National City Bank of New York Enters the Savings Field," *Savings Bank Journal,* vol. II, no. XI (January 1922), 34

98 *Acts and Resolves Passed by the General Court of Massachusetts In the Year 1908,* Chap. 590, Sect. 36

99 "Branches for Savings Banks," *Bankers' Magazine,* vol. LXXII, no. 1 (January 1906), 124

similarly noted that "the function of savings banks is primarily to encourage thrift and not . . . in extending general banking facilities; hence in making it easy to deposit and discouraging drafts, a real service would be rendered the depositors."[100]

In states that allowed either branch banking or a network of affiliated unit banks that could operate under a single holding company, early entrants into the field proved that the potential power of drawing savings depositors from a larger geographic area could be significant. The Peoples Savings Bank of Detroit was both one of that city's largest banks and its first financial institution of any kind to branch.[101] As A.P. Giannini expanded the network of institutions that eventually became Bank of America, he did so largely on the basis of savings deposits. When he first established branches in Los Angeles in the mid-1910s, for example, Giannini publicly stated that "it is our purpose to make a specialty of the interest of the small depositor and borrower" and that "we consider the wage-earner and small business man who deposits his savings regularly . . . to be the most valuable client our bank can have."[102]

Despite such early successes, far more savings institutions were either unable or unwilling to establish branches but still felt the need to increase their access to depositors. These institutions tried a bewildering array of experiments near the turn of the twentieth century, often simultaneously. Some savings bank directors thought that workers' inability to leave work during the day prevented them from patronizing their institutions and so offered special late or weekend

100 "Are Savings Banks Branches Desirable?," *Journal of the American Bankers Association,* vol. 4, no. 12 (June 1912), pp. 731-32: 732

101 Board of Governors of the Federal Reserve System (U.S.). Committee on Branch, Group, and Chain Banking and Hammond, Clarence, ([year]), *Branch Banking in the United States [1932],* accessed from FRASER, <http://fraser.stlouisfed.org/publication/?pid=686>, 110

102 Marquis James and Bessie R. James, *The Story of Bank of America: Biography of a Bank* (1954; repr., Washington: Beard Books, 2002), 62-5; quotation on p. 64

hours to accommodate them.[103] Others partnered with employers to collect deposits at the workplace—either by sending an agent of the savings bank or by having a company clerk act as agent.[104] Still others standardized the banking-by-mail services which had first become popular during the Civil War. Starting with the Pittsburgh Bank for Savings in 1898, such programs slowly spread nationally: there were nearly fifty banks and trust companies offering mail services by 1920. Mimicking the success of mail-order catalogs, such programs often stressed their ability to connect a depositor with a retail financial service that was not physically accessible (though others sought only to poach customers by offering superior interest rates to those available at local banks).[105]

The importance that savings institutions placed on finding new ways to develop larger depositor bases during these years was also reflected in the many institutions that turned to new media to extend their institutional reach both geographically and temporally. While various methods were tried, they all worked on the same basic principle: developing means to make deposits without going to the physical bank with its limited operating hours. In addition to and frequently as an auxiliary for school savings, these efforts had three main expressions: "home savings" banks, "stamp savings" programs, and the first automated teller machines.

Savings institutions began to distribute "home savings banks" (sometimes called "home safes") as early as the 1890s.[106] These devices could range from little more than a decorative lock

103 Richard N. Germain, *Dollars Through the Doors: A Pre-1930 History of Bank Marketing in America* (Westport, CT: Greenwood Press, 1996), 26-29

104 Leo Day Woodworth, "Industrial Savings Banking," *Journal of the American Bankers Association,* vol. 13, no. 3 (September 1920), pp. 103-9

105 See: Germain, *Dollars Through the Doors,* 150-52

106 Ibid., 125-26

box with an opening for receiving coins to a piece of machinery that would sort deposited coins by value. The fact that an established savings institution owned the key distinguished these banks from children's toys. As a typical advertisement explained: to use your "nickel-plated safe," you had to "deposit a dollar with the . . . cashier and take it home, where you drop in an occasional dime or more." Eventually, the depositor was expected to "wake up some morning to find that you have $35 of surplus coin on hand. The only way you can get at this is to take the little safe to the People's Home Savings Bank, where the key is kept, and there unlock it."[107] As a depositor, you could put money into the "bank" through this method whenever you were home. If that still wasn't convenient, savings institutions eventually developed variations such as the locked "purse safe" and "vest pocket safe" which thrifty workers could keep at hand should the opportunity to deposit a coin occur in the course of their daily activities.[108]

The home safe was largely a marketing gimmick, a point which many of its early observers understood.[109] As an advertising trade journal noted in 1902, banks were "among the more conservative institutions which have [only recently] come to realize the potency of publicity." Hopeful that this was changing, it pointed to one New York City trust company that had started distributing home savings banks, praised by the journal as a "plan [that] naturally creates talk and comment of the right sort."[110] By the late 1910s, a bank marketing manual claimed that "home safes were among the first business-getting mediums to come into

107 [People's Home Savings Bank and Safe Deposit advertisement], *The Californian Illustrated Magazine,* vol. 3, no. 6 (May 1893), 38

108 W. R. Morehouse, *Bank Deposit Building: Practical and Improved Methods of Increasing Your Business and Holding It* (New York: The Bankers Publishing Co., 1918), 65-6

109 See: Germain, *Dollars Through the Doors,* 125-26

110 [unsigned article], *Printers' Ink: A Journal for Advertisers,* vol. XL, no. 5 (30 July 1902), 27

prominence" for banks.[111] The advertising appeal of encouraging thrift at home through this method spread to other forums as well. The publishers of *Good Housekeeping* offered to match an initial one dollar deposit from any reader who opened an account "in some reliable financial institution near you" that could lend a home savings bank. (This was not as good a financial deal as it might have seemed at first, since the magazine also required the reader to take out a two-year subscription that cost ten cents per month in order to participate.)[112]

Home savings banks were remarkably widespread in the early 1900s. One industry observer claimed in 1918 that six million Americans had used home safes and that "they proved so effective as deposit builders that in a very short time seventy per cent of the savings banks and trust companies in the United States were loaning safes to those who applied for them."[113] Additional isolated and anecdotal evidence supports that picture. An Oregon newspaper claimed that "nearly everybody in Portland has one of the little home savings banks."[114] A bank trade manual noted that the "home savings bank has been widely used as a means of securing new accounts."[115] One Chicago trust company added approximately 24,000 new depositors to its rolls in two years by offering home banks.[116] By the early 1930s, a prominent manufacturer of the devices claimed that its "home savings banks are used by more than 250 of the most important

111 Morehouse, *Bank Deposit Building,* 63

112 "Our Great Offer," *Good Housekeeping,* vol. XXXV, no. 2 (August 1902), 142

113 Morehouse, *Bank Deposit Building,* 63

114 "City News in Brief," *Sunday Oregonian,* 13 July 1902, p. 5

115 Daniel Vincent Casey, *How to Increase a Bank's Deposits,* revised 6th ed. (Chicago and New York: The System Company, 1910), 66

116 Germain, *Dollars Through the Doors,* 126

mutual savings banks of New York, New Jersey and the New England states."[117] If accurate, that figure would represent roughly half of all mutual savings banks in the United States.[118]

Regardless of whether home savings banks accounted for a significant increase in accounts or deposits, savings institutions' widespread adoption of them and the ways in which they marketed such a device bear an obvious similarity to the impulse to put banks in schools. More than a general encouragement to save, they often explicitly presented the home savings bank as a way of extending the institutions' physical reach. One typical advertisement claimed that the device heralded "a savings bank for every home."[119] Another appealed to the fact that it may "be up to you to give the family encouragement in the saving habit" and suggested that "there's not a better way [to accomplish this] than by putting a substantial little bank where they'll see it constantly."[120] Numerous advertisements summarized the nature of the operation: "You have the bank, we have the key."[121]

Most previous efforts to encourage institutional savings had relied on depositors to practice thrift at home before they could make a deposit at the bank. Even banking-by-mail services entailed such a lag between the virtuous impulse and its formal expression. In both cases, savings institutions feared that self-discipline might waver before the saver actually put their savings on deposit. In contrast, home savings banks provided a physical presence for the bank at home and allowed the application of thrift to *immediately* translate into the act of saving.

117 Automatic Recording Safe Co., [advertisement], in *Savings Bank Journal,* vol. XII, no. IV (June 1931), 151

118 See: US Comptroller of the Currency, *Annual Report* (1934), I, 125

119 [advertisement], *The Advance,* vol. XLVIII, no. 2029 (29 September 1904), 354

120 [advertisement], *Coast Seaman's Journal,* vol. XXIII, no. 21 (9 February 1910), 16

121 See, for example: Home Savings Bank, Des Moines, Iowa, [advertisement], *The Midwestern,* vol. III, no. 4 (January 1909), 66; Duluth Savings Bank, Duluth, Minnesota, [advertisement], *Duluth News Tribune,* 28 May 1903, p. 10

It would be farfetched to think that their promoters didn't realize that a determined depositor could simply break open the home bank in order to access his or her funds. Nevertheless, the home banks did formally entail the physical extension of financial institutions well beyond the limits of their offices. By establishing a presence beyond the bank building that was more than symbolic—if perhaps ineffectual—they perfectly evoked the more general strategy that savings institutions pursued in the era before widespread branch banking.

While home savings bank distributors emphasized their ability to encourage saving at home, their efforts were matched by contemporaries who sought to extend opportunities to save everywhere else. Catching the interest of philanthropic organizations—particularly those connected to school savings initiatives—as well as financial institutions, stamp savings programs offered such a tool. The method was relatively simple and drew heavily from the decentralized model of collection that industrial insurers had pioneered and that savings banks attempted to emulate with their home safes. As one stamp savings organization explained when it announced its plan: "we shall employ the system which the great industrial insurance companies use in getting insurance. We shall start out a number of volunteer agents who will visit the people in their homes and secure their deposits. The various banks in the city are doing a good work in placing in many homes little savings banks and thus encouraging thrift among the people. But we find that many people will not take advantage of this simple plan. So we shall go right into their homes and encourage them to save a few pennies or as much as they can."[122]

In order to reduce the logistical burden required to process thousands of transactions measured in pennies and to coordinate hundreds of possible points of deposit, plan operators distributed a batch of proprietary stamps to their agents in denominations that generally ranged

122 "Send Out Agents to Get Deposits," Cleveland *Plain Dealer,* 6 July 1906, p. 13

from one cent to one dollar. While some agents made home visits on behalf of charitable organizations or banks, many simply worked in public places including drug stores, churches, factories, or schools. In either case, the agents collected small deposits in exchange for their equivalent in stamps, which were essentially receipts whose only value lay in their potential to be redeemed by the stamp savings agent or an affiliated bank. The depositor pasted those stamps onto a prepared card which, when full, represented a sufficiently large amount of money—perhaps five or ten dollars—with which to open a regular savings bank account and begin to earn interest. The system thus balanced deposits made against the total volume of printed stamps without requiring each agent to maintain a ledger. As one early description explained, "convenience for the depositor and the absence of book-keeping for the treasurer are the advantages of the system."[123] Their organizers also stressed that stamp savings frequently enabled deposits in smaller amounts than many savings institutions were willing to process.[124] They therefore envisioned stamp savings programs as ways to integrate even the poorest Americans into the formal institutional finance system, one penny at a time.

Pioneered in Europe roughly a decade earlier,[125] several American institutions instituted stamp savings almost simultaneously around 1890. Historians generally credit the Charity

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123Associated Charities of Boston, *Savings,* Publications of the Associated Charities of Boston, no. 57 (December 1892), 6

124 For overviews of several common stamp savings systems, see: Viviana A. Zelizer, *The Social Meaning of Money: Pin Money, Poor Relief, and Other Currencies* (Princeton, NJ: Princeton University Press, 1997; orig. 1994), 138-41 and Joel Schwartz, *Fighting Poverty With Virtue: Moral Reform and America's Urban Poor, 1825-2000* (Bloomington, IN: Indiana University Press, 2000), 48-49

125 Great Britain's Post Office created a stamp savings program in 1880 as a way to allow customers to make deposits under the one-shilling minimum limit. Some German banks used stamp savings programs at least as early as 1882. See: Archibald Granger Bowie, *The Romance of the British Post Office: Its Inception and Wondrous Development* (London: S.W. Partridge & Co., 1897), 151-52 and F.J. Nolker, *Banks at Home and Abroad: Nickel Stamp System, A New Savings Feature in the Banking System of the United States* (Detroit: Raynor & Taylor, 1891), 4

Organization Society of New York City (COS) for creating the first stamp savings system in the United States, though several contemporary accounts claimed that the group was inspired by a slightly earlier program from Baltimore.[126] Regardless, the Penny Provident Fund that the COS organized in 1888 rapidly became the largest philanthropic stamp savings program in the nation and the model for many others.[127] The Associated Charities of Boston quickly followed suit by organizing their own Stamp Savings Society in 1890.[128]

Both parent organizations were among the most prominent iterations of the "scientific charity" movement which came into vogue among wealthy late-nineteenth century social reformers. Its adherents' guiding ideology was that, in the words of Michael Katz, "dependence on private or public charity was their great enemy." Their main desire was to systematize methods "to restore the very poor to independence."[129] As the COS explained, it would promote "the general welfare of the poor . . . by inculcation of habits of providence and self-dependence."[130] The directors of the Associated Charities similarly held the belief that "people, in order to save their character, must provide for themselves."[131] Given that these animating

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126 See: United States. Post Office Department, *Postal Savings Banks: An Argument in Their Favor by the Postmaster-General* (Washington: Government Printing Office, 1891), 48-49 and L.H. Benton, "Bank Stamps," *American Journal of Philately,* 31 October 1894, pp. 481-83: 483

127 Joseph Lee, "Preventive Work (American Philanthropy of the Nineteenth Century)," *The Charities Review,* vol. x, no. 9 (November 1900), pp. 376-88: 384

128 Associated Charities of Boston, *Savings,* Publications of the Associated Charities of Boston, no. 57 (December 1892), 6

129 Michael B. Katz, *In the Shadow of the Poorhouse: A Social History of Welfare in America* (New York: Basic Books, 1986), 66-84; quotation on p. 67

130 Quoted in: Schwartz, *Fighting Poverty With Virtue,* 48

131 Zilpha D. Smith, the general secretary of the Associated Charities, expressed this belief in reference to the group's related Society for Home Saving at an 1893 meeting of the International Congress of Charities, Correction and Philanthropy. See: John H. Finley, ed., *The Public Treatment of Pauperism* (Baltimore: The Johns Hopkins Press, 1894), 294

principles bore more than a passing resemblance to those which savings bank promoters had long expressed, it is hardly surprising that institutional savings would attract members of these groups as well.

And attract them it did. By 1900, one overview noted, the New York Penny Provident Fund had only $44,534 on deposit. But it operated more than 300 "stations" located not only in New York but also in seventeen other states that stretched from Connecticut to Georgia and New Jersey to Colorado. Its agents in "savings banks, churches, social settlements, associated charity rooms, libraries, day-nurseries, boys' clubs, and reading-rooms, hospitals, etc.," collectively accepted deposits supporting 69,380 accounts. Boston's Associated Charities similarly processed stamp deposits in over one hundred locations spread throughout New England. Additional groups started charitable stamp programs in cities as diverse as Philadelphia, Chicago, Cincinnati, Dayton (OH), Denver, Springfield (MA), New Haven, and St. Paul (MN).[132] Settlement house operators, in particular, often organized local stamp savings programs that represented their focus on the immediate neighborhood.[133] School savings programs adopted the stamp method as an alternative to the book-keeping that the Thiry system required and because many of them felt that colorful stamps would attract children's attention.

As with school savings programs, charitably-operated stamp savings programs accumulated negligible aggregate deposits. But they engaged hundreds of thousands of people and effectively built a national philanthropic movement on the principle of institutional saving.

132 Joseph Lee, "Preventive Work (American Philanthropy of the Nineteenth Century)," *The Charities Review,* vol. x, no. 9 (November 1900), pp. 376-88: 384-85

133 Mina Carson, *Settlement Folk: Social Thought and the American Settlement Movement, 1885-1930* (Chicago: University of Chicago Press, 1990), 69

At the Penny Provident Fund's peak in 1903, it maintained nearly 100,000 accounts.[134] Given that the COS itself noted that stamp savings were "almost entirely used by those who . . . cannot leave the money long on deposit" and thus frequently withdrew from the fund, the number of individual people who at one time held an account was likely considerably higher.[135]

Moreover, stamp savings programs were not limited to these charitable iterations. Banks themselves organized such plans. At least as early as 1889, the Citizens' Savings Bank in Detroit instituted a stamp savings program after its cashier learned about similar examples in Germany.[136] In a telling distinction from the charitable stamp programs, one early promoter of Detroit's stamp system framed its utility in the plain terms of finding new sources of capital rather than aiding depositors. He claimed that without stamp programs such as those in England and Germany, "our savings banks have lost one great source of income." Echoing the analysis of mid-nineteenth century political economists such as Francis Bowen and Henry Carey, he asserted that "the small sums which the poor and the children can deposit are really of as much importance as the larger sums of the less numerous middle class of citizens."[137]

As with charitable programs, bank-operated plans quickly spread. Within less than four months, "more than $15,000 worth of stamps were sold in Detroit; agencies started in fifteen Michigan towns; and San Francisco, Columbus, O., Denver, Los Angeles, St. Paul and Louisville banks adopted the system."[138] By the end of 1890, the *Banker's Magazine* picked up the story and

134 Schwartz, *Fighting Poverty With Virtue,* 48

135 Quoted in Zelizer, *Social Meaning of Money,* 138

136 "Financial Facts and Opinions," *The Banker's Magazine and Statistical Register,* vol. xlv, no. 6 (December 1890), pp. 417-24: 420 and F.J. Nolker, *Banks at Home and Abroad: Nickel Savings Stamp System* (Detroit: F.J. Nolker, 1891), 3

137 Nolker, *Banks at Home and Abroad,* 3

138 Ibid., 5-6

similarly emphasized stamp plans' potential for increasing bank business. In particular, it noted that "some careless young men buy a small number of stamps . . . become tired of saving, and throw their books to one side. Many stamps will thus never be redeemed, and the bank is the clear gainer."[139] By 1894, one report claimed that "considerably over one hundred banks—national, state, private and savings" were operating stamp programs (although savings banks made up the bulk of them).[140]

Bank-operated stamp savings programs were supposed to engage depositors who otherwise would be unable or unwilling to use the bank. Charitable stamp program operators also uniformly intended their programs to be stepping stones to formal savings institutions for the poorest Americans. Within barely three years of operation, the COS praised the fact that "hundreds . . . have been graduated from what may be called this kindergarten of thrift into the high schools of providence, and become investors in regular savings banks."[141] In this light, it is surprising that historians appear to have generally overlooked the banks which themselves often took the lead in organizing stamp savings programs without any connection to charitable organizations.[142] Since for-profit institutions were at least equivalently active with mutual ones in this arena, stamp savings programs might just as easily be understood as another manifestation of savings institutions' attempt to build their depositor bases during this period as they were a

139 "Financial Facts and Opinions," *The Banker's Magazine and Statistical Register,* vol. xlv, no. 6 (December 1890), pp. 417-24: 420-21

140 L.H. Benton, "Bank Stamps," *American Journal of Philately,* 31 October 1894, pp. 481-83: 481

141 Quoted in: Schwartz, *Fighting Poverty With Virtue,* 48

142 One of the rare exceptions to this rule is Richard Germain, who notes that many banks deployed stamp savings programs as a way to accept extremely low deposits without having to process the associated paperwork. He also plausibly suggests that this movement anticipated the Christmas, vacation, and other savings "clubs" that banks began to offer during the early-twentieth century as a way of standardizing the accounting of—and encouraging—small regular deposits and thus reducing the costs associated with managing them. See: Germain, *Dollars Through the Doors,* 127

specific expression of anti-poverty activism.

This view has particular merit since it was savings institutions, the federal government, and local school boards that continued to operate stamp savings programs long after the charitable strain of the movement effectively ended in 1915. In that year, the Penny Provident Fund ceased operations in large part because its organizers felt the new US postal savings system had made them unnecessary.[143] A Boston newspaper had actually anticipated this redundancy from the beginning, noting in 1891 that "a national system of postal stamp-savings . . . would obviate further effort" to set up independent programs.[144] When US post offices started receiving deposits in 1910, the minimum needed to open a regular account was one dollar but the system offered an auxiliary stamp method for depositors who wanted to save less than that amount (as little as ten cents).[145]

More dramatically, the US Treasury Department made selling savings stamps a major aspect of its propaganda and financing efforts during World War I. By mid-1918, government agents—ranging from banks to churches to Boy Scouts—had peak sales exceeding $210 million per month. The war stamp savings program ultimately raised about $1 billion.[146] While the federal government's role in stamp savings quickly diminished after the war, savings banks continued to operate stamp and related programs at industrial workplaces into the 1920s in order to reach potential depositors.[147] Many school savings programs likewise used the stamp method

143 Zelizer, *Social Meaning of Money,* 140-41

144 Quoted in: United States. Post Office Department, *Postal Savings Banks: An Argument in Their Favor by the Postmaster-General* (Washington: Government Printing Office, 1891), 48

145 US Comptroller of the Currency, *Annual Report* (1910), 29

146 Tucker, *The Decline of Thrift,* 84-91

147 Woodworth, "Industrial Savings Banking," 108-9

for years after most charitable organizations had abandoned it.[148]

Stamp savings plans' influence also lived on as the underlying transaction method that banks utilized to pioneer the first automated teller machines. These instruments essentially married home savings banks to stamp savings programs by providing a locked box to which multiple people could deposit coins, receiving stamps as receipt for the deposit and dispensing with the need for a human agent to administer the transactions. As one early description explained, "it is intended that the machines shall be placed in schools, factories, hotels, department stores, and the like, to pick up spare change a passer-by might want to save." As with a normal stamp savings service, after accumulating one dollar worth of stamps "they may be deposited in the usual way as a savings account in the bank."[149] An early advertisement explained the appeal: "it is in operation twenty-four hours a day and will receive as little or as much as you care to deposit. It is no longer necessary to wait until you have accumulated a sum sufficient to make a visit to the Bank worth while."[150]

As with the home savings banks that preceded them, these early machines attracted widespread attention. The American Bankers Association included them among a lengthy review of methods of "industrial savings" in 1920, claiming that "many [factory] plants have installed a slot machine called 'The Automatic Receiving Teller'" and noting that the "arguments for this method include the . . . absolute secrecy from the employer" of workers' deposits.[151] Banks that

148 Cruce, "A History of Progressive-Era School Savings Banking," 17

149 "Machine is Automatic Receiving Teller," *Popular Mechanics Magazine,* vol. 25, no. 2 (February 1916), 185-6

150 American Trust and Savings Bank, Albuquerque, New Mexico, [advertisement], *Albuquerque Morning Journal,* 5 May 1918, p. 5

151 Leo Day Woodworth, "Industrial Savings Banking," *Journal of the American Bankers Association,* vol. 13, no. 3 (September 1920), pp. 103-9: 109

sought to gain access to schools were particularly avid adopters of the machines. For example, Tulsa, Oklahoma, installed the machines in all of its area schools in 1919-20.[152]

Adoption of automated tellers for a narrow purpose like school savings frequently led to broader applications, demonstrating another tangible connection between school savings programs and the broader efforts of bankers to extend their physical presence beyond the bank. An early report on the Tulsa experiment claimed that "members of the faculty and even the janitors make their daily deposits" at the machine.[153] The Cleveland trust company that first pioneered their use in that city's schools likewise concluded that because "the plan worked out so satisfactorily . . . it was decided to extend the installation of the slot machines to industrial plants."[154] Their use in both New York and Massachusetts was apparently widespread enough by the early 1920s that petitioners asked the attorneys general of both states to rule on whether they violated state branching laws. The New York opinion noted that "it appears that this machine is placed in schools and industrial plants" while the Massachusetts one similarly referred to "machines [which] have been installed by certain savings banks in department stores, factories, etc." Both opinions decided that they were legal.[155]

Like their predecessors, the early automated tellers demonstrated that savings innovation was squarely on the side of increasing *deposits* rather than withdrawals. The advantage for any bank was obvious. For those operators whose particular concern was the inculcation of thrifty

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152 E.E. Oberholtzer, "Thrift in the Schools," *Journal of the National Education Association,* vol. 11, no. 5 (May 1922), pp. 183-84: 184

153 "Habits of Thrift Taught in School," *Tulsa Daily World,* 12 October 1919, p. 6

154 "This Slot Machine Saves Your Money For You," Philadelphia *Inquirer*, 4 December 1921, p. 5

155 "New York Savings Banks May Use Automatic Receiving Teller," *Savings Bank Journal,* vol. 2, no. 12 (February 1922), p. 33; Massachusetts. Office of the Attorney General, *Opinions of the Attorney General, Volume VI: 1921-22* (Boston: Office of the Attorney General, 1922), 645-46

habits among the working poor, it was even more so. The reasoning behind the New York ruling allowing savings banks to use automated tellers was particularly instructive on this front. The "principle controlling" whether or not a non-bank deposit scheme was legal was "that the deposits must be received by some one who is the agent of the depositor and not of the bank." The attorney general considered such devices legal under this standard because "the use of the Automatic Receiving Teller is intended to stimulate deposits and encourage thrift in savings" rather than advance the interest of the bank at the expense of the depositor.[156] Such distinctions were more than a little artificial in practice, however. As a finance trade journal noted in 1923: "these machines have been used for a number of years and have proved good investments for the banks which have purchased them," due to the increased business they brought to the bank.[157] In a similar way, this was one of the primary lessons that bankers learned from their more general experience with home, stamp, and school savings programs during their early years.

*Training the capitalists of tomorrow*

Demonstrating the close connection between school savings advocates, social economists, and savings institutions, school bank promoters occasionally referred explicitly to their programs' intention to produce future "capitalists." An 1878 description of the first American school savings program explained that "interest . . . is allowed on all deposits . . . thus keeping before the boys the idea that they are modest capitalists, and encouraging them to save their money."[158] Popular authors of children's literature such as Horatio Alger also repeatedly

156 "New York Savings Banks May Use Automatic Receiving Teller," *Savings Bank Journal,* vol. 2, no. 12 (February 1922), p. 33

157 "Encouraging Savings Accounts," *United States Investor,* vol. 34, no. 1 (3 February 1923), 25

158 "School Savings Banks," in *Pennsylvania School Journal,* vol. 26, no. 12 (June 1878), pp. 420-21: 420

reenforced the connection between childhood saving and the virtuous achievement of capitalist status. To pick just three examples, Alger described in various novels "a boot-black, who, having ten dollars in a savings-bank, was regarded in his own class with high respect as a wealthy capitalist," another boy who deposits a similar sum and then proudly remarks to himself that "I begin to feel like a capitalist," and a third character with a savings bank account who "was in some sense a capitalist."[159]

Such focused references were rare among the arguments in favor of school savings banks, however. As Thiry explained in 1890, "if the system is to be introduced at all, it ought to enter in our school rooms as an educational factor and not as a purely capitalistic idea."[160] Nearly two decades later another author explained to his audience of businessmen that "the general principles of a school savings system provide that the work is to be approached from the educational as well as from the capitalistic side."[161]

This general aversion to defining school savings programs in explicitly capitalist terms may reflect that in most cases the amounts saved were so small as to draw barely any interest—in these programs, interest only typically began to accumulate on deposits that were large enough to be transferred to full-fledged accounts in the school's partner savings institution—thus undermining the notion that these programs represented entry-level capitalist investment in the same way that contemporaries frequently portrayed adult-oriented savings accounts. It may also have stemmed from a desire to ensure that these programs were considered to be primarily

159 See: Horatio Alger, Jr., *The Young Outlaw: or, Adrift in the Streets* (Philadelphia: The John C. Winston Co., 1875), 243; Horatio Alger, Jr., *The Telegraph Boy* (Philadelphia: Porter & Coates, 1879), 159; and Horatio Alger, Jr., *Rufus and Rose; or, The Fortunes of Rough and Ready* (Philadelphia: Porter & Coates, 1870), 11

160 Thiry, *School Savings Banks,* 20

161 B.C. Bean, "Making the School a Branch Bank," in *System: The Magazine of Business,* vol. 16, no. 5 (November 1909), pp. 542-43: 542

educational rather than economic in nature. But even when school savings advocates avoided the terms "capital" or "capitalist," their intent to use these programs to perpetuate a particular incarnation of capitalist practices was always implicit.

For example, school savings advocates often promoted their plans as a means to inculcate the same "habits" in children that general savings institutions would inculcate in all of their depositors. As a banker and board of education member in Elmira, New York, introduced a published version of his own plan for school savings he noted simply that "the school savings plan . . . is the plan of teaching children to save money and give them habits of thrift."[162] Even Carroll Wright, the eminent statistician and first head of the US Bureau of Labor Statistics who was skeptical of normal savings banks potential as anti-poverty tools, defined school savings positively as "a method to induce economic and frugal habits among children."[163] That these "habits" were a readily-understood abstraction of—and shorthand for—specifically capitalist notions of investment, earning interest, valorizing private property, and stressing meritocratic individual responsibility for economic circumstances was often made explicit. As Oberholtzer explained, school savings programs achieved their greatest goals by aiding children in "learning the value and accumulative power of money, the delights of individual posession and distribution, [and] that industry, honesty, care, and good habits are essential guards against pauperism."[164] Elsewhere, she stated that "there is no need for anybody to be poor [because] poverty results from mismanagement, and is a kind of primal sin that we should fortify ourselves

162 Clay W. Holmes, "A Modern School Savings Plan," in *School Board Journal,* vol. 48, no. 3 (March 1914), pp. 13-14 and 64: 13

163 Carroll D. Wright, *Outline of Practical Sociology: With Special Reference to American Conditions,* Fifth Edition, revised (New York: Longmans, Green, and Co., 1902), 314

164 Sarah Louisa Oberholtzer, "The School Savings Bank as an Educative and Reform Factor," in *Lend a Hand: A Record of Progress,* vol. xv, no. 3 (September, 1895), pp. 202-6: 206

against." She continued, asserting that:

> "boys and girls who are taught early to earn and save pennies, and who are shown through the School Savings Bank teaching in public Schools that pennies soon become dollars, and that dollars earn interest and pile themselves up comfortably for worthy uses, becoming the nucleus of a fortune, when they are saved and placed to their bank credit, instead of being spent as they get them for gum, candy, cigarettes and other needless things, are the boys and girls who will be happy, comfortable, self-responsible, rich men and women, who can do for themselves, and help others to become noble, self-reliant citizens."[165]

Another argument in favor of school savings programs began by decrying "the repudiation of debts, the betrayal of pecuniary trusts, and generally dishonest methods in business," continued with the explanation that "it may be assumed that the child who is early trained to deposit small savings in the bank is on the road to frugal and careful living; that the man who has been trained to habits of prudence and economy can be trusted," and bluntly concluded that European school savings programs' "success is due to the attractiveness of the idea of accumulating wealth."[166]

School savings advocates' emphasis on "practical" learning assumed almost by definition that these programs were oriented towards preparing children to successfully engage with what they understood without question to be the capitalist economy of the present and future. As one turn-of-the-century review of "School Savings Banks and How to Organize Them" explained, "children should be taught the practical lessons of business in connection with their school studies" because "business training cannot be begun too young; every school should have a school savings bank, and no doubt it will be the means of making many prosperous and successful business men."[167] Another discussion of school savings programs explained their

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165 Sara Louisa Oberholtzer, *School Savings Banks in the United States* (New York: Bankers Home Magazine, [1912]), broadside

166 Emily Talbot, "Report of the Secretary, Mrs. Emily Talbot, of Boston," in *Journal of Social Science, Containing the Transactions of the American Association,* no. xx (June 1885), pp. 14-26: 14-15

167 "School Savings Banks and How to Organize Them," in *Issues of the Day: Being A Text-Book on the Political Situation Past and Present,* Fifth Edition (Chicago: Conrad H. Oliver, 1901), pp. 426-32: 426

advocates' belief that "industry, promptness, and a tact for business may be awakened in the interested pupil, which may lead to financial success in the future," claiming further that "if thrift and frugality are impressed upon the child he has the secret of success."[168]

The superintendent of the Wynne, Arkansas, school system suggested a somewhat more grandiose yet similar vision of school savings programs, expressing his belief that "the business course of a few months now given in some of our best schools should be and will be replaced eventually by a business course for ten or twelve years, nine months a year, and will not be an elective but will be taught to every pupil, boy or girl, so gradually and naturally that it will seem to be a part of life itself." In this vision, "the school bank then is merely the central feature of a general plan" he hoped to develop.[169] A circular letter explaining the Boston High School of Commerce's school savings program to its students' parents stated more simply but along similar lines that "the teaching of thrift goes hand in hand with the training for business . . . and we think you will agree with us that in no way can the school be of greater or more permanent benefit to the pupils than by helping them to learn early in life habits of thrift and economy."[170]

Above all, the emphasis that school savings programs placed on replicating the practices of general savings banks while serving largely as a mediator between children and these institutions made plain the desire to promote a particular vision of social economic training that was clearly aligned with the petty capitalist pursuit explicitly offered to regular savings bank depositors. William Kniffin, an academic and prominent promoter of savings institutions,

168 May M. Janvier, "School Savings Banks," in *The Chautauquan,* vol. xix, no. 6 (September, 1894), pp. 749-51: 750

169 H.A. Woodward, "The Savings Bank in a High School," typed manuscript, Folder 2, Box 10, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

170 James E. Downey, "'Education for Business:' The Boston High School of Commerce," *Journal of Political Economy,* vol. 21, no. 3 (March 1913), pp. 221-242

outlined such equivalency between various ways of accessing banks of all kinds for his banker readership: "through the school savings bank, the child may deposit the pennies; through the savings club, the seven-dollar-a-week clerk may save a dollar, a half, or a quarter; over the counter, it [the savings bank] will take the larger sums from those in better circumstances." He concluded that money deposited thusly, even in a school bank, "will work for them [depositors], as they once worked for it, and come back a little larger, when they will."[171] A 1903 report on a new savings system at a school in Washington, DC, described this element more succinctly for the general public, explaining that the school program "is conducted in every way just like the great institutions where their [the students'] fathers place their money for safe-keeping."[172]

That school savings programs' ultimate intention was to help students integrate into the capitalist economy was particularly evident when their advocates explained why more traditional savings institutions would benefit from their partnership with schools. Despite her overall stress on the moral benefits of school saving programs, Oberholtzer nevertheless acknowledged that "the pennies of the children may be some trouble to them [bankers], but they realize they are training bank depositors whose holdings may be valuable as adults."[173] Another late-nineteenth century commenter who claimed that "the ethical good of the system cannot be counted in dollars and cents" similarly observed that "bank officers are glad to take these [students'] savings although it means much work for them" because "they say, 'in the pennies of to-day we see the dollars of future men and women.'"[174] In other words, school savings programs were essentially

171 W.H. Kniffin, Jr., "The Savings Bank—A Public Benefactor," in *The Bankers' Magazine,* vol. 77, no. 5 (November 1908), pp. 722-27: 724

172 "Taking Care of the Pennies," Savannah (GA) *Tribune,* 12 September 1903, p. 6

173 Oberholtzer, "The School Savings Bank as an Educative and Reform Factor," 206

174 Janvier, "School Savings Banks," 750-51

loss leaders for regular banks. As the entry on school savings banks in a 1913 encyclopedia devoted to topics in education explained, "the influence in developing habits of thrift and economy is so valuable that banks are usually willing to do the business at a loss," some even going so far as to add low teller windows that would be within small children's reach. The reason was that "the experience of many cities has been that pupils frequently transfer their accounts from the school savings bank to the regular savings bank, and thus early begin to look upon economy, thrift, and a savings bank account as desirable things to possess."[175]

### *Conclusion: school savings and the future of civilization*

Many bankers, then, believed that collaboration with school savings programs could literally pay for itself by creating future depositors. But for much of the rest of the broad coalition of academics, politicians, educators, social reformers, and others who joined them in promotion of the plans, the benefits to be reaped in the future were considerably more expansive. The early school savings movement's emphasis on inculcating both capitalist aspirations and knowledge of capitalist practice in future adults amounted to a statement not simply about how best to avoid poverty but one about the nature of modern society as understood through a global perspective. In the United States, as in other countries, school savings programs became a way to ensure that future generations would remain competitive in social, political, and cultural terms precisely because they could do so in economic ones. As J.H. Thiry stated in one of his manuals, "the object of the public school is to train children to citizenship." School savings fulfilled this mission because their "practical lessons of thrift and economy . . . will help considerably to reach that end and will vastly increase the earning power and intelligence of all, and impart a sound

175"Savings Banks, School," in *A Cyclopedia of Education, Volume Five* ed. Paul Monroe (New York: Macmillan Company, 1913), 247-48: 248

economic and civic instruction to the individual."[176] More expansively, Thiry explained earlier in the same text that "the motive of school savings is an outcome of progressive civilization."[177]

Thiry developed such sentiments further in an 1890 letter to Oberholtzer in which he linked American school savings to the broader international movement that produced them but also demonstrated how this outlook might imply competition among capitalist nations to be the *most* "civilized." After praising her work in the movement, he forwarded to Oberholtzer correspondence from Agnes Lambert, a prominent British advocate of school savings. As Thiry explained, he along with Lambert for England and Augustin de Malarce for France "join[ed] efforts to foster the spirit of economy throughout the three greatest civilized countries." He continued that it was important to maintain such contacts because "the exchange of ideas, [and] results . . . produces a healthy, stimulating influence." Although Thiry averred that "though our two European cousins have sometimes shown jealousy in hearing of our Success, no storm can break the union in our undertaking," he also clearly viewed school savings as a way for his adopted country to emerge superior to its supposed equals. As he noted, "we have a great advantage here, fluctuation of capital, more of plenty, easy to get, children have more money and all that constitute[s] our advance upon our European friends."[178] Thiry's devotion to international cooperation was always mixed with this sense of competition. When he announced his intention to create an exhibit devoted to American school savings at the 1893 Columbian Exposition in Chicago, for example, he explained that since "representatives from all parts of both hemispheres will be present, it is due to us [teachers] that they should see what we are doing in America

176 Thiry, *School Savings Banks in the United States,* 7

177 Ibid., 5

178 J.H. Thiry to S.L. Oberholtzer, 10 January 1890, Folder 1, Box 15, Ellis Paxson Oberholtzer Papers, Historical Society of Pennsylvania

toward educating our young citizens."[179]

The argument that school savings would help to secure the place of the United States as a "civilized" nation suffused the wider movement from the start, just as it had the more general social economic promotion of savings institutions. In this vein, a Pennsylvania educator explained that "the school savings bank is an outcome of progressive civilization" specifically because "the public school . . . is the place to instill in the minds of children the habits which will make them good citizens."[180] A California banker explained that "this teaching the children to save deals not only with the present, but it affects very materially the social fabric of the future," going on to claim that "it will affect in great measure the civilization and moral fiber of the nation" because these programs could help give those "in moderate circumstances . . . a realization of the dignity which springs from independence founded on the basis of a solvent estate."[181] Picking up where his predecessors had left off, the US Commissioner of Education Philander Claxton elevated these ideas to the status of national policy, remarking in 1914 that "education for life . . . in a country and civilization like ours . . . must include instructions in the simple principles of economics and some training in the use of money and habits of thrift" and that school savings were "one simple, easy and practical method" with which to achieve this.[182]

Thiry elaborated on this utopian aspect of school savings in a paper included in the minutes of the 1897 annual meeting of New York's council of school superintendents (even though there was no time for him to formally deliver it at the conference). After claiming that

179 Thiry, *Seventh Anniversary,* 24-25; quotation on p. 24

180 W.W. Sullivan, "School Savings Banks," *The School Journal,* vol. 46, no. 5 (November 1897), pp. 198-200: 198

181 R.O. Kaufman, "School Savings," *The Commercial West,* vol. xxvi (29 August 1914), pp. 38 and 49: 49

182 Quoted in: "Report of Committee on School Savings Bank," *Cincinnatti Public Schools Eighty-Sixth Annual Report* (Cincinnati, OH: 1916), pp. 129-31: 129

school savings "is a development responding to a great need in social economy," he called on his audience to spread the programs throughout the United States so that "a useful heritage will be bestowed upon the succeeding centuries now fast approaching, and anticipated as ushering in the most brilliant era in the history of the time." That this achievement would be made possible by aligning the economic values of all Americans—regardless of class—towards the basic tenets of capitalism was implied by his conclusion: "teach political economy and practice its principles by the introduction of school savings banks in the schools of the nation, and the fear of social revolution will vanish before the dawn of a social evolution."[183]

It was in these repeated evocations of "civilization," "social evolution," and "progress"—as well as its proponents desire to use this potential to reduce class conflict—that the American school savings movement of the late-nineteenth and early-twentieth centuries most clearly revealed its international origins and explained why it became such a cherished object of social economists of the era. By focusing their attention on training students as much for the adults they would become as for the children they currently were, school savings advocates explicitly oriented their programs' benefits towards the *future,* making them particularly well-positioned to foster an enduring legacy of workers suited to functioning in a capitalist society that they understood as the new global state of modern civilization. While contemporary efforts directed at workers who were already adults—like many stamp savings and home savings programs—were almost by definition palliative attempts to shelter those members of society who adapted more slowly than the capitalists who ushered in this new era, school savings advocates stressed that their programs could shape the future in such a way that the problems of capitalism would

183 [J.H. Thiry], "School Savings Banks in the United States," in *State of New York Department of Public Instruction: Forty-Fourth Annual Report of the State Superintendent,* vol. II (New York: Wynkoop Hallenbeck Crawford Co., 1898), pp. 1061-64: 1064

gradually fade away as the benefits of mass institutional saving would steadily accrue. By beginning this process as early as possible, school savings programs held out the possibility that they could normalize the savings deposit practices that the American finance economy increasingly relied on to function and whose supporters in government, business, intellectual circles, and popular culture desperately wanted to expand. More than this, they hoped to encourage children to grow into adults who would view their position in such an economy as a form of capitalist partnership rather than one of competition between classes. The early years of school savings thus perfectly captured the balance between turn-of-the-twentieth century notions about how central institutional saving had become to United States social and political economy as well as the hopes—or fears—about how much further progress remained to be made in the field.

## Epilogue

Albert Atwood, the financial editor of *McClure's* magazine, devoted the January 1914 installment of his "Your Money and How to Make it Earn" column to the topic of "The Savings Bank—or Foundations of Investment." As the title suggests, Atwood's object was to encourage his readers to patronize savings banks as an introduction to the world of institutional investment. Explaining that savings banks offered people of limited means and little financial literacy "a place where small sums may be deposited with absolute safety to earn a modest return," Atwood called savings banks "the kindergarten[s] of investment."

With this start, Atwood was well on his way to sketching out a familiar picture of savings institutions that was nearly a century old. But in an attempt to assure his readers that depositing in a savings bank was serious business with the potential for great economic reward, Atwood turned to more concrete matters. He first noted that fully ten percent of Americans (of all ages) had accounts in savings banks and that "there are more than four billion dollars of money in these banks." On this basis, Atwood claimed that "in the aggregate, [savings banks] form one of the most powerful, if not the most powerful, monetary groups in America." Atwood's conclusion:

"obviously . . . the savings bank is *the* favorite channel for investment" in the United States.[1]

In a sense, the seeds of Atwood's distinction had been there from the very first savings banks. Their founders fashioned institutions premised on the belief that investing workers' savings was the best way for them to survive the vicissitudes of a capitalist economy but claimed that individual savers didn't possess the knowledge or institutional access to do so on their own. From the beginning, savings banks emphasized the financial limits of the individual depositor while promoting the potential of their pooled resources. Yet that original vision included no sense that those pooled resources were somehow as important to the general economy as they were to the individual depositors who contributed them. The slow emergence of that belief along with its failure to completely erase the initial view had lasting consequences for both the economic and social functions that American savings institutions fulfilled by the early-twentieth century.

The growing acceptance of the new macroeconomic theory that positioned the aggregate of workers as holders of one of the nation's primary sources of potential capital alongside a social economic theory that claimed that attention to this aggregate was as if not more important than ministering to each individual worker continued to reshape the nation's finance industry in the years that followed as well. While now-traditional working-class finance institutions such as savings banks and industrial insurance companies continued to grow in absolute terms in the 1920s,[2] they were increasingly joined by institutions that offered a wide range of financial services to workers, including significantly expanded credit and brokerage facilities.[3] Picking up

1 Albert W. Atwood, "Your Money and How to Make it Earn," *McClure's Magazine,* vol. xlii, no. 3 (January 1914), pp. 190-95: 190

2 For savings banks, see: US Comptroller of the Currency, *Annual Report* (1934), I, 125; for industrial insurance companies, see: Malvin E. Davis, *Industrial Life Insurance in the United States* (New York: McGraw-Hill Book Company, 1944), 233

3 For the expansion of credit, see: Lendol Calder, *Financing the American Dream: A Cultural History of*

on a shift that had already become evident in the 1870s and 1880s, these new institutions were more often than not for-profit ventures that left behind the “philanthropic” or cooperative impulses—and attendant legal protections—that had initially justified the creation of savings institutions as protectors of the poor rather than as investment opportunities for financiers. It was not until the tremendous financial collapse of the Great Depression that this tide would be tamed, if not turned, through mechanisms including federal deposit insurance, federal credit unions, the creation of the Social Security system, and federally-guaranteed mortgages.

Meanwhile, the ideological association of saving as an act that transcended simple economics by indicating individual virtue and good citizenship was strengthened by an increasing body of academic literature, political speech, legislation, and expressions of popular culture that pointed to the vastly expanding use of working-class financial institutions of all kinds as evidence that believing in capitalism's ability to provide universal economic opportunity to those who followed its cultural and social precepts was essentially valid. Thus, there was no widely-expressed sense of irony about linking saving to patriotism through the sale of Liberty bonds during World War I, allowing for-profit banks to take over the management of public school savings programs, seeing labor unions own and operate commercial banks in the name of protecting workers against capitalists, or justifying the increased use of consumer credit as a way of promoting thrift, to name just a few of the major initiatives that emerged fully in the decade following 1914.[4] After a century of American experience with savings institutions, the individual

*Consumer Credit* (Princeton, NJ: Princeton University Press, 1999) and Louis Roland Hyman, *Debtor Nation: The History of America in Red Ink* (Princeton, NJ: Princeton University Press, 2011). For the expansion of brokerage facilities, see: Julia C. Ott, *When Wall Street Met Main Street: The Quest for an Investors' Democracy* (Cambridge, MA: Harvard University Press, 2011)

4 For Liberty Bonds, see: Sung Won Kang and Hugh Rockoff, "Capitalizing Patriotism: The Liberty Loans of World War I," NBER Working Paper Series, no. 11919 (January 2006); for the American Bankers' Association's gradual takeover of school savings after 1913, see: Ashley Cruce, "A History of Progressive-Era School Savings

act of saving—in whatever form—was sufficiently dissociated from its aggregate effect that an ideology of virtuous individualism expressed through saving easily coexisted with an institutional financial force that was both far greater than the sum of its constituents and not wholly aimed at pursuing their individual self-interest.

* * * * *

From an historical perspective, the question of whether workers actually became “little capitalists” through such developments—in either the sense of their becoming self-sufficient investors living at least partially from returns on their capital or that of their acquiring a shared capitalist class interest—is worthwhile but largely tangential to this study. Given the large volume of historiography that demonstrates the persistence of both poverty and working-class identity throughout the period in question, it seems safe to conclude that most workers did not.

What this history of savings institutions and ideologies instead demonstrates is that the *perception* that such a transformation was not only possible but had been widely achieved became pervasive as a cultural and intellectual assumption within the United States over the first century of savings institutions. This happened as savings institutions became the primary means by which many Americans directly interacted with the national finance economy. In turn, this perception joined with the emerging financial power of savings institutions as a whole to motivate the policymakers, financiers, jurists, and influential public commentators who had the power to more directly transform the US financial infrastructure from one based primarily on the

Banking: 1870 to 1930," Washington Univerity Center for Social Development Working Paper 01-3 (August 2001); for the development of labor union-owned national banks in the 1920s, see: Richard M. Boeckel, *Labor's Money* (New York: Harcourt, Brace, and Company); and for characterizing credit purchases as a means to foster thrift and savings beginning with mortgages at the turn of the twentieth century and durable and consumer goods purchase in the 1920s, see: Lendol Calder, *Financing the American Dream: A Cultural History of Consumer Credit* (Princeton, NJ: Princeton University Press, 1999) capital of a relatively small number of wealthy elites to one based largely on the aggregate capital of millions of workers. In this way, an economy and society emerged in the United States in which the existence of any *individual* “little capitalist” was debatable but in which the *aggregate* of institutional savers financed its development by collectively creating a nation that, from this perspective, appeared to be composed of “little capitalists.” What began in the 1810s as a series of local attempts by social and economic elites to alleviate poverty and exercise increased social control over their poorer neighbors became by the 1910s a substantial basis of the finance economy in the United States. As a result, institutional saving in both idea and practice became one of the most broadly-based expressions of the nation's capitalist nature in social, cultural, and political as well as economic terms.

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## Appendices

Appendix 1: United States Aggregate Savings Bank Growth, 1820-1865

Source: US Comptroller of the Curreny, *Annual Report* (1920), I, 241-42. Estimated inflation is based on the consumer price index derived in: Paul A. David and Peter Solar, "A Bicentenary Contribution to the History of the Cost of Living in America," *Research in Economic History* 2 (1977), 16

| Year | No. of Banks | No. of Open Accounts | Aggregate Deposits (Current Dollars) | Aggregate Deposits (1860 Dollars) | Avg. Deposits Per Account (Current Dollars) | Avg. Deposits Per Account (1860 Dollars) |
|---|---|---|---|---|---|---|
| 1820 | 10 | 8,635 | $1,138,576 | $807,501 | $131.86 | $93.52 |
| 1825 | 15 | 16,931 | $2,537,082 | $2,132,002 | $149.84 | $125.92 |
| 1830 | 36 | 38,035 | $6,973,304 | $6,282,256 | $183.09 | $164.95 |
| 1835 | 52 | 60,058 | $10,613,726 | $10,012,949 | $176.72 | $166.72 |
| 1840 | 61 | 78,701 | $14,051,520 | $13,511,077 | $178.54 | $171.67 |
| 1845 | 70 | 145,206 | $24,506,677 | $26,930,414 | $168.77 | $185.46 |
| 1846 | 74 | 158,709 | $27,374,325 | $29,754,701 | $172.48 | $187.48 |
| 1847 | 76 | 187,739 | $31,627,479 | $31,946,948 | $168.46 | $170.16 |
| 1848 | 83 | 199,764 | $33,087,488 | $34,828,935 | $165.63 | $174.35 |
| 1849 | 90 | 217,318 | $36,073,924 | $39,210,787 | $165.99 | $180.42 |
| 1850 | 108 | 251,354 | $43,431,130 | $46,203,330 | $172.78 | $183.81 |
| 1851 | 128 | 277,148 | $50,457,913 | $54,845,558 | $182.06 | $197.89 |
| 1852 | 141 | 308,863 | $59,467,453 | $63,943,498 | $192.54 | $207.03 |
| 1853 | 159 | 365,538 | $72,313,696 | $77,756,662 | $197.82 | $212.71 |
| 1854 | 190 | 396,173 | $77,823,906 | $77,053,372 | $196.44 | $194.50 |
| 1855 | 215 | 431,602 | $84,290,076 | $81,048,150 | $195.29 | $187.78 |
| 1856 | 222 | 487,986 | $95,598,230 | $93,723,755 | $195.90 | $192.06 |
| 1857 | 231 | 490,428 | $98,512,968 | $93,821,874 | $200.87 | $191.30 |
| 1858 | 245 | 538,840 | $108,438,287 | $109,533,623 | $201.24 | $203.27 |
| 1859 | 259 | 622,556 | $128,657,901 | $128,657,901 | $206.66 | $206.66 |
| 1860 | 278 | 693,870 | $149,277,504 | $149,277,504 | $215.13 | $215.13 |
| 1861 | 285 | 694,487 | $146,729,882 | $138,424,417 | $211.27 | $199.31 |
| 1862 | 289 | 787,943 | $169,434,540 | $140,028,545 | $215.03 | $177.71 |
| 1863 | 293 | 887,096 | $206,235,202 | $136,579,604 | $232.48 | $153.96 |
| 1864 | 305 | 976,025 | $236,280,401 | $125,016,085 | $242.08 | $128.08 |
| 1865 | 317 | 980,844 | $242,619,382 | $123,785,399 | $247.35 | $126.20 |

## Appendix 2: United States Aggregate Savings and Commercial Bank (Time Plus Demand) Deposit Growth, 1867-1914, in billions of dollars

Source: Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton, NJ: Princeton University Press, 1963), Table 1, pp. 4ff. Estimated inflation is based on the consumer price index derived in: Paul A. David and Peter Solar, "A Bicentenary Contribution to the History of the Cost of Living in America," *Research in Economic History* 2 (1977), 16

NB: I include the Friedman-Schwartz estimates because deposit figures from the US Comptroller of the Currency *Annual Reports* are based on incomplete returns for much of the nineteenth century, particularly for state banks (including savings banks) and especially in the pre-1890 period. However, Friedman's and Schwartz's decision to conflate stock savings deposits with those of "regular" state commercial banks makes these figures unsuitable for comparing mutual and stock savings bank development. For instances where such a comparison is necessary, see: Appendix 3.

| Year | Mutual SB Deposits (Current Dollars) | Commercial Bank Deposits (Current Dollars) | Mutual SB Deposits (1860 Dollars) | Commercial Bank Deposits (1860 Dollars) |
|---|---|---|---|---|
| 1867 | 0.28 | 0.73 | 0.16 | 0.41 |
| 1868 | 0.32 | 0.71 | 0.19 | 0.42 |
| 1869 | 0.37 | 0.74 | 0.23 | 0.45 |
| 1870 | 0.44 | 0.78 | 0.28 | 0.50 |
| 1871 | 0.52 | 0.84 | 0.35 | 0.57 |
| 1872 | 0.61 | 1.04 | 0.41 | 0.71 |
| 1873 | 0.68 | 1.07 | 0.47 | 0.74 |
| 1874 | 0.74 | 1.07 | 0.54 | 0.78 |
| 1875 | 0.80 | 1.15 | 0.61 | 0.87 |
| 1876 | 0.84 | 1.16 | 0.65 | 0.90 |
| 1877 | 0.84 | 1.17 | 0.67 | 0.93 |
| 1878 | 0.80 | 1.05 | 0.67 | 0.88 |
| 1879 | 0.75 | 1.02 | 0.63 | 0.85 |
| 1880 | 0.79 | 1.30 | 0.64 | 1.06 |
| 1881 | 0.87 | 1.54 | 0.71 | 1.25 |
| 1882 | 0.95 | 1.79 | 0.77 | 1.46 |
| 1883 | 1.00 | 1.96 | 0.83 | 1.62 |
| 1884 | 1.03 | 1.92 | 0.87 | 1.63 |
| 1885 | 1.07 | 2.06 | 0.92 | 1.78 |
| 1886 | 1.12 | 2.33 | 0.99 | 2.06 |

Appendix 2 (cont.)

| Year | Mutual Savings Bank Deposits (Current Dollars) | Commercial Bank Deposits (Current Dollars) | Mutual Savings Bank Deposits (1860 Dollars) | Commercial Bank Deposits (1860 Dollars) |
|---|---|---|---|---|
| 1887 | 1.18 | 2.49 | 1.04 | 2.18 |
| 1888 | 1.24 | 2.54 | 1.09 | 2.23 |
| 1889 | 1.30 | 2.72 | 1.17 | 2.45 |
| 1890 | 1.37 | 3.02 | 1.26 | 2.77 |
| 1891 | 1.43 | 3.1 | 1.31 | 2.84 |
| 1892 | 1.52 | 3.54 | 1.39 | 3.25 |
| 1893 | 1.55 | 3.20 | 1.44 | 2.96 |
| 1894 | 1.57 | 3.34 | 1.52 | 3.24 |
| 1895 | 1.65 | 3.60 | 1.63 | 3.56 |
| 1896 | 1.69 | 3.51 | 1.67 | 3.48 |
| 1897 | 1.78 | 3.69 | 1.78 | 3.69 |
| 1898 | 1.87 | 4.22 | 1.87 | 4.22 |
| 1899 | 2.00 | 5.06 | 2.00 | 5.06 |
| 1900 | 2.13 | 5.29 | 2.11 | 5.24 |
| 1901 | 2.26 | 6.21 | 2.22 | 6.09 |
| 1902 | 2.39 | 6.84 | 2.32 | 6.64 |
| 1903 | 2.50 | 7.23 | 2.36 | 6.82 |
| 1904 | 2.60 | 7.70 | 2.43 | 7.20 |
| 1905 | 2.74 | 8.71 | 2.58 | 8.22 |
| 1906 | 2.91 | 9.39 | 2.69 | 8.69 |
| 1907 | 3.01 | 10.04 | 2.66 | 8.88 |
| 1908 | 3.00 | 9.64 | 2.70 | 8.68 |
| 1909 | 3.13 | 11.03 | 2.87 | 10.12 |
| 1910 | 3.29 | 11.54 | 2.89 | 10.12 |
| 1911 | 3.43 | 12.37 | 3.01 | 10.85 |
| 1912 | 3.59 | 13.34 | 3.07 | 11.4 |
| 1913 | 3.73 | 13.71 | 3.13 | 11.52 |
| 1914 | 3.84 | 14.52 | 3.2 | 12.1 |

Appendix 3: United States Aggregate Savings Bank (Mutual and Stock) Growth, 1875-1914 (various dates)

Source: US Comptroller of the Curreny, *Annual Reports,* various dates. Estimated inflation is based on the consumer price index derived in: Paul A. David and Peter Solar, "A Bicentenary Contribution to the History of the Cost of Living in America," *Research in Economic History* 2 (1977), 16

| | Mutual Savings Banks | | | | Stock Savings Banks | | | |
|---|---|---|---|---|---|---|---|---|
| **Year** | **No. of Bank s** | **Open Accounts** | **Total Deposits (Current Dollars)** | **Total Deposits (1860 Dollars)** | **No. of Banks** | **Open Accounts** | **Total Deposits (Current Dollars)** | **Total Deposits (1860 Dollars)** |
| 1875 | 674 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 1876 | 691 | N/A | N/A | N/A | 26 | N/A | N/A | N/A |
| 1877 | 676 | N/A | N/A | N/A | 26 | N/A | N/A | N/A |
| 1878 | 668 | N/A | N/A | N/A | 23 | N/A | N/A | N/A |
| 1879 | 644 | N/A | N/A | N/A | 29 | N/A | N/A | N/A |
| 1880 | 629 | N/A | N/A | N/A | 29 | N/A | N/A | N/A |
| 1881 | 629 | N/A | N/A | N/A | 36 | N/A | N/A | N/A |
| 1882 | 622 | N/A | N/A | N/A | 38 | N/A | N/A | N/A |
| 1883 | 630 | 2,876,438 | $1,024,856,787 | $846,989,080 | N/A | N/A | N/A | N/A |
| 1884 | 636 | 3,015,151 | $1,073,294,955 | $909,571,996 | N/A | N/A | N/A | N/A |
| 1885 | 646 | 3,071,495 | $1,095,172,147 | $944,113,920 | N/A | N/A | N/A | N/A |
| 1886 | N/A | 3,158,950 | $1,141,530,578 | $1,010,204,051 | N/A | N/A | N/A | N/A |
| 1887 | 580 | 3,418,013 | $1,235,247,371 | $1,083,550,325 | 104 | N/A | N/A | N/A |
| 1888 | 628 | 3,506,936 | $1,216,100,471 | $1,066,754,799 | 173 | 331,355 | $148,096,079 | $129,908,841 |
| 1889 | 637 | 3,618,139 | $1,270,259,218 | $1,095,051,050 | 212 | 402,384 | $154,971,131 | $133,595,803 |
| 1890 | 637 | 3,765,318 | $1,336,001,150 | $1,141,881,325 | 284 | 493,575 | $188,843,356 | $161,404,578 |
| 1891 | 647 | 3,948,528 | $1,402,332,665 | $1,188,417,513 | 364 | 584,689 | $220,747,084 | $187,073,800 |
| 1892 | 643 | 4,091,385 | $1,459,221,779 | $1,226,236,789 | 416 | 690,220 | $253,547,247 | $213,064,913 |
| 1893 | 649 | 4,290,712 | $1,550,820,403 | $1,292,350,336 | 381 | 539,887 | $234,330,554 | $195,275,462 |
| 1894 | 646 | 4,276,697 | $1,538,305,070 | $1,271,326,504 | 378 | 500,990 | $209,656,210 | $173,269,595 |
| 1895 | 664 | 4,393,519 | $1,596,370,596 | $1,308,500,489 | 353 | 482,000 | $214,226,427 | $175,595,432 |
| 1896 | 677 | 4,584,503 | $1,688,017,662 | $1,372,372,083 | 311 | 480,991 | $219,138,615 | $178,161,476 |
| 1897 | 668 | 4,691,444 | $1,736,404,825 | $1,400,326,472 | 312 | 509,688 | $202,971,210 | $163,686,460 |
| 1898 | 659 | 4,835,138 | $1,824,963,410 | $1,459,970,728 | 275 | 403,743 | $202,274,433 | $161,819,546 |
| 1899 | 655 | 5,079,732 | $1,960,709,131 | $1,556,118,358 | 287 | 443,870 | $218,759,168 | $173,618,387 |
| 1900 | 652 | 5,370,109 | $2,134,471,130 | $1,680,685,929 | 350 | 527,982 | $250,299,719 | $197,086,393 |
| 1901 | 660 | 5,612,434 | $2,260,273,524 | $1,765,838,691 | 347 | 487,374 | $256,569,769 | $200,445,132 |

Appendix 3 (cont.)

| Mutual Savings Banks | | | | | Stock Savings Banks | | | |
|---|---|---|---|---|---|---|---|---|
| 1902 | 657 | 5,870,859 | $2,380,200,804 | $1,845,116,902 | 379 | 517,934 | $269,903,682 | $209,227,660 |
| 1903 | 657 | 6,116,594 | $2,512,468,458 | $1,932,668,045 | 421 | 557,643 | $303,014,648 | $233,088,191 |
| 1904 | 668 | 6,286,375 | $2,602,040,775 | $1,986,290,668 | 489 | 602,171 | $316,734,554 | $241,782,102 |
| 1905 | 668 | 6,463,677 | $2,736,533,039 | $2,073,131,090 | 569 | 754,601 | $356,544,318 | $270,109,332 |
| 1906 | 678 | 6,753,037 | $2,908,710,654 | $2,187,000,492 | 641 | 742,165 | $390,833,917 | $293,860,088 |
| 1907 | 678 | 7,071,219 | $3,055,287,322 | $2,280,065,166 | 737 | 911,674 | $440,122,765 | $328,449,825 |
| 1908 | 676 | 7,137,481 | $3,065,686,012 | $2,270,878,527 | 777 | 950,585 | $413,506,879 | $306,301,392 |
| 1909 | 642 | N/A | $3,140,436,026 | $2,309,144,136 | 1,061 | N/A | $366,167,902 | $269,241,104 |
| 1910 | 638 | 7,481,649 | $3,360,563,842 | $2,452,966,308 | 1,121 | 1,301,654 | $451,759,956 | $329,751,793 |
| 1911 | 635 | 7,690,973 | $3,460,575,072 | $2,507,663,096 | N/A | N/A | N/A | N/A |
| 1912 | 630 | 7,851,377 | $3,608,657,828 | $2,596,156,711 | N/A | N/A | N/A | N/A |
| 1913 | 623 | 8,101,238 | $3,769,555,330 | $2,692,539,521 | N/A | N/A | N/A | N/A |
| 1914 | 634 | 8,274,418 | $3,915,143,400 | $2,776,697,447 | 1,466 | 2,228,020 | $835,448,768 | $592,516,857 |