

Banks that Serve the Farmer

A banking law secured by the Farmers' Alliance of Kansas that has revolutionized farm economics in the State

By Ex-Governor J. W. Leedy

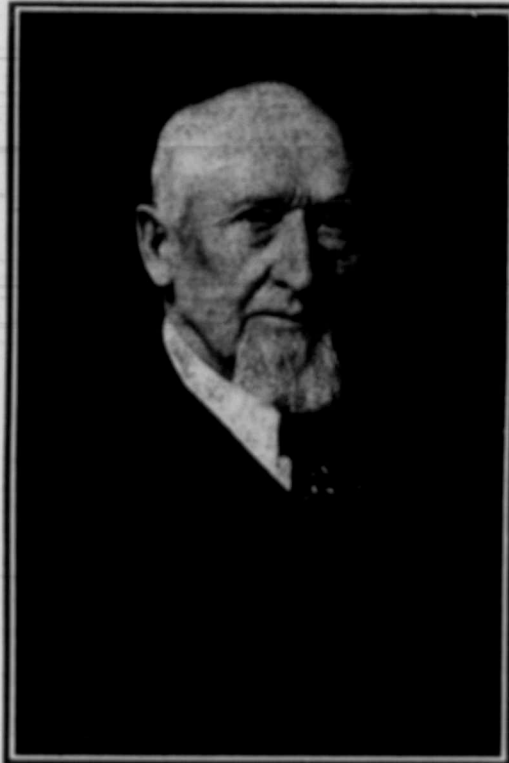
The Kansas Banking Law was forced on to the statute books of the State by the Farmers' Alliance of Kansas—a body of men that “looked and talked and acted.” Kansas has 105 counties. The Lower House of the Kansas Legislature consists of 125 members, and the Senate of 40 members. The Banking Law has been on the statute books of the State during the past twenty years, and during that time more than a thousand men have helped to mould the law into its present form. There are today no less than 943 bankers in the State of Kansas doing business under this law. The experience of these bankers has also been added to the wisdom of the legislators, so that it cannot be said today that the law is an experiment. It is a tried and proven practical piece of legislation, and has given such satisfaction to the people of the State of Kansas that no element—farmer, merchant or anyone else wants to repeal or change the law in any material way. The census of 1890 showed the State of Kansas to be the poorest State of the Union, the per capita wealth averaging only \$923. Today Kansas is the richest State in the Union. I do not know that this banking law is entitled to all the credit, by any means. There are three things which have contributed in a large way to the success of this law. One was a change made in the methods of agriculture, mainly the introduction of alfalfa and Kaffir corn as crops of the State. The thing which helped still more towards prosperity was the prohibition law. (Applause). But the thing which did most was this banking law. In 1890 the newspapers thruout the United States referred to the State of Kansas, as “bleeding Kansas—the land of cyclones, blizzards, floods, hot winds, droughts, grasshoppers, chinch bugs, crooked politicians and bankrupt farmers. (Laughter). Gentlemen, it was a true description in every detail. (Renewed laughter). Foreign capital had entirely ceased to go into the State. You could not borrow any money inside the State or out of it, and thousands of our farmers had begun to load up their stuff and get out. Kansas, like Western Canada, was homesteaded, and many men, who, in the better times prior to that, had succeeded in mortgaging their farms, walked off and let the mortgagees take the farms. Not only thousands, but tens of thousands of farmers, got out of the State, including many who had no mortgage on their land at all. At this time the farmers elected the lower house of the Legislature, and demanded that some law should be passed which would provide them with enough credit to enable them to stay in the country. Opposition was forthcoming, and bitter opposition it was, but the farmers' representatives stood the racket, and said they would not pass any appropriation bills unless they got the banking law. When the parties who were interested against the law found that it had to be allowed they sought to make the law obnoxious and inoperative in every way they could, so that, in the beginning, the law was a pretty crude affair. The farmers' party struggled along until 1897 when they captured both houses of the Legislature and the Executive, which placed them in the position to make the kind of law they wanted and the law that six years of experience had taught them was needed. The old law was repealed, a few sections of it that were good being embodied in the new law, which with two amendments to which I shall refer later, is the law now.

New Principles in Finance

The benefits which I shall quote have accrued since the passage of the law in 1897. The law was based upon some new principles in finance. In the first place we took the position that any bank which received public deposits, whether an incorporated concern or a private institution, was a quasi-public institution and should be supervised and regulated by the State. Every bank in the State of Kansas has to submit a sworn statement every six months, and as much oftener as it is required, to the Banking Department. These statements are given under oath and the banker has to give all the details and facts concerning his business. A deputy from the Bank Commissioner's office is liable to turn up any day with authority to see the bank's entire accounts, and if the banker has made a misstatement which amounts to a misdemeanor or a felony, it is mandatory upon the Bank Commissioner to go and file information with the county attorney. The banker is then prosecuted,

In this address delivered to the eighth annual convention of the United Farmers of Alberta held in Calgary recently, Hon. J. W. Leedy, ex-Governor of the State of Kansas, who is now an Alberta farmer residing at Whitecourt, in the new country northwest of Edmonton, describes the operation of the Kansas Banking Law. This law, says Hon. Mr. Leedy, was forced onto the statute books of the State by the Farmers' Alliance of Kansas, after years of struggle with interested parties in the State. By the establishment of small local banks, he tells how the State lost its reputation for bankrupt farmers and became the richest State in the Union. Mr. Leedy came to Canada on account of failing health eight years ago, taking up a homestead at Whitecourt, Alberta, which he proved up some years ago.

and if convicted is sent to the penitentiary with any other felon. While we had at first to send some we have had to send very few latterly. When I came into office as governor there were four bankers in the penitentiary beseeching me for pardon.



J. W. LEEDY
Ex-Governor of Kansas

The last to be convicted was Mr. Flack, of Aveline, six years ago. Altho, since then, several banks have had to suspend, this was the only banker doing anything which would justify a conviction. Mr. Flack has been in the Kansas Penitentiary four years. A short time ago he applied to the Board of Pardons to have a hearing. This was what the Board said to him:—

“We had to make these bonds so that people would have confidence in them and put money in them. John H. Flack must serve thirteen years of his prison term before he is liable to parole.”

Flack was sentenced for seventeen years. That was the ruling made by the Kansas Board of Pardons last week. Don't you think every banker in Kansas knows when Flack was convicted and when his time is out? He is a standing warning to the rest of them.

Liberty in Making Loans

This law was based upon another new principle in banking—the idea that a bank must render efficient service to the community, in which it is located, as well as dividends to the stockholders. (Applause). We had to find a way to ensure that this would be done and we did. It is hard to express to a Canadian audience certain ideas about banking; the system is so different in this country. Here everybody has the idea that the larger a bank is the better it is, and that the bank which has from \$20,000,000 to \$40,000,000 capital is the best

one to patronize. In Kansas we took a different view. Our view was that the smaller a bank was, the more efficient service it would give. We allowed our banks to be incorporated for the small sum of \$10,000, and in the beginning 943 banks were incorporated at sums mostly less than \$15,000. There is a provision in our law that when the deposits of these banks, for six consecutive months, exceed ten times the capital of the bank, then the capital must be increased. Many of these banks which started in little cross-road towns with \$10,000 capital have since been forced by overplus of deposits to increase their capital. There are still, however, some 200 to 300 of them

on the \$10,000 basis, as new banks are all the time being started. Another difference between our banks and the banks of Canada is the way in which they loan money. It is entirely different in Canada. In Canada the banks can loan money to farmers upon threshed grain raised upon their own farms. We thought differently about that. We wanted the bank directors to be given the largest liberty in making loans, and provision was made so that the banker might loan money on real estate, chattels or personal security, which included every kind of tangible asset, the loan to bear a rate of interest not to exceed the rate allowed by law. The question has been raised at this convention about cheap money. We were looking for any kind of money that we could lay our hands on. (Laughter.) At that time the legal rate of interest was 12 per cent.; the legislature has since reduced it to ten, and I have a letter from the Bank Commissioner telling me that today the bulk of loans made are at the rate of seven or eight per cent., but strictly first-class loans are made at as low as six per cent. Another provision is that the majority of the bank directors shall be residents of the county or adjoining counties to that in which the bank is located. We put the banker on to his job and he stays there.

The Security of Character

I will tell you how the law worked out in my own county, which is typical of what took place elsewhere thruout the state. At the time this law was passed there were two national banks in my county, located at the county seat, also one private bank. This county is twenty four by thirty miles in extent, and in addition to the three large banks there were nine little banks, or twelve in all. It is easy to see, therefore, that no man would be very far from a bank. That is what we wanted, because one of the first principles of a bank—and it is a vital one—is that the banker should know his man. Every man's character in the banking business is either an asset or a liability. We wanted our banker to know every man who would come within the circle of the bank's influence, to the end that he might give credit to every citizen who was worthy of it. The opinion seems to be in this country that a bank should not loan money, except on some solid security, such as wheat, which has a cash value in the market every morning. I have pretty eminent authority for saying that this is not the whole duty of a bank. I think it will be conceded that the late Pierpont Morgan was something of a banker. A short time before he died he gave information before a congressional commission of the United States that he did not always loan money on security, but that he often loaned it on character. If he knew that a man was honest and capable then he would loan him a million dollars without any security. So in Kansas we tried to make every man's character an asset and we could only do that by making the banks small and local, so that the banker would know personally the man who came to him for a loan.

The Moral Effect

I give the prohibition law of Kansas a very great deal of credit for making it better off and improving the morals within the state, but I want to say that the banking law had as much to do with the morals of the state of Kansas as the prohibition law. Very much to my astonishment and surprise it was that I observed this result, for I had made hundreds of speeches in Kansas on the banking law before we got it passed, and it never occurred to me that it would have this result. Nor did I ever hear another man who argued that this law would have a moral effect on the community. I will tell what happened in my town, and it hap-

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