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# Protecting Small Savers: The Political Economy of Economic Security

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Article



## Protecting Small Savers:The Political Economy of Economic Security

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> Admitting, then, that it is eminently desirable to reduce the action of the organized public force to the minimum . . . shall we not say that government can not relieve itself from the necessity of frequent and minute interferences with industry in any other way to so great an extent as by, 1st, insisting on the thorough primary education of the whole population; 2d, providing a strict system of sanitary administration; 3d, securing by special precautions the integrity of banks of savings for the encouragement of the instincts of frugality, sobriety, and industry? Each of these things is contrary to the doctrine of Laissez faire; yet I, for one, can not find room to doubt that, on purely economical grounds, the action of the State herein is not only justifiable but a matter of elementary duty.
>
> —Francis Amasa Walker, *The Wages Question: A Treatise on Wages and the Wages Class (1876)*

In his 1876 history of savings banks in the United States, New York State bank regulator Emerson Keyes tried to explain the rapid rise of this financial institution since its origins in the early republic. In the past half-century, Keyes observed, savings banks had grown faster than any other major financial institution in the United States. For millions of Americans, they were the first financial institution of any kind in which they had invested. By the 1870s, savings banks held between a quarter and a third of all the wealth in all the financial institutions in the **[End Page 126]** country.[1] What, then, was the fundamental cause or concern that had given rise to such a vital and dynamic institution? "In a word," Keyes concluded, it was "Poverty!"[2]

Savings banks were the most important of a host of novel financial institutions that nineteenth-century lawmakers promoted and regulated for the purpose of enhancing economic security among working-class Americans. Like benefit societies and building and loan associations, which they in certain respects resembled, they were not supposed to extend credit to businesses—the principal activity of commercial banks. Instead, they were designed to encourage the accumulation of personal savings for periods of economic distress and, in this way, prevent dependence on public relief. Benefit societies offered insurance in cases of illness, injury, or death. Building and loan associations guaranteed small-denomination mortgage loans to buy homes. Savings banks provided a safe repository for the accumulation of nest eggs that could be withdrawn during periods of unemployment and hardship, and in old age.[3]

This essay on the regulation of savings banks in the nineteenth-century Northeast takes as its theme the emergence of a coherent body of law designed to ensure the economic security of small savers.[4] During the nineteenth century, various governmental institutions —including, above all, state legislatures and courts—designed an enduring and effective regulatory regime to protect small savers from the risks of the financial market. By crafting and implementing legal rules for savings banks that favored stability over competition and security over high returns, lawmakers enshrined the economic security of the household as a paramount policy goal.

This conclusion differs markedly from most traditional accounts of nineteenth-century American economic policy. Political and legal historians have long contended that governmental institutions in this period were preoccupied not with economic security but with dynamic growth.[5] Economic historians have reached a similar conclusion.[6] Both presume that *lasting* regulatory safeguards for small savers emerged in response to twentieth-century financial crises, most notably the Great Depression of the 1930s, rather than to formative nineteenth-century concerns over the economic security of households in a market economy.[7]

Following a brief introduction that sets forth the nineteenth-century lawmakers' rationale for protecting small savers, this essay chronicles the emergence of savings bank regulation in three sections. The first section surveys the regulations lawmakers enacted to limit competition between savings banks; the second, the restrictions they placed on the contracts **[End Page 127]** savings banks entered into; and the third, the fiduciary standards they established to evaluate the conduct of savings bank trustees.[8]

The financial system in the northeastern United States during...

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