Organizational Form and Industry Emergence: Nonprofit and Mutual Firms in the Development of the U.S. Personal Finance Industry

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This article examines historical variations in the ownership and governance of firms in the U.S. personal finance industry between the early nineteenth century and the Great Depression. It focuses, in particular, on mutual savings banks and their role in the development of the intermediated market for savings accounts. Economic theories of commercial nonprofits and mutuals usually emphasise the advantages of such ownership and governance structures in reducing agency and monitoring costs in markets that suffer from information asymmetries in exchanges between firms and their customers. While I find some evidence to support these theories, I also find that mutual savings banks predominated in the early years of the industry because the form offered entrepreneurial advantages over investor-owned corporations and because in some states they benefitted from regulatory and political advantages that joint-stock savings banks lacked. Their relative decline by the early twentieth century was the result of increasing competition in the market for savings deposits, the loosening of regulatory barriers to entry, and changes in public policy that reduced the transaction, innovation and regulatory advantages that the mutual savings bank form had once held. The article draws out the theoretical implications for our understanding of the historical role of nonprofit and mutual firms.

Keywords: nonprofit; trusteeship; mutual; cooperative; savings banks; governance; ownership; organizational form; entrepreneurship; innovation.

Introduction

In recent years, business historians have devoted increasing attention to understanding variation in the organizational forms of modern enterprise. Qualifying the Chandlerian synthesis, scholars have pointed to the persistent competitiveness of a variety of organizational types, including family firms, startups, SMEs, and partnerships, to name a few (Colli & Rose, 2007; Jones & Wadhwani, 2007; Lamoreaux, 1998; Zeitlin, 2007). Yet, on the whole, there has been relatively little attention given to understanding the competitive advantages of mutual and nonprofit organizations (Pearson, 2002; Shaw & Alexander, 2008). In industries such as healthcare, education, agriculture, utilities, social services, and personal finance, nonprofits and mutuals played pivotal roles in innovation and market development. Why did these forms develop in some sectors of the economy and not in others? What advantages did they have over joint-stock corporations, partnerships, and other ways of organising the ownership and governance structure of the firm in such situations?

This article examines the role of the nonprofit and mutual forms in the development of the mass market for personal finance in the United States. Throughout most of the nineteenth century and into the early twentieth, these organizational forms played important roles in the development of financial services for ordinary households. Nonprofit and mutual firms were, in fact, pivotal in the development of intermediated markets for small-denomination savings accounts, mortgage loans, life insurance and consumer loans between the early nineteenth century and the Great Depression (Calder, 2001; Mason, 2005; Murphy, 2010; Olmstead, 1976; Wadhwani, 2002). In order to examine more closely the conditions under which they held comparative advantages over joint-stock firms, the article focuses specifically on the role of mutual savings banks in the development of the market for savings accounts in the United States.

The predominant economic and financial theories regarding the competitive advantages of nonprofits and mutuals focus on their benefits in reducing transaction costs in markets that suffer from information asymmetries in exchanges between firms and their customers (Hansmann, 1980, 1989, 1996; Rasmusen, 1988; Valentinov, 1997). While I find substantial historical evidence supporting such an explanation for the advantages of mutual savings banks over their investor-owned counterparts, I also show that these explanations are incomplete in accounting for patterns of organizational development and industry evolution. Specifically, I find that mutual savings banks predominated in the very early years of the industry because they held significant innovation advantages in personal finance, and because in some states they benefitted from legal, regulatory, and political legitimacy that investor-owned intermediaries lacked. The decline of this corporate form over time resulted from maturation and growing competition in the market for savings accounts, the development of a dual regulatory structure for banks that had unintended consequences for mutual savings banks, and the introduction of federal deposit insurance, the combination of which reduced the transaction, regulatory, and innovation advantages that the form had once enjoyed.

The article begins by defining the ownership and governance structure of the mutual savings bank and by briefly describing their role in the historical development of the market for savings accounts in the United States. The next three sections examine a series of theoretical explanations – transaction cost, entrepreneurial advantages, and regulatory legitimacy – for the role of the mutual savings bank form in the development of the mass market for the product. I conclude with a discussion that briefly extends the argument to the development of other markets for personal finance and by drawing out the broader implications of the article for research on the role of nonprofit and mutual firms in the development of modern enterprise.

The ownership and governance of mutual savings banks

The 'ownership' of firms can be thought of as constituted by two distinct rights: the right to the residual profits of the firm and the right to control management of the firm (Jensen, 2000). In the classical joint-stock company, shareholders have both the right to the residual profits of the company and the formal right to choose management and make rules for the firm. Though large, modern joint-stock firms delegate control to professional managers, formal rights to choose managers and change rules are retained by shareholders. In mutual (or cooperative) organizations, in contrast, ownership and governance rights rest with member-customers rather than with a distinct class of shareholders. Members hence benefit as both customers receiving the services of the firm as well as by their standing as 'owners' (Hansmann, 1996). In early building and loan associations, for instance, members benefited from the services of the firm and had *both* a pro-rata right to the surpluses of the association as well as rights to choose the management and amend the rules of the organization.

Despite their name, most 'mutual' savings banks in the United States had a more complex ownership structure than pure mutuals in that they legally separated the right to residual profits from the right of control. Savings depositors in mutual savings banks had a right to the earnings of the savings bank, but no right to choose management or define rules for the organization; rather legal control rested with independent trustees, who volunteered to manage the firm on behalf of the depositors and were legally prohibited from receiving direct financial benefits for their services.[1] Economists and legal scholars sometimes label such firms 'commercial nonprofits', to distinguish their governance structure from purely mutual organizations, as well as to indicate the constraints on those who legally control the firm from taking its residual profits (Hansmann, 1996, p. 246; Steinberg, 2006).[2] A more intuitive name is the one the British assigned to such organizations – *trustee* savings banks – as it better captures the role of organizational trustees controlling the firm on behalf of their depositor

beneficiaries. Substantively, the label given to such organizations is less important than the question of why we see such variations in the ownership and governance structures of firms. Under what historical conditions do firms in an industry allocate ownership or governance rights to customers or independent trustees rather than to a group of shareholding investors?

The development of the intermediated market for personal savings in the United States between the early nineteenth century and the Great Depression of the 1930s is a good setting for examining this question because of the variations this market witnessed in the ownership and governance structure of firms over time and place. Mutual savings banks were the first intermediaries established specifically to provide such a service to ordinary citizens, and controlled the largest share of the market for individual savings accounts throughout most of the nineteenth century. They predominated in the industrial, urban regions of the Northeast and Mid-Atlantic. By 1929, in contrast, a host of investor-owned financial intermediaries offered opportunities for ordinary Americans to save, displacing the market leading role played by mutual savings banks.

Modelled after British 'trustee savings banks', mutual savings banks were first established in the United States in 1816 as charitable organizations designed to provide working households a secure venue for saving for illness, unemployment and old age (Horne, 1947; Moss and Slaven, 1992; Moss and Russell, 1994). Promoters argued that working households had few options for such precautionary saving: commercial banks did not accept interest-bearing deposits, securities markets were beyond the means of most and offered limited diversification for small investors, and most small savers were easily taken advantage of when they lent their savings directly to others.[3] Mutual savings banks were hence designed to accept deposits of as little as one dollar, invest the pooled money in prescribed safe asset classes, and distribute the earnings through semiannual dividends to depositors. The trustees of the organization retained control, running it on behalf of the savers, taking deposits,

investing the funds, and paying dividends (Olmstead, 1976; Wadhwani, 2002). By the 1870s, there were over two million mutual savings bank depositors in the United States and these institutions accounted for almost a quarter of the financial assets under management by intermediaries (White, 1998).

*****Figure 1 about here*****

Moreover, as Figure 1 shows, their success led other intermediaries, such as joint-stock savings banks, commercial banks, trust companies, and building and loan associations to eventually develop similar depository services. Joint-stock savings banks began to be formed in the 1830s, approximately fifteen years after the first wave of mutual savings banks were established. Stock savings banks were defined by their distinct class of shareholders who held both the right of control and the right to surplus profits of the organization after depositors had been paid interest. Such organizations account for a significant minority of savings banks established during the antebellum period. A handful of truly cooperative savings banks (in which depositors were given voting rights) and a few hybrid organizations, in which depositors and shareholders divided profits on the basis of the money they paid in, were also established. While joint-stock and hybrid savings banks accounted for a small share of the overall market for savings accounts, as Table 1 shows, they played an important role in extending savings accounts into the smaller communities in the West, Midwest, and South, where mutual savings banks never established a strong presence. In important respects, stock savings banks were precursors to the eventual expansion of investor-owned commercial banks and trust companies into the market for time and savings accounts in the late nineteenth and early twentieth centuries. Unlike joint-stock savings banks, commercial banks did eventually eclipse the mutual savings bank in the market for personal savings. Building and loan associations, initially established as mutuals based on a British model for the

provision of residential mortgage financing, also increasingly competed with mutual savings banks in the market for personal savings (Mason, 2005).

*****Table 1 about here*****

These variations over time and place in the ownership and governance structure of the intermediaries in the market for personal savings thus offer us an opportunity to examine the historical conditions under which mutual savings banks did and did not hold advantages over their joint-stock and cooperative counterparts. How should we understand the prominent role of mutual savings banks in the early development of the market for personal savings? What advantages did their ownership and governance structures have over joint-stock corporations, partnerships, and other ways of organising the ownership and governance structure of the firm? Why did these advantages not transfer to the smaller developing economies of the Southern and Western United States, where joint-stock intermediaries predominated in savings markets? And, why did joint-stock intermediaries, such as commercial banks, gain a growing share of the market over time, eclipsing mutual savings banks in the market for savings deposits by the Great Depression? To better understand the historical reasons for these variations in ownership and governance over time and place, I next examine three related theories supporting the comparative advantages of mutual savings banks and consider how effectively they explain the patterns of historical development.

Transaction costs and governance advantages

The leading economic explanation for the predominance of 'commercial nonprofits' and 'cooperatives' in certain sectors focuses on the advantages of such forms in markets that suffer from information asymmetries in transactions between firms and their customers (Hansmann, 1980, 1989, 1996; Rasmusen, 1988; Valentinov, 1997). Under such conditions, firms or customers may be able to act opportunistically in dealing with one another, and the

costs of gathering information and monitoring performance to ensure that the other party does not act opportunistically are high.[4] In these situations mutuals and nonprofits may have advantages over investor-owned firms because transferring ownership rights out of the hands of a separate investor class eliminates much of the incentive for the firm or the customer to behave opportunistically, in turn reducing the information and monitoring costs of the transaction.

Customer-owned mutuals or cooperatives reduce the incentives and ability to act opportunistically because customers themselves have the rights to control and profits and are able to better monitor the organization. The information and monitoring costs of such transactions are lower because the form taps into customers' existing knowledge of one another and increases the social sanctions for acting opportunistically (Guinnane, 2001; Hansmann, 1996, pp. 149-226).

Trustee-governed commercial nonprofits address these information and monitoring problems somewhat differently. As defined by legal scholars and economists who use the transaction-cost approach, these are organizations managed by trustees who provide paid services to beneficiaries but are themselves barred from capturing the surpluses (profits) generated by their business. The 'non-distribution constraint' on surpluses that binds trustees in their obligations to beneficiaries theoretically eliminates much of the incentive for the firm to act opportunistically vis-à-vis customers because the trustees who control the firm are legally barred from benefitting from opportunistic behaviour by the firm (Hansmann, 1996, pp. 226-245; Steinberg, 2006).

Relying on secondary sources, Rasmusen (1988) and Hansmann (1989, 1996) have pointed to the predominance of nonprofits and mutuals in nineteenth-century personal finance as support for governance-based explanations of the determinants of corporate ownership and control. Depositors trusted trustee-managed savings banks over investor-owned ones,

Hansmann reasons, because the 'nondistribution constraint' on profits reduced the incentive for the firm to take advantage of the information asymmetries small savers faced in turning over their money to a savings bank.

Historical records offer considerable support for the governance-based explanation of organizational form. Small savers were often in a poor position to evaluate depository institutions or monitor their use of funds. The quality and timeliness of information available for such institutions was limited and often self-reported, and many small savers lacked the knowledge and financial literacy to appropriately interpret and analyze the information.[5] These limitations on depositor ability to judge the quality and value of the services of financial intermediaries were combined with a broad public distrust in the commercial banking sector. High failure rates, reports of questionable banknote practices, and the existence of insider lending in some parts of the country laid the basis for the public's fear of commercial bank opportunism, which was further fuelled by anti-bank political rhetoric (Bodenhorn, 2003, pp. 186-191; Lamoreaux, 1996, pp. 31-51; Mihm, 2007).

In this context, mutual savings banks highlighted the constraint on distributions to trustees in their public communications as an important reason for their trustworthiness. A pamphlet developed by the Philadelphia Saving Fund Society (PSFS), the first savings bank established in the United States, explained that in 'the establishment of the Saving Fund Society no views of individual interest prevailed among the personnel who originated and who now conduct it' and emphasised the 'disinterestedness of those who are its agents' (Willcox, 1916, p. 32). The trustees of the Provident Institution for Saving in Boston likewise advertised that they would 'take no emolument or pay for their service, having undertaken it solely to promote the interests of the town, and of the persons … described who may put their money therein' (Whitehill, 1966, pp. 12, 19).

Given the importance of the nondistribution constraint in the governance structure of savings banks, state lawmakers devoted considerable attention to ensuring that surpluses were not channelled to trustees in alternative ways, such as through salaries, commissions, or loans on favourable terms. Mutual savings bank trustees were legally prohibited from receiving any compensation in their function as trustees. Salaries, when paid to presidents, treasurers, and other officers who spent most of their time managing a savings bank, were sometimes regulated by state governments (Keyes, 1876, pp. 136-137).[6] More importantly, regulations prevented or limited trustees from borrowing their own institution's funds (Willcox, 1916, p. 219). In Massachusetts, where insider lending was quite common among commercial banks, the restrictions on borrowing by trustees were somewhat more relaxed. But even in that state, legislation prohibited trustees involved in lending decisions from borrowing funds (Keyes, 1876, pp. 47-50).[7] Moreover, by the late nineteenth century trustee obligations and duties became increasingly well elaborated in the fiduciary standards set by common law. Table 2 summarises some of the key legal safeguards against opportunistic behaviour by trustees that the governance structure of mutual savings banks sought to ensure.

*****Insert Table 2 about here*****

In contrast, the savings banks established as joint-stock corporations were subject to few of these protections. Stockholders retained rights to the profits of the corporation and could reap economic benefits in many forms, including through dividends, salaries, and loans. High failure rates amongst such joint-stock institutions during the recurring financial panics and recessions of the nineteenth century combined with high-profile cases of fraud highlighted the risks of opportunism such institutions posed (Keyes, 1878, pp. 381-383; Wadhwani, 2010). Public officials sometimes articulated this in terms of an inherent conflict of interest between investors in joint-stock intermediaries and small depositors, suggesting that small savers were poorly positioned to protect their own interests. In an 1836 case

involving a savings bank that was formed as a joint-stock corporation, for instance, the Pennsylvania Supreme Court articulated these 'antagonistic interests':

> [T]he interest of the stockholders is in some measure in opposition to the interest of the depositors. It is for the benefit of the one to decrease, and of the other to increase the rate of interest on deposits; and hence, there may be a peculiar propriety in the Legislature to entrust the control of the funds to persons who have no pecuniary interest in the corporation. (Wharton, 1836, p. 467)

In contrast, the constraint that the mutual savings bank form placed on trustees' ability to profit from their control was considered a defining feature of the institution, and one that was indeed understood to be critical in protecting small savers from opportunism (Paine, 1894, pp. 206-210).

As a result, where available, mutual savings banks were preferred by small savers, especially in times of uncertainty. Although little systematic information on stock savings banks is available for the antebellum period, as Table 3 shows, the average mutual savings bank garnered far greater numbers of depositors than joint-stock savings banks in the post-bellum U.S. Overall, there were more than 5 times as many savings depositors in the average mutual savings bank by 1900 as in stock savings banks. These differentials in the size of mutual savings banks seem to hold even when we take into account the population density of the areas in which savings bank operated. As Table 3 indicates, mutual savings banks were consistently larger (in terms of number of depositors) than their joint-stock counterparts, even when we compare the two at a state level.

*****Insert Table 3 about here*****

Historical evidence on both the constraints on opportunism created by the ownership and governance structure of mutual savings banks, as well as the relative stability of mutual compared to stock savings banks, thus supports a transaction cost rationale for the

comparative advantage of the former in garnering the trust of small savers. By itself, however, such an explanation is limited in its ability to explain temporal and geographic variations in the ownership and governance of firms in the developing market for savings accounts. The mix of mutual and stock savings banks, for instance, was not the same across the United States; trustee-managed institutions predominated in the Northeast, while joint-stock savings banks and commercial banks predominated in the South and West. Moreover, while mutual savings banks played a particularly important role during the *early* stages of market development, joint-stock intermediaries gained a growing share of the market for savings accounts in the late nineteenth and early twentieth centuries. Why did corporate form differ in such ways over time and place? To understand these patterns, we have to complement transaction cost theories that focus on the exchange between firms and customers with explanations that take into account the entrepreneurial advantages of these forms and their political and legal legitimacy in the nineteenth-century U.S.

Shifting entrepreneurial advantages

Theories of entrepreneurship typically examine one or more of three functional roles for entrepreneurs in markets: the identification of opportunities for the creation of future goods and services (Kirzner, 1997); the ability to deal with the uncertainties inherent in introducing such goods and services (Knight, 1921); and the ability to pull together new combinations of resources necessary to create those goods and services (Schumpeter, 1934). An integrated entrepreneurial perspective (Casson, 1982) that takes these processes into account allows us to better understand the variations we encounter over time and place in the ownership and governance structures of firms in the market for personal savings. The mutual form, as we will see, held significant entrepreneurial advantages in the northeastern U.S. during the very early period of market development, but these advantages diminished rapidly over time as

fundamental uncertainties about the product were removed and as the relative costs of the trusteeship form rose. Instead, conditions began favouring new entrants organised as joint-stock intermediaries.

*****Insert Figure 2 about here.*****

As Figure 2 shows, the first wave of savings banks established in the 1810s in the United States were all organised as trusteeships operated on behalf of depositors. By 1820 there were 10 such mutual savings banks, and by 1830 their number had risen to thirty-five. The first joint-stock savings bank was not organised until 1827, when the New Orleans Savings Bank was incorporated, by which time approximately 25 to 30 mutual savings banks were already in existence (Comptroller, 1920, Vol. 1, p. 241; Sylla & Wright, 2011).

One factor that shaped the establishment of the earliest savings banks as trusteeships rather than as joint-stock corporations was their founders' understanding of the future value of the service they were creating. Founders were motivated by the prospects of creating savings accounts not solely for the private benefits that might accrue to savers, but also for the 'public good' such an institution seemed to foster. Few early incorporators saw the direct financial returns to such an innovation as high for the enterprising organization, but they did see significant future value in the organised promotion of thrift as a public good (Olmstead, 1976; Wadhwani, 2002). Early incorporators almost uniformly pointed to such public benefits in explaining their motives for establishing mutual savings banks, both in public documents and private correspondence. Thomas Eddy, a founder of the Bank for Savings in New York, wrote that 'a more desirable mode of promoting the benefit of the poor cannot perhaps be devised' (Eddy, Lewis, & Eastburn, 1816). Roberts Vaux and the founders of PSFS claimed that 'of the charitable institutions that have had for their object the amelioration of the human condition, none perhaps deserve higher commendation' (Willcox, 1916, p. 25). The trusteeship form served as a better organizational vehicle than the joint-

stock form for such an endeavour because the value of the innovation was perceived to be as much public as private; in contrast, the profit-oriented focus of the joint-stock form provided little incentive to take into account the public value of the innovation.

The trusteeship form also offered entrepreneurial advantages in reducing uncertainty and marshalling the resources associated with the savings banking business model. The nonprofit board structure allowed the organizations to recruit trustees from the charitable and public sectors, as well as from finance. Table 4 shows the backgrounds of the founding trustees of the first three savings banks established in the United States. As indicated, these boards included members with intimate knowledge of financial markets based on mercantile backgrounds, as well as trustees with an understanding of the financial needs of working people and the charitable and public sector network to reach them as customers. Trustee connections to charitable and public institutions proved to be an important foundation for marketing and educating the public about the new service. The founders of PSFS, for instance, believed they could call on the 'pastors of religious congregations, preceptors of schools, heads of families, master mechanics, guardians of orphans, officers and members of economical and charitable societies' to serve as 'active agents in promoting and recommending the purposes of the Saving Fund Society' (Willcox, 1916, p. 34). In other cases, the cross-sector composition of mutual savings bank boards proved instrumental in gaining facilities appropriate for serving the public. The form hence allowed the combination of resources and capabilities needed to introduce the new service.

*****Insert Table 4 about here*****

The cross-sector board structure also offered better access to information about small savers that was essential in assessing the risks associated with introducing savings accounts for the public. While the early commercial banks of merchant financiers developed information advantages in dealing with commercial borrowers, they lacked systematic

information about the nature of ordinary household economics and finances. In contrast, the heads of charities and public institutions had insight into working-class household budgets gained from their charitable work. Since the late eighteenth century, poor-relief reformers had gathered and shared a growing body of knowledge and information about the working-class economy that not only placed them in a better position to understand the opportunity for introducing savings accounts, but also for dealing with the risks of establishing such a service (Wadhwani, 2002).

The early entrepreneurial advantages held by mutual savings banks, however, were not permanent ones. The initial wave of mutual savings bank incorporations was followed in the 1830s with a wave of incorporations of joint-stock savings banks, though many of these failed in the subsequent panic and depression of the late 1830s and early 1840s. A similar boom and bust pattern in stock savings bank incorporations followed in the 1850s. Although many of these antebellum stock savings banks did not survive for long, their emergence signalled a growing interest in establishing savings institutions for private gain rather than on the trusteeship basis. By the late nineteenth century, the number of newly established stock savings banks was outpacing the establishment of mutual savings banks. The changing ownership and governance form of new entrants into the market for personal savings can be explained by several developments that shifted entrepreneurial advantages from firms organised as trusteeships to ones organised on a joint-stock basis.

As mutual savings banks proved the viability of offering savings accounts to the public, the prospects of serving small savers became increasingly clear to potential new entrants motivated primarily by profit. The success and growth of mutual savings banks and their growing surpluses made the once-unclear costs of establishing such a service more transparent. The proof created by mutual savings banks led new entrants to believe that savings accounts could serve as an attractive source of low-cost, long-term funds for joint-

stock or private financial institutions. Philadelphia glass manufacturer Thomas Dyott, for instance, established a private savings bank in 1836 as a way of funding the expansion of his glass factory because he believed it to be a less expensive source of financing than available through the city's capital markets (Wadhwani, 2010). The attraction to savings accounts as an inexpensive source of funds was even stronger in the capital-scarce, high-interest-rate regions of the mid-West and West. In Chicago, where interest rates were significantly higher than on the East Coast, 25 of the city's 26 savings banks in 1876 were organised as joint-stock corporations (Keyes, 1878, p. 430). As the relative costs of offering small-denomination savings accounts were discovered to be low, the motive to establish savings banks on a private, joint-stock basis increased. Thus, in one sense, mutual savings banks served an important but transient entrepreneurial role in 'discovering' the costs and removing the risks of introducing an innovative new service.

At the same time, the relative costs of establishing savings banks as nonprofit trusteeships actually increased over the course of the century. The constraints on distributions and legal standards of trusteeship that made mutual savings banks attractive to depositors from a governance perspective also exacted a heavy and increasing burden in terms of costs and risks to trustees. Not only were trustees of mutual savings banks required to serve without compensation in most instances, but many courts and legislatures exposed them to increasingly high levels of personal liability as a condition of their position. General savings bank laws passed in Wisconsin in 1858 and Minnesota in 1867 held mutual savings bank trustees personally liable for the losses of the institution. Emerson Keyes (1878, pp. 433-445), a New York bank regulator, dubbed these 'disabling acts' for they set such a high standard for mutual savings bank trustees and exposed them to such significant risks that few were willing to incorporate mutual savings banks under such terms. By the early twentieth century, some states also required the incorporators of mutual savings banks to provide

significant amounts of initial risk capital in establishing the firm, with the understanding that there was no chance of gaining a return. New York, for instance, required mutual savings bank incorporators to effectively donate $10,000 in risk capital to establish a mutual savings bank, and set milestones they needed to achieve before receiving this money back without interest (Bennett, 1924, pp. 104-105). Thus, over the nineteenth century the costs of establishing a trustee-governed mutual savings bank increased, while the risks of establishing a joint-stock savings bank decreased.

*****Insert Figure 3 about here*****

As Figure 3 suggests, the shift in the relative costs and benefits of establishing a savings bank as a joint-stock rather than a trustee-managed firm led to divergent trends in incorporations over time. Though older, established mutual savings banks retained the advantages of age and reputation, new incorporations of mutual savings banks came to a virtual halt by the late nineteenth century. The number of mutual savings banks in the United States never grew significantly again. In contrast, the number of joint-stock savings banks soared, particularly in areas of the country where mutual savings banks were not already established. (As the next section shows, this growth was due to regulatory as well as entrepreneurial factors.) By 1910 there were nearly three times as many joint-stock savings banks as mutual savings banks reporting their condition to the U.S. Comptroller of the Currency, and many more that were listed as state commercial banks. ‘It is unfortunate that the incentive to start new savings banks, that shall pay some profit to stockholders, is so much greater, than the incentive to start a savings bank which gives all its earnings to depositors,’ lamented business journalist Frank Bennett (1923, p. 103). ‘As a matter of fact, not only is there no incentive … but there are some distinct obstacles in the way of starting a new institution of this type.’

The relative benefits of establishing a savings bank as a joint-stock firm were amplified in smaller towns and cities where there were relatively few depositors and a limited supply of entrepreneurial and managerial talent for running financial institutions. In such settings, it was rare to find a supply of trustees willing to operate a savings bank without compensation or the prospects of profit, and difficult to sustain a mutual savings bank with only a small wage-earning population to draw from. From the point of view of a small town bank manager, in contrast, diversification into savings accounts was a very attractive way to grow and to manage risks in the supply of funds. While a 'pure' saving account business was unsustainable in such settings, the establishment of a more diversified set of banking services that included commercial banking as well savings banking activities allowed small community banks to diversify their risks and create more sustainable organizations. The Ann Arbor Savings Bank, for instance, like many of the savings banks of Michigan simply kept separate accounts for commercial and savings deposits, paying interest only on the latter, but generally acting as 'banks of discount and deposit' (Keyes, 1878, pp. 402-404). Moreover, in such smaller environments, a community bank and its well-known managers were not at a substantial trust disadvantage in dealing with the public because depositors were often familiar with their local community banker.

Figure 4, which draws from late nineteenth century reports to the U.S. Comptroller of the Currency, shows that these stock savings banks were not just different in their ownership and governance structure, but also in the fundamental makeup of their balance sheets. On average, joint-stock savings banks engaged more extensively in discounting of notes and lending on personal security than mutual savings banks, a reflection of the fact that their savings banking services were really integrated with extensive commercial bank activities. A.W. Brockway, the cashier of the Brownsville Savings Bank of Brownsville, Texas, explained in 1876 that while they offered savings accounts, 'our business is chiefly

commercial, and has from the first been quite satisfactory in that respect' (Keyes, 1878, p. 485). In states like Massachusetts and New York, where there were legal prohibitions on establishing savings banks as joint-stock corporations, small-town mutual savings banks were often established with interlocking relationships and shared resources with commercial banks – much to the chagrin of regulators. In 1860, for instance, the Massachusetts bank commissioners found that 27 savings banks were 'located in the same rooms with banks of discount, and managed by the same officers' (Condition, 1861, p. 83). Thus, in settings with a low density of wage earners the motivation for commercial bankers to incorporate as diversified 'stock savings banks' was especially strong, and their likely familiarity with the public may have muted concerns about opportunism in transactions with small savers.

*****Insert Figure 4 here*****

In fact, the growing number of joint-stock savings banks in the late nineteenth century U.S. signalled the beginnings of a broader shift away from mutual savings banks and toward diversified intermediaries that provided savings and time deposit accounts as part of a range of financial services. It was the entry of trust companies and diversified commercial banks into the market for savings accounts that would lead to a precipitous decline in mutual savings banks' share of that market. As was the case with joint-stock savings banks, commercial bank expansion into savings deposits began in the South and West, where such smaller institutions had strong incentives to offer savings accounts, and fewer barriers to establishing them. By the early twentieth century, the success of this movement led commercial banks in the mutual savings bank strongholds of the Northeast to move aggressively into savings accounts (Response to Change, 1965, pp. 14-40). Between 1880 and 1929, time and savings deposits were in fact the fastest growing liability on commercial bank balance sheets. As Figure 5 shows, mutual savings bank market share of total individual

savings in depository institutions declined from 87% to 29% between 1880 and 1929 (Lintner, 1948, pp. 59-70).

*****Insert Figure 5 here*****

The changing dynamics of entrepreneurial supply hence helps us better account for temporal and geographic patterns of firm ownership and governance in the market for savings accounts over the course of the nineteenth and early twentieth centuries. Mutual savings banks were especially important during the initial emergence of the market for intermediated savings accounts because the service itself was considered a public good, and because the cross-sector nature of the mutual board allowed it access to information and resources that proved important in developing the capabilities and managing the risks of introducing the new service. Over time, however, the costs of the trustee form combined with clearer paths to employing savings accounts as a source of low-cost funds shifted the advantage toward new entrants organised as joint-stock firms. At first, the impact of this shift in the overall market was slow because it started in smaller, more marginal markets, and because many of the small, joint-stock savings banks failed. But as the net benefits of establishing a savings account business shifted in favour of joint-stock firms, mutual savings banks' shares declined even in their traditional strongholds. Understanding the shifting entrepreneurial advantages of the mutual vis-à-vis joint-stock ownership and governance form hence is essential in understanding patterns of market development left unexplained by a focus on the firm's demand-side transactions with customers alone.

Organizational form as a political outcome

Entrepreneurship theory helps us better account for temporal and geographic patterns in the ownership and governance structure of savings institutions, but still misses essential political dimensions at work in the choice of organizational form. Indeed, both the 'transaction cost'

and 'entrepreneurial advantage' explanations described above are incomplete in their conceptualisation of the choice of organizational form as a *private* contractual solution to the economic challenges of organising intermediaries in the market for personal finance. A more complete picture of the changing patterns of ownership and governance needs to take into account the ways in which the choice of corporate form reflected political determinants as much as an economic ones. Taking into account the role of the state(s) in sanctioning the legitimacy of particular organizational forms over others helps us not only deepen our understanding of regional and temporal differences in the United States, but also of why American patterns of ownership and governance differed from those of leading European countries.

The United Kingdom provides an especially good point of contrast to the United States in this regard because, while the American savings banking system was based on British trustee savings banks, the two evolved in very different ways due to differences in political structure. The fundamental framework for the British trustee savings bank system was established by George Rose's Act of 1817. The handful of savings banks established prior to the passage of the Act showed significant variations in ownership and governance (Horne, 1947, pp. 59-70; Moss & Russell, 1994). Two provisions of Rose's Act were particularly important in imposing consistency in the subsequent development of savings banks' ownership and governance structure in the U.K. First, the Act established the principle of governance by trustees, and outlined the duties and limitations of the role. Trustees were 'to receive deposits of money for the benefit of the persons depositing the same … deducting only out of such produce so much as shall be required to be retained for the purpose of paying and discharging the necessary expenses attending the management of such institution … but deriving no [personal] benefit whatsoever from any such deposit or the produce thereof' (Gosden, 1996, p. 137). Second, the Act required that trustees transfer funds not needed for

near-term transactions with depositors to the Commissioners of the National Debt, and offered an attractive rate of return, guaranteed by the government, on these investments. The subsidisation of trustee savings banks was politically justified by its promise to promote thrift and establish social order. The framework established by the Act, backed as it was by national government underwriting of return and risk, spurred the rapid formation of savings banks in England, Wales, and Ireland. By 1820 there were nearly 500 trustee savings banks in the United Kingdom. In 1835, the Act's provisions were extended to savings banks in Scotland (Gosden, 1996, pp. 136-138; Maixé-Altés, 2009). In 1837, France established a similar system in which local savings banks transferred funds to the national *Caisses des Dépôts et Consignations* for investment, usually in state bonds (Moster & Vogler, 1996, p. 76).

The British precedent of trustee governance and duties formed the template for the governance of mutual savings banks in the United States. In states where mutual savings banks predominated, courts and legislatures drew on the British model to reinforce the principle of governance by independent trustees, with no pecuniary stake, on behalf of the public (*Huntington v. Savings Bank,* 1877, p. 394; Wadhwani, 2006, pp. 129-131). However, two important political differences between nineteenth-century Britain and the United States – federalism and the lack of a large national debt – contributed to important variations in the actual patterns of savings bank ownership and governance in the U.S. In each case, these political factors weakened the organizational template established by the British trustee savings banks, and created room for variations in savings bank governance and ownership.

Antebellum banks (including savings banks) were state-chartered rather than nationally chartered institutions. States that most closely followed the British model, like Massachusetts and New York, made trustee governance a defining element of their savings bank systems, and almost always chartered savings banks under the trusteeship or mutual

model. Of the 249 savings banks chartered in New York, Massachusetts, Connecticut, and Rhode Island before the Civil War, only 3 were established as joint-stock corporations.[8] However, because of the federalist structure of savings bank chartering, no single 'national model' of ownership and governance prevailed in the U.S., unlike in the United Kingdom. States in the South and West, where the British model had little influence and where few incorporators sought to establish mutual savings banks, commonly allowed the creation of stock savings banks. Moreover, the persistence of 'special chartering' of savings banks in many states in the antebellum period meant that legislatures sometimes chartered a mix of stock and mutual savings banks, based in part on the incorporators' ability to gain favour among lawmakers. The Pennsylvania and Maryland legislatures, for instance, chartered both stock and mutual savings banks in the antebellum era to the disappointment of those policymakers who believed the British trusteeship model was best.

Additionally, the fact that the U.S. did not have a large national debt that could be used to subsidise savings bank investments and reduce risk limited the influence of the government in defining a uniform model of ownership and governance. Local savings banks had to rely on local knowledge of investment opportunities, even in cases where laws constrained their investments to forms of public debt. In the U.K. and France, in contrast, local savings banks turned over much of their investment function to the state, which guaranteed both a return and security on the principal, in effect giving the state more collateral power in defining the ownership and governance of local savings banks. Trustees in the U.S. were by necessity given more discretion in the range of investments they made. In this sense, the U.S. system's heterogeneity in organizational ownership and governance of savings banks was similar to that of Italy, Spain, the German states, and Sweden, in that decentralised political oversight of savings banks led to greater variations in organizational form (Bátiz-Lazo, 2004; Mura, 1996, 2000). In each of these countries some level of

heterogeneity existed by virtue of the fact that local authorities defined the institutions in different ways, and no overarching national law existed to classify legitimate and illegitimate governance structures for savings banks.

In the United States, an additional political dynamic was subsequently added to the mix with the establishment of the National Banking System during the Civil War, a development which would have unintended consequences for the legitimacy of mutual savings banks. The National Banking Acts of 1864 and 1865 established a system for chartering national *commercial* banks with the intention of asserting federal control over the unwieldy system of state commercial banks, and particularly to bring order and uniformity to the currency (Sylla, 1975; White, 1983). By itself, the National Banking System was not a threat to the political legitimacy of mutual savings banks; in fact, the National Banking Acts were widely interpreted to prohibit nationally chartered banks from taking savings deposits or moving into the business traditionally served by mutual savings banks (*Response*, 1965, pp. 20-24). However, the political competition it created between federal and state chartering authorities facilitated the diversification of state commercial banks and other financial institutions into the market for personal saving, and eventually undermined the unique position of mutual savings banks in the market.

These developments were put in motion because the National Banking System created severe shortfalls in banking services in areas of the country, particularly the South and West, where prospective incorporators had trouble meeting the capital and reserve requirements to incorporate as national institutions. As White (1983) has shown, state regulators responded by loosening capital and reserve requirements for state-chartered banks in order to facilitate the incorporation of small, local unit banks and by permitting state-chartered banks to accept savings deposits. The ensuing competition between state and federal regulators over the incorporation of banks led to declining capital and reserve requirements and loosened

restrictions on diversification into savings bank activities, as rival banking authorities sought to set terms that would win over local bank owners to their chartering systems.

In some small states, state regulators reacted to shortfalls in banking services by permitting and even encouraging the incorporation of tiny, joint-stock savings banks as a way to create much-needed local community banks with lower capital and reserve requirements. Iowa provides an especially good example of this development. In 1874, Iowa passed a general law allowing the incorporation of stock savings banks in towns of less than 10,000 people with a capital of $10,000; at the time a similar national bank charter would have required $50,000 in capital. Subsequent legislation allowed the state's stock savings banks to hold 8 per cent cash reserves against savings deposits, as opposed to 15-20 per cent for demand deposits. While calling them 'stock savings banks', the Iowa law in fact was designed to circumvent the National Banking System by spurring the creation of full-service community commercial banks. As contemporary historian of Iowa banking Howard Preston (1922, p. 155) noted, this 'left the Iowa savings banks practically free to do a strictly commercial business.' Preston noted that of 68 stock savings banks formed under the Iowa law in a two-year period around 1900, 54 would have had insufficient capital to meet incorporation requirements as state or national commercial banks.[9]

In many other Southern and Western states, state regulators soon dropped the pretence of establishing savings banks and simply allowed state-chartered commercial banks to take savings deposits or establish savings accounts, a source of funds that most national banks were restricted from accepting. By 1900, state commercial banks accounted for nearly 20 percent of savings deposits in the United States (Lintner, 1948, pp. 460-461). '[T]he winning of the West, financially, has been accomplished by the splendid local independent banks,' argued William Creer of the American Bankers Association to Congress in explaining why the South and West had adequate savings banking facilities despite having very few savings

banks (Postal Savings, 1910, p. 39). In parts of the North and Midwest, state-chartered trust companies and cooperative building and loan associations were also permitted to develop savings-account like businesses. Thus, by the turn of the century state regulators in the South, West, and mid-West had essentially allowed state-chartered commercial banks, trust companies, and building and loans to move into the market once reserved for savings banks.

In the northeastern United States, in contrast, joint-stock savings and commercial banks made relatively little progress in expanding into savings deposits before the turn of the century because state regulators continued to adhere to the notion of a special role for trustee managed savings banks and to restrict the expansion of state-chartered institutions in savings deposit taking. However, this began to change after federal regulators liberalised the constraints on nationally chartered commercial banks in order to stem the advantage that savings deposit taking had given to state banks. In 1902, the Comptroller of Currency declared that 'there does not appear to be anything in the National Banking Act which authorizes or prohibits the operation of a savings department by a national bank' (*Response*, 1965, p. 22; Welfling, 1968, p. 59). Within the decade after the Comptroller's decision, half of all national banks had established savings departments that offered services virtually identical to those of mutual savings banks (National Monetary Commission, 1911, pp. 9-10). Because the decision pertained to nationally chartered institutions, state regulators in the 'mutual savings bank states' of the Northeast could do little to prohibit the move.

The loosening of restrictions caused by competition between state and federal regulators led nationally chartered commercial banks to move rapidly into the markets once protected for mutual savings banks. Nationwide, savings and time deposits grew from just 3 percent to 24 percent of all liabilities on commercial bank balance sheets between 1880 and 1929 (Carter, et al., Series Cj251-264; Lintner, 1948, pp. 460-461).[10] While existing mutual savings banks continued to operate on the trusteeship governance model, the political

legitimacy of insisting that institutions serving the mass market for personal savings needed to be organised on the trusteeship model was no longer defensible. As a result, the political and legal foundations for the incorporation of distinct trustee savings banks grew increasingly murky, even in states where the form that once been granted a protected market for personal savings. 'There was a time, not so many years ago, when the only place of deposit for thrift money was the savings bank … [which] had what was essentially a monopoly of the savings deposits of the nation,' explained William Kniffin (1928, p. 79), a leading early-twentieth-century authority on savings banks. But '[b]anks of discount and trust have energetically cultivated the field once reserved to the savings bank.'

These changes laid the basis for another development which further contributed to the declining political legitimacy of having distinct trustee managed savings banks: the introduction of federal deposit insurance in the 1930s. Though the complex politics that shaped the adoption of deposit insurance is beyond the scope of this article,[11] it is worth briefly noting for the ways it undermined the remaining advantages of the mutual savings banks. Despite their declining share of the market for personal savings by the Great Depression, mutual savings banks retained their reputation as conservatively run depository institutions that could be trusted during periods of uncertainty. As a result, they remained remarkably stable institutions during the banking panics of the 1930s; deposits in savings banks actually increased from $9.1 billion to $9.6 billion between 1930 and 1933, while deposits in commercial banks plummeted from $20.2 billion to $11.7 billion (O'Hara & Easley, 1979; Welfling, 1968, p. 84). Adopted in 1933 in the wake of the banking panics, federal deposit insurance programmes covered *all* depository institutions, regardless of organizational form, effectively undermining mutual savings banks' only remaining advantage as especially secure institutions. It was, in fact, joint-stock unit bankers who had first advocated for such a programme.

Thus, as commercial banks recovered from the Great Depression, mutual savings banks' position in the market was once again marginalised. Mutual savings banks retained a modest market share throughout the rest of the century, but neither their numbers nor their position in the market showed any vitality. Rising interest rates and deregulation in the 1980s finally led to their demise through failures, demutualisations, and acquisitions by commercial banks (FDIC, 1997).

In sum, national structures of political power help explain why patterns of savings bank ownership and governance in the United States differed from those in the United Kingdom and France. Taking these into account adds to our understanding of the causes of the temporal and geographic variations we see in the organizational form of savings banks in the United States. Though U.S. savings bank legislation was based on the British trusteeship model, federalism and the absence of a large national debt prevented adoption of a single national model for the governance structure of savings banks. Moreover, the development of dual bank chartering in the United States led to regulatory competition between states and the federal government that eventually undermined the political legitimacy of the notion that trustee-managed savings banks were the only legally appropriate organization to provide savings accounts. Though these barriers fell earliest in the Western and Southern states, by the first three decades of the twentieth century the regulatory and competitive dynamics had spread to the Northeast, once the region where the distinct political classification of mutual savings banks were taken seriously. Existing mutual savings banks persisted with their unique form of ownership and governance, but their distinct role and place in the market had virtually disappeared by the eve of the Great Depression. Deposit insurance levelled a final blow to the political legitimacy of incorporating distinct trustee-managed savings banks as the federal government underwrote risk for all depository institutions, regardless of ownership and governance. The older, established mutual savings banks continued to operate

based on their traditional ownership and governance structure in the post-World War II period, until failures and demutualisations essentially wiped out the form in the 1980s and 1990s.

Discussion and conclusion

Despite the influence of transaction cost theory in explanations for commercial nonprofits and mutuals, the historical development of the intermediated market for personal savings in the United States suggests that there were in fact multiple factors that shaped patterns of firm ownership and governance. While there is indeed historical evidence that nonprofit and mutual forms were designed in part as private organizational solutions to problems of asymmetric information and monitoring in transactions between financial firms and small savers, such an explanation is incomplete in accounting for the role of these forms in the evolution of the sector. Patterns of organizational ownership and governance reflected the political and social legitimacy of some organizational forms over others, and the relative power of governments to impose these forms of governance on market transactions. Moreover, in the early stages of market development, mutual savings banks held innovation advantages over the joint-stock form both because of the perceived future value of the innovations and because of the information and resources that these forms could render through the composition of their boards. In the market for personal savings, however, these entrepreneurial advantages were fleeting; the choice of ownership and governance structure for new entrants changed in favour of joint-stock corporations as the relative benefits of the mutual savings bank form decreased. Variations in ownership and governance thus reflected the forms that had political legitimacy and entrepreneurial advantages in addition to benefits in limiting the costs of opportunism. Taking into account these additional explanations of ownership and governance structure helps us better understand the historical dynamics of the

origins, growth, and changing structure of the market for personal savings than focusing on information and transaction costs alone.

Indeed, these explanations seem to help us better understand the role of mutuals and nonprofits in the development of a host of intermediated markets for personal finance, including life insurance, mortgage lending, and consumer lending. For instance, mutual building and loan associations, which introduced intermediated mortgage lending to the mass market, not only capitalised on information about their member-borrowers in ways that allowed them to better assess credit risk (Mason, 2005, pp. 54-56), but also benefitted from regulatory advantages that allowed such organizations to charge real interest rates (when discounts, fees, and other charges were taken into account) that would have been considered usurious and illegal for investor-owned lenders (Endlich, 1895; Jones, 1904, pp. 624-625). Mutual insurance companies played a similarly important role in developing the market for life insurance beginning in the 1840s, not only by eliminating conflicts of interest between shareholders and policymakers, but also by introducing product innovations that included long-term investment features as well as risk-management attributes (Murphy, 2010). And nonprofit provident loan societies and remedial loan funds played a pivotal role in establishing intermediated consumer lending on a legal basis by introducing rules and laws for small consumer loans that both lenders and policymakers could accept (Calder, 2001, pp. 111-155). Further research is needed to understand how well the dynamics shaping the development of these markets for life insurance, mortgage loans, and consumer loans actually fit the theoretical explanations developed here. But the existing historical literature on these markets suggests that the entrepreneurial and political roles that mutual savings banks played in the development of the intermediated market for individual savings were not atypical.

More broadly, the article suggests ways in which studies of nonprofit and mutual patterns of ownership and governance can contribute to historically grounded theories of the

firm. Business historians (Casson; 1997; Friedman & Jones, 2011; Jones, 1997), of course, have often expressed scepticism about the extent to which transaction cost theories of the firm could serve as an adequate ‘general theory’ to explain the kind of organizational variations historians encounter over time and place. This article contributes to our understanding of at least two factors that shape organizational form and competitiveness beyond transaction cost efficiencies.

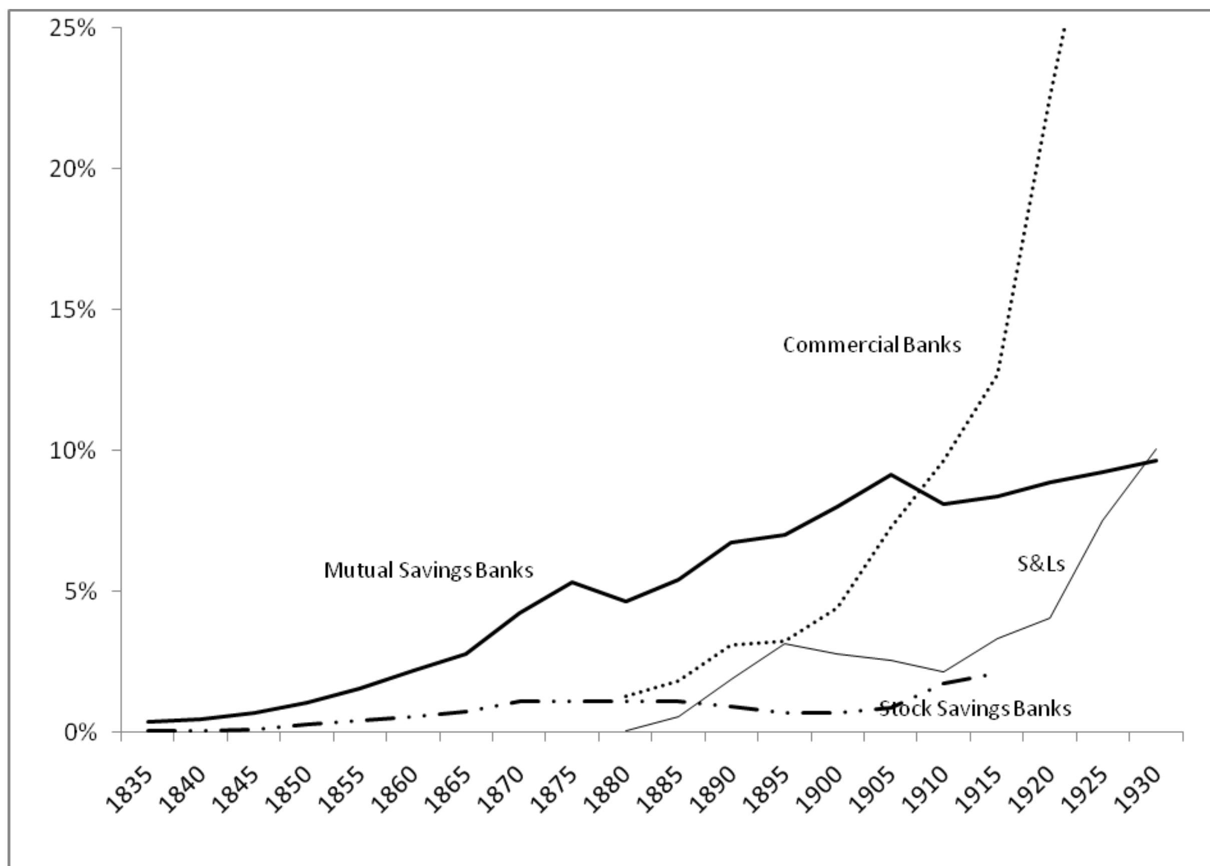
First, building on resource and capability-based explanations of the firm, the article suggests that the relative benefits of various ownership and governance structures change over the lifecycle of a product market. Nonprofits and mutuals held advantages in the early stages of market development, in this case, because they were better able to deal with the challenges of value creation and uncertainty in emerging product markets that lacked legitimacy (Forbes & Kirsch, 2010). Their ability to account for the public as well as private value of the good being offered, their ability to combine productive knowledge and resources across sectors, and their ability to assuage concerns about the social and political legitimacy of the transactions in which they engaged helped establish the emerging product market for savings accounts. In contrast, they were often in a relatively poor position to mobilise financial and human resources needed to scale or expand as the market grew. The finding suggests that the resources and competencies needed by firms, as well as the mix of advantages and costs offered by various organizational forms, change over the course of a market’s lifecycle, as the nature of the challenges faced by organizations change.

Second, the article’s findings suggest that the choice of organizational form reflects political legitimacy and power as much as it does private economic choices. Trustee savings banks in the U.K. took on a more uniform organizational governance and ownership structure in large part because enabling legislation and the incentives created by public investment opportunities established a common organizational standard for the category of firms

providing savings accounts to the public. In contrast, the federalist structure of the U.S. ensured that no such uniformity would develop and competition between state and federal regulators created a dynamic that established the political legitimacy of joint-stock entities in the market for personal savings. While the conclusion that political movements and pressures shape organizational forms and their categorisation is not new (Davis et al., 2005; Schneiberg, King, & Smith, 2008), this article shows that the effects of such movements are mediated by the institutional structure of state power and the extent to which particular state actors can wield the authority and resources to impose particular forms of ownership and governance on a market. In this sense, patterns of ownership and governance did not just reflect the organizational choices championed by political movements, but also the institutional structures of power through which such political processes played out.

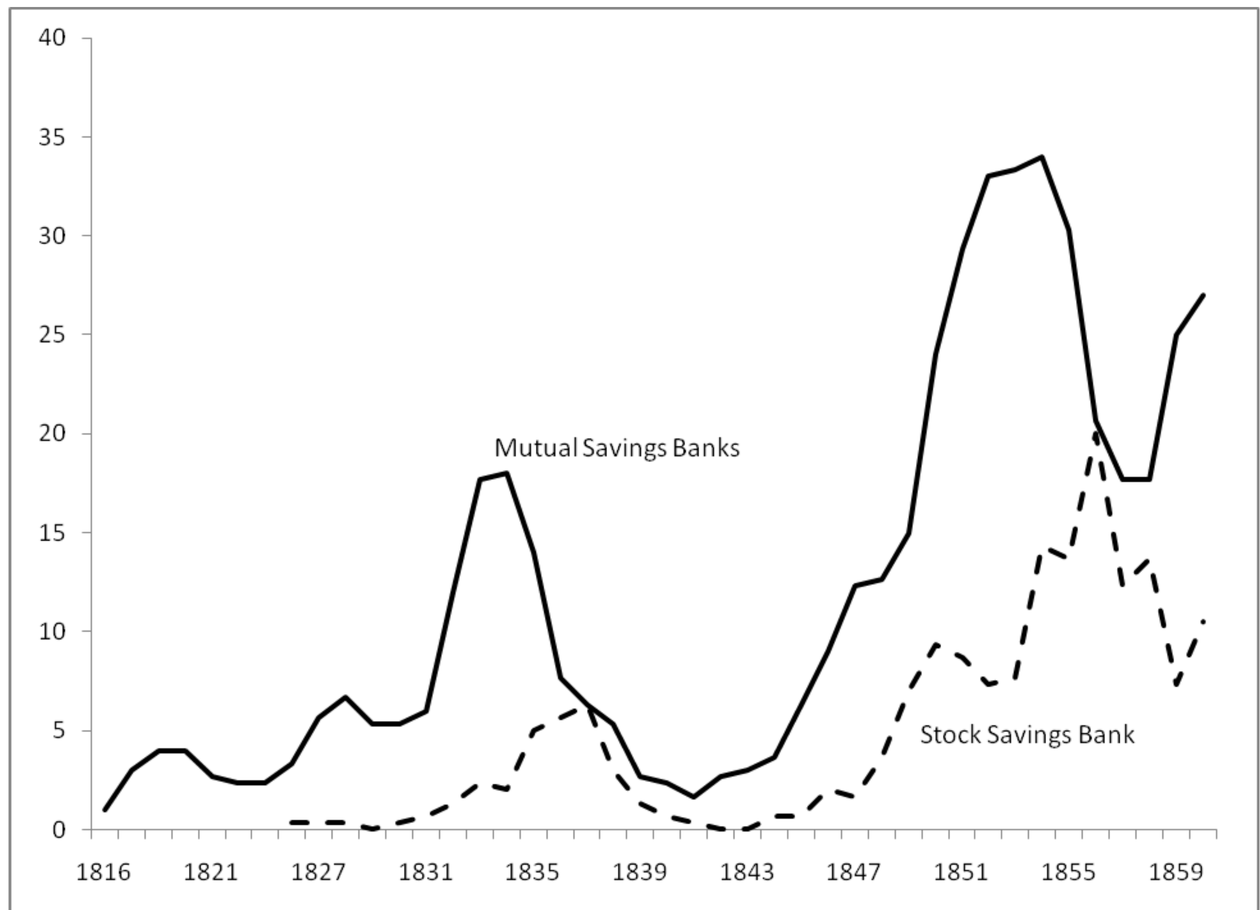
The changing economic vitality and political legitimacy of mutual savings banks ultimately highlights the broader fact that such nonprofit and mutual forms were not marginal in the creation of modern markets. Too often, nonprofit and mutual organizations are considered merely ameliorative entities that belong at the periphery of business history as a field. Yet, in certain sectors, they seem to have had important economic, organizational, and regulatory advantages over other ownership and governance structures and played a pivotal role in the creation of modern enterprise and markets. In personal finance, nonprofit and mutual organizations seem to have been crucial to the historical development of the kinds of modern intermediated markets that households rely on today. In the end, understanding nonprofits and mutuals helps us understand variations in ownership and governance structure more broadly and offers us a way to better understand the historical roles of firms themselves.

Figure 1. Estimated savings accountholders in depository institutions as a percent of U.S. population, 1835-1930.



Source: Comptroller of Currency; Lintner (1948); Sylla & Wright (2011); Author's Estimates.

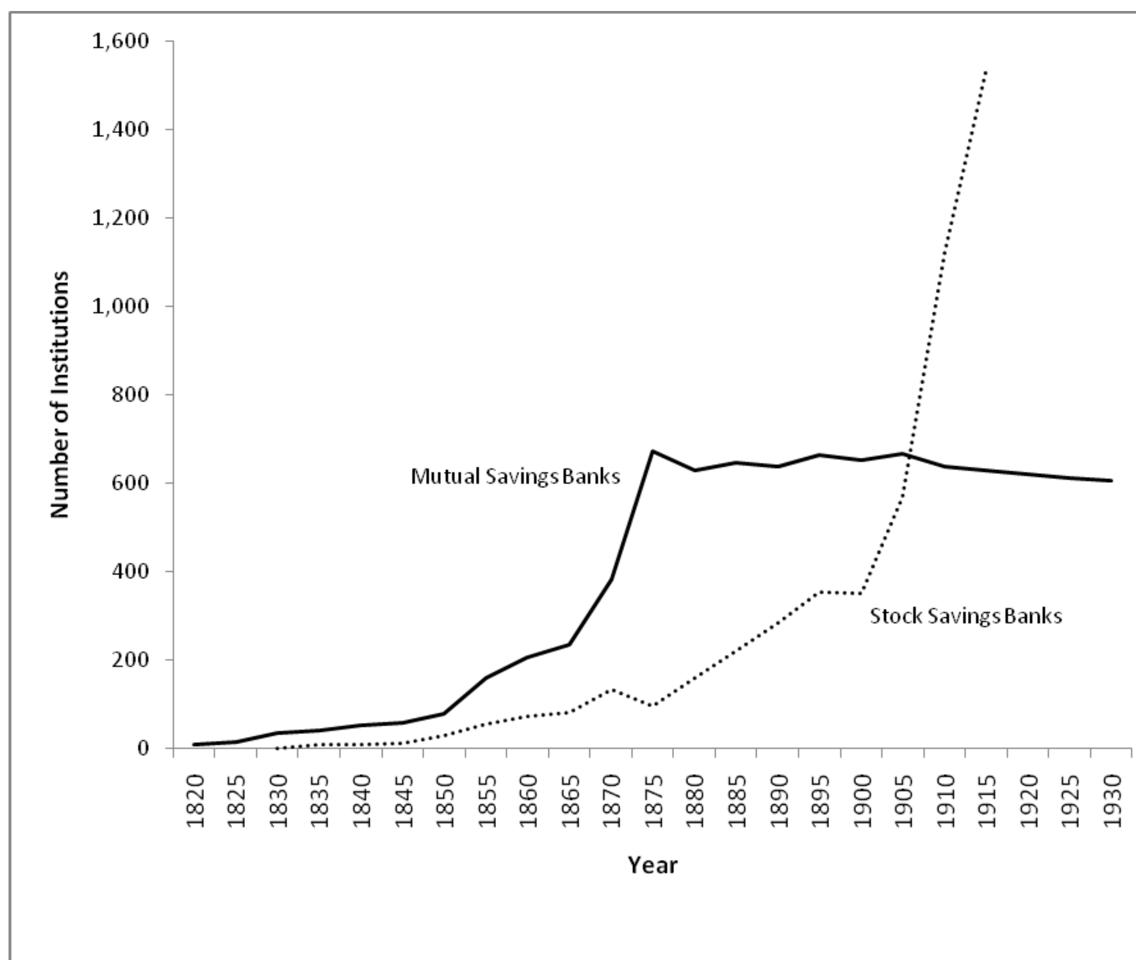
Figure 2. Incorporation trends for mutual & stock savings banks (3-Year moving average), 1816-61.



Notes: Sylla & Wright database used for all states but New York since data for that state not collected by the time of this writing. NY incorporations were hence drawn from Keyes (1870). Hybrid ownership structures lumped with ‘stock savings banks.’

Sources: Keyes (1870); Sylla & Wright (2011).

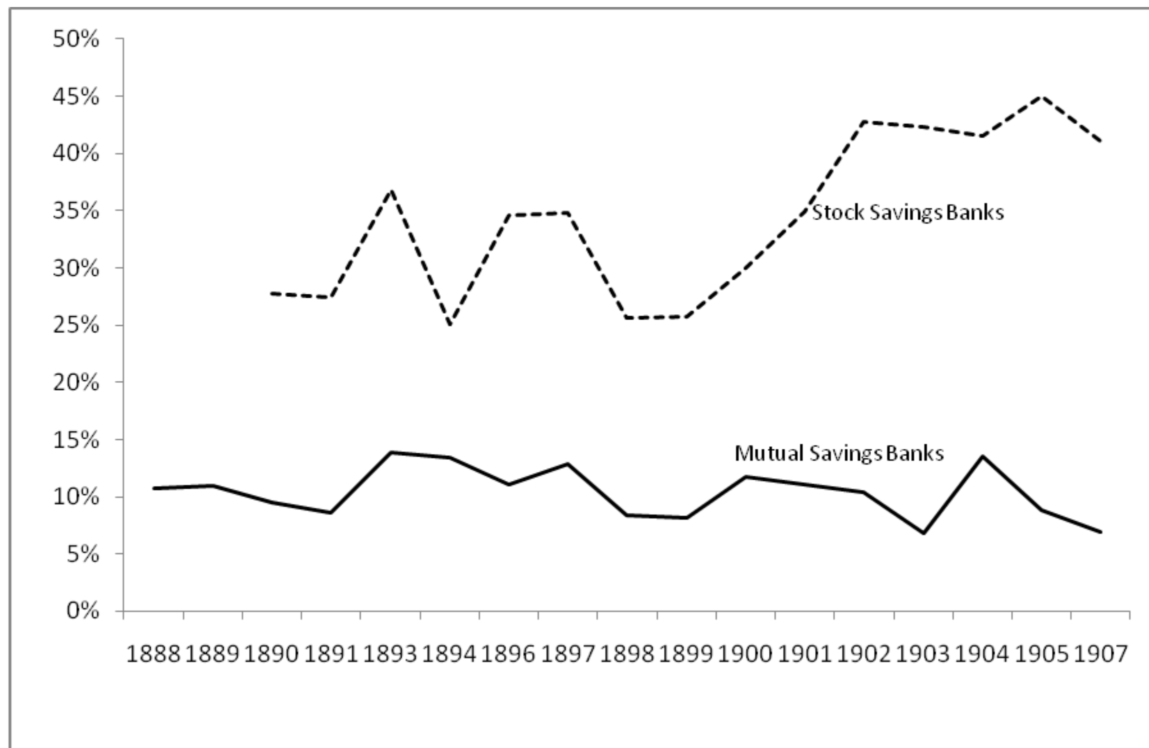
Figure 3. Estimated stock and mutual savings banks, 1820-1930.



Notes: Sylla & Wright (2011) database of incorporations was used to estimate breakdown between stock & mutual savings banks for antebellum U.S.

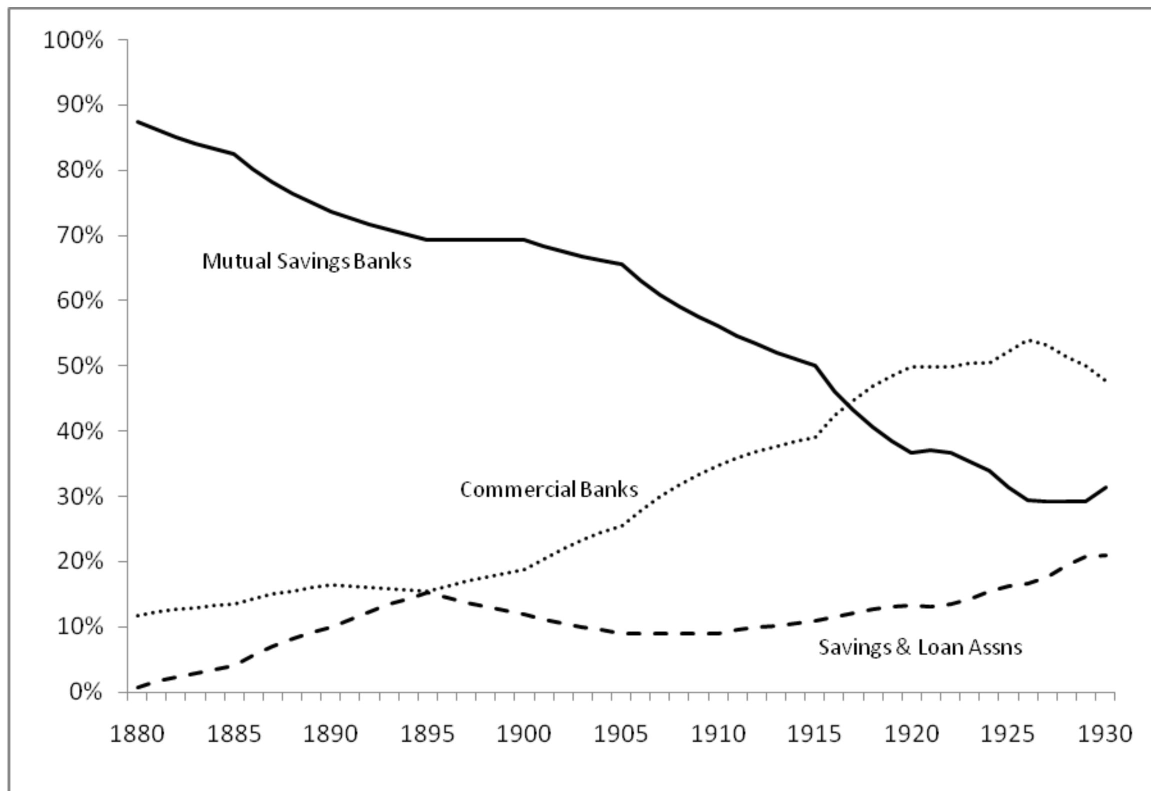
Sources: Comptroller of Currency Annual Reports; Lintner (1948); Sylla and Wright (2011).

Figure 4. Percentage of assets in uncollaterialised loans and discounts: stock versus mutual savings banks, 1888-1907.



Source: Comptroller of Currency Annual Reports, 1888-1907.

Figure 5: Share of individual savings held by various depository institutions.



Source: Lintner (1948), 460-461.

Table 1. Regional breakdown of savings banks by ownership structure.

	1820		1850		1888		1915	
	Mutual	*Stock*	*Mutual*	*Stock*	*Mutual*	*Stock*	*Mutual*	*Stock*
New England	7		45	1	438	10	402	11
Mid-Atlantic	3		26	4	173	19	202	54
South			9	3	0	16	0	51
Mid-West			7	11	17	90	19	931
West			1	1	0	24	2	147

Notes: Antebellum numbers based on aggregate savings bank historical trends listed in late nineteenth century comptroller reports broken down by type using estimates of proportions by each organizational type from the Sylla & Wright database.

Sources: Comptroller of Currency Annual Reports; Sylla and Wright (2011).

Table 2. Selected legal constraints on self dealing by mutual savings bank trustees.

Types of Opportunism	New York	Connecticut	Massachusetts
Compensation	Trustees prohibited Officers prohibited until 1850s	Trustees prohibited Officers prohibited until 1860s, then limited to $300	Trustees prohibited
Insider Lending	Prohibited from borrowing	Prohibited from borrowing or endorsing	Officers prohibited, but trustees permitted
Other Commissions Interlocking Boards Shirking	Restrictions on interlocking boards beginning in 1853 Common law restraints on shirking, negligence and outsourcing	Trustee personal liability beginning in 1858	Prohibition on accepting commissions and fees from brokers

Sources: Keyes (1876 & 1878); Paine (1892)

Table 3. Comparison of the size of mutual and stock savings banks.

	US 1890	US 1900	US 1910	Maryland 1890	Penn. 1890	Ohio 1890	Vermont 1890
Depositors/Savings Bank							
Mutual	5,911	8,249	11,727	7,623	24,084	11,824	2,570
Stock	1,896	1,509	1,482	263	1,214	2,604	1,306
Deposits($)/Savings Bank							
Mutual	2,098,275	3,278,759	5,267,341	2,225,224	7,106,371	4,801,751	737,864
Stock	664,941	715,142	633,296	45,789	406,401	893,626	415,752

Source: U.S. Comptroller of Currency Annual Reports

Table 4. Selected savings bank founders and their other accomplishments.

Founders	Business/Profession	Philanthropy	Government
Bank for Savings in New York, 1819			
DeWitt Clinton		Hospital, Schools	Mayor, Governor, Senator
Thomas Eddy	Merchant, Insurance	Prison, Hospital, Schools	
Peter Jay	Lawyer	University, Library, Hosp	State Assemblyman
Cadwallader Colden	Lawyer	Asylum	Mayor, Congressman
William Bayard	Merchant	Hospital	
Provident Institution for Saving in Boston, 1816			
James Savage	Lawyer	Historical Society, Schools	State representative
Edward Bayer	Merchant, Banker	Hospital, Athaneum	Justice, Overseer
John Lowell	Lawyer	Hospital, Athaneum	
Elisha Ticknor	Merchant, Insurance	Primary Schools	
Lewis Tappan	Merchant, Lawyer	Abolitionist	
Josiah Quincy	Lawyer	University, Hospital	Mayor, Congressman, Judge
Philadelphia Saving Fund Society, 1816			
Condy Raguet	Merchant		Legislator, Ambassador
Roberts Vaux	Lawyer	Schools, Prison, Asylum	Judge

Sources: Knowles (1929); Whitehill (1966); Willcox (1916).

[1] There were some mutual savings banks established in the United States that allowed depositors voting rights in the corporation, most notably in California, Maryland, and Virginia, but most were controlled by independent trustees. See Keyes (1876 &1878) for state by state discussion of corporate control.

[2] Most historians, however, call them mutual savings banks. See, for instance, Olmstead (1976) and Wright (2011).

[3] The relatively high price of single shares made it difficult for small savers to hold a diversified basket of stocks as part of their wealth portfolio. See Wright (2011) on the benefits provided by savings banks. Savings bank advocates often argued that working people had no secure way to invest their money because funds lent or invested with relatives or friends, or handled by friendly societies, were often mismanaged (Willcox, 1916, pp. 35-36).

[4] For more on transaction cost views of the financial firm see Benston and Smith (1976); Diamond (1984); Godley and Ross (1996); Swank (1996).

[5] External auditing of savings banks by regulators was not widely conducted until the second half of the century. In the 1830s Massachusetts was the first state to set up commissioners to audit savings banks but this practice was subsequently abandoned in the 1840s (Keyes, 1876, Chapter 7). Based on extant bank records, large portions of depositors seem to have been illiterate. See, for instance, signature books in the archives for the Philadelphia Saving Fund Society, the Western Saving Fund Society (Philadelphia), the Emigant Industrial Savings Bank (New York), and the Home Savings Bank (Boston).

[6] There was some disagreement over whether trustees could serve as officers. See, for instance, solicitor's opinion in Board of Managers Meeting Minutes, April 19, 1825, V441, PSFS.

[7] Hansen (2001) describes the development of protections for small savers in Denmark.

[8] Sylla and Wright (2011) was used for Connecticut, Massachusetts and Rhode Island. Keyes (1878) was used for New York.

[9] The U.S. Comptroller confirmed that many savings banks were actually commercial banks in disguise. See Moulton, 1916, p. 407.

[10] By comparison, commercial banks in the U.K. did not begin to compete for small savers until much later in the twentieth century. See Booth and Billings (2011).

[11] See Calomiris and White (1994) for details on the origins of federal deposit insurance.

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