OKLAHOMA BANK BEHAVIOR AND THE PANIC OF 1907

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While the Panic of 1907 began in New York City, its effects reverberated throughout the United States. This article examines the response of Oklahoma banks to the nationwide restriction of payments beginning in late October of that year. Despite the widespread support of local communities for their banks, Oklahoma institutions cut back on loans and built up their reserves to a greater degree than did country banks nationwide. Of particular concern for Oklahomans in late 1907 was the financing of the cotton crop. Balance sheet evidence suggests that Oklahoma banks in cotton-growing areas reacted more defensively than did banks in wheat-growing areas, where the harvest had already been completed. A multiple regression model exploring changes in Oklahoma bank reserves before and after the Panic not only confirms the relevance of cotton as a factor but also points to bank size, the use of cash substitutes, and political jurisdiction as variables that influenced the extent to which Oklahoma banks increased their reserves in response to the Panic.

Scholarship on the origins and consequences of the Panic of 1907 has traditionally focused on the behavior of New York banks and the New York Clearing House Association. O.M.W. Sprague's classic study of financial crises for the National Monetary Commission faulted the Clearing House for inadequate leadership in the context of a banking system whose reverence for rigid reserve ratios represented, to Sprague, "a sort of fetich [sic] to which every maxim of sound banking policy is blindly sacrificed."[1] Later scholarship has largely confirmed Sprague's judgment, though far more is now known about the dynamics within the New York financial market, especially the role played by trust companies.[2] Recent work has integrated financial panics like that of 1907 into theories of how banks provide liquidity to the financial system.[3] The bank clearinghouse itself as a form of private self-regulation has also experienced substantial scholarly rehabilitation.[4]

Yet little scholarly attention has hitherto been paid to events taking place outside New York. This is understandable given that events in New

York precipitated the payments restrictions that propagated across the United States. Still, the Panic was a nationwide phenomenon, and while it is clear that regional reserve and country banks broadly reacted in predictably self-interested ways given the incentives the National Banking System created, relatively little work has been done on how banks in the interior of the country experienced the Panic of 1907.[5]

This article explores aspects of Oklahoma's response to the challenges posed by the events emanating from New York. Lacking even any regional reserve cities of its own, Oklahoma was served entirely by country banks and experienced the Panic from the opposite end of New York. At the onset of the Panic in late October 1907, Oklahoma was on the cusp of statehood. The various land settlements that had taken place since 1889 had led, by 1907, to the consolidation of white settlements within Oklahoma Territory. These settlements lay to the west of a diagonal bisect that split the state-to-be roughly in half. Lands to the east consisted of Indian Territory, home to the Five Civilized Tribes. While national banks operated in both territories under common federal supervision, non-national banks operated in both territories under separate rules. Non-national banks in Indian Territory in particular experienced little regulatory scrutiny prior to 1907. In both territories, though, small-scale unit banking prevailed.

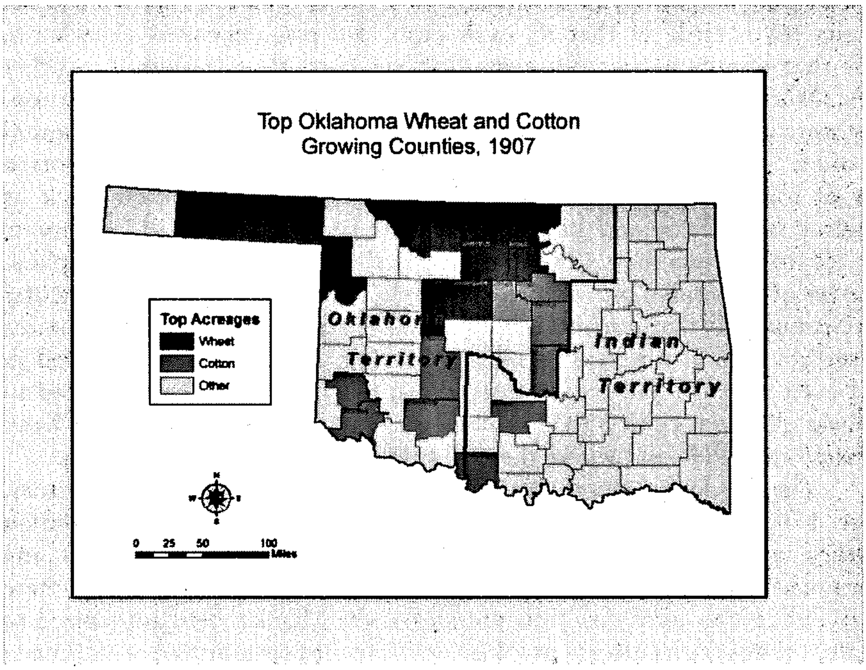
This article first sketches the development of banking structure and practice in Oklahoma up to 1907. Then it summarizes the response of bankers, public officials, and business leaders to the payments restrictions of late October 1907. Since cotton was a particularly important cash crop in central and southwest Oklahoma, and its harvest had begun in September, financing the movement of cotton was a key concern of bankers and businessmen during that crisis.

The Panic, which began radiating out from New York City on October 27, crested between two call dates for both territorial and national banks (August/September and December 1907). Thus, a comparison of balance sheet items across these two periods can yield insights into banks' behavior during the crisis. While Oklahoma banking authorities published consolidated statements for territorial banks during this period, reports of individual banks no longer exist. However, newspapers of the period regularly published bankers' advertisements of their financial condition. From these advertisements it is possible to construct series on selected balance sheet items (loans and discounts, reserves, and deposits) that allow basic tests of conjectures about the behavior of Oklahoma banks during the Panic of 1907.

Early Development of Banking Structures and Practices in Oklahoma before the 1907 Panic

The earliest banks in what became Oklahoma and Indian Territories were private, unincorporated operations that followed settlers to the region,

Figure 1. Oklahoma at Statehood, 1907



Source: Map created by author, with the assistance of Brad Watkins.

and did business as adjuncts to non-banking (usually mercantile) operations. Operating without regulation, these private bankers would take deposits, make loans, and issue scrip. The 1890 Organic Act provided the beginnings of a framework for banking regulation. National banks could be organized under federal law. Like national banks elsewhere in the country, branching was forbidden. The Act also provided for territorial charters under laws borrowed from Arkansas. Unlike the National Banking System, which at the time mandated a minimum capital of $50,000 (lowered to $25,000 after 1900), the code borrowed from Arkansas provided for no minimum size of banks. Opening banks was easy, and, as a result, the number of banks increased rapidly after the Panic of 1893. According to a later estimate, the number of banks in Indian Territory rose from 103 at the turn of the century to 342 by 1907, their numbers evenly split between national and non-national banks. However, national banks represented nearly 80 percent of total bank assets at the time of statehood. In Oklahoma Territory, where national banks were less than half as numerous as non-national banks, the total number of both grew fourfold — to 430 — during the same period.

In 1897 and 1899, the legislature in Oklahoma Territory enacted more comprehensive banking laws, providing for a banking board, the positions of bank commissioner and bank examiner, and regular reporting requirements by the banks. Banking laws required banks to have government charters and to meet minimum capital requirements of $5,000, with larger minimums for larger cities. Banks had to hold 15 percent reserves against deposits (two-thirds of that in vault cash, the rest deposited elsewhere). While that minimum was not very different from those required in other states, Oklahoma Territory law permitted banks of very small capitalization. Moreover, enforcement of these standards was spotty. Reported capital was often "locked up" in buildings and fixtures, and there were reported cases of loans issued to stockholders who had used their own stock as collateral. Bank examiners hired by the bank commissioner had inadequate resources to perform their jobs, especially as the number of banks multiplied. Turnover of underpaid and overworked examiners was high. One particular complication was that territorial laws allowed banks to move without notice and set up shop in different locales. Moreover, bank charters remained in effect even if banks had ceased operations, with stockholders permitted to sell these charters. Until 1905, banks were not required to notify the bank commissioner when and where they intended to relocate their premises.

The regulatory situation was even more relaxed in Indian Territory. Before 1901, no laws authorized the incorporation of banks in Indian Territory, and regardless, banks had no reporting requirements to any government office. As a result, the number of territorial banks operating there is very difficult to ascertain. In contrast, national banks were authorized to operate, thanks to the efforts of Oklahoma's future senator Robert L. Owen to gain a charter for the First National Bank of Muskogee. In 1901, Congress passed a law extending Arkansas' incorporation laws to Indian Territory as well but without setting a minimum limit for bank capitalization.

As the number of banks in the twin territories grew, so did their relationships. By the first decade of the 20th century, banks had established clearinghouses in Oklahoma City, Lawton, and Enid to make interbank settlements. Correspondent relations grew between country banks and city banks, whereby the former maintained reserve deposits and other working balances with the latter. In turn, these larger banks established correspondent accounts with banks in nearby regional reserve cities. Banks founded the Oklahoma Bankers' Association (OBA) in 1897 and the Indian Territory Bankers' Association in 1901. The two organizations merged in 1904. These organizations practiced little in the way of self-regulation. Instead, they served primarily as informational sources for members, and also as a vehicle for members to secure cheaper insurance, fixtures, and bank supplies.[6]

On the eve of the Panic of 1907, then, Oklahoma banking was characterized by a large number of small banks and low barriers to entry. Branching was forbidden, and regulation, such as it was, split not only along national and territorial/state lines, but between the two territories as well. In particular, banking authorities in Oklahoma Territory had neither the authority over, nor much knowledge of, banking conditions in Indian Territory. For their part, bankers in either territory exercised little collective self-supervision, either through clearinghouses or through the OBA.

The Panic of 1907 Hits Oklahoma: Banking Reaction

The financial turmoil that began with the failure of the Knickerbocker Trust on October 22, 1907 reached Oklahoma on Sunday, October 27, when, following the payments restrictions imposed in New York, Kansas City banks informed their Oklahoma correspondents that they would no longer meet their currency requirements. The timing of the Panic was unpropitious for the territories' political leadership. Repudiated by voters in territorial elections the previous month, the lame-duck Republican territorial governor was absent from the state-to-be; meanwhile, the Democratic governor-elect Charles Haskell awaited a declaration of statehood by President Theodore Roosevelt before he could take power. Members of the OBA hurriedly convened in Guthrie, the capital of Oklahoma Territory, to craft a response to payments restrictions, and prevailed upon Acting Governor Charles Filson to declare a bank holiday until the following Saturday, November 2. While Filson's order applied to Oklahoma Territory, Indian Territory remained outside his jurisdiction, though bank leaders in the former urged local officials in the latter to declare their own banking moratoria.[7]

Herbert Smock, Oklahoma Territory's Bank Commissioner, sought to calm public fears, declaring that "Oklahoma banks are perfectly solvent and in good condition and are managed by men of ability and integrity who are trying to protect their depositors from a condition for which Oklahoma bankers are not responsible." Smock estimated the average reserve ratio for territorial banks to be 40 percent. Despite the size of these reserves, most of these funds were tied up in correspondent balances.[8] For example, on the eve of the crisis, the Farmers National Bank of Tulsa advertised that, with 65 percent of its deposits "in cash," the bank was strong enough to withstand financial winds from the East. Yet, of some $217,000 "in cash" on its balance sheet, only $27,000 actually sat in the bank's vault; $161,000 alone remained on deposit at the National Bank of Commerce in St. Louis, with smaller balances at New York banks. None of this money was available to meet possible bank runs.[9]

Moreover, the financial panic arose amidst the seasonal movement of the cotton crop, a time when interior demands upon New York funds were substantial.[10] In Oklahoma, when cotton farmers sold their crop, they received checks from purchasers. Farmers deposited these checks in local banks and then drew upon the funds to pay pickers and other expenses. Their cash thus drawn down, local banks typically replenished their funds by sending their drafts, along with bills of lading for the cotton purchased, to their reserve agents in St. Louis or Kansas City. These agents would in turn honor the drafts by shipping new supplies of currency back to the local banks.

Coming in the midst of the harvest, payments restrictions were a hard blow to the cotton economy. It did not matter how large any one bank's cash reserves might be; if a bank continued to pay them out without any hope of replenishment, panic withdrawals by depositors would become almost certain. Cotton-growing communities were well aware that the effect upon commodity prices and local economies would be devastating. As *The Herald-Sentinel* of Cordell (Washita County) explained, "Every farmer who brings in a bale of cotton, wants his money, and the buyer does not realize upon the cotton until it has been marketed, and then only by draft. In order to get the currency to pay the farmers, these drafts must be collected; and when this cannot be done, the business stops and the bank is forced to close its doors." *The Advocate* of Fletcher (Comanche County) advised local farmers, "If the bank is forced to pay its deposits, it must force its note collections and the borrower is then forced to sell his cotton, corn, hogs, cattle or horses for what he can get for them and then you will be compelled to take the same kind of a price for the products you have to market." Conversely, observed *The New Era* of Walters (Cotton County) as it urged its readers to deposit any spare funds, "Deposits cause money to be plentiful; puts money into circulation, enables buyers to buy more and pay more for it; causes your farm products to bring a good price and makes general good times."[11]

Acting Governor Filson explained his decision to close the banks to a New York newspaper in similar terms: "Oklahoma at this time is in the midst of a cotton harvest, which requires large sums of immediate cash. The handling of this cotton crop without being able to draw upon their reserve centers for necessary funds meant disaster to every bank in Oklahoma that attempted to accommodate all its customers as the slightest wavering would have caused the withdrawal of deposits by customers already alarmed by conditions in the east."[12] Arguing that Filson had acted over-hastily, New York's *The Commercial and Financial Chronicle* retorted:

> Our Western friends...like to cultivate the notion that they are independent of Eastern financial interests, and accordingly when an occasion like the present arises, and it becomes so palpably evident that the connection with the East is really very close, they feel called upon to suggest that the East has fallen down in its obligations and duties.... It crops out very plainly in the proclamation of Acting Governor Charles Filson of Oklahoma in declaring a six day holiday in that Territory.

The *Chronicle* took particular umbrage at the accusation that New York banks, seeking to protect themselves, were starving the rest of the country of funds:

> He [Filson] says that his action has been taken because "all the leading cities of the United States through their Clearing House Associations have entered into an agreement to protect

themselves... and by such concerted action are refusing to ship currency to country banks which have deposits with them or to honor the bills of lading drawn upon the banks of such." It is certainly not true that the banks of this city have stopped shipments of currency to country banks.... In the last two weeks the New York banks have been losing enormous amounts to the interior in response to the demands for currency....The truth is that about the only thing giving our bankers anxiety is the drain of money away from this centre.[13]

From St. Louis, the central reserve city nearest Oklahoma, the reaction to Filson's order was even more severe. "The trouble with Oklahoma at this moment," wrote the *St. Louis Post-Dispatch*, "appears to be that a foolish and sensational fellow is Acting Territorial Governor." As the *Post-Dispatch* continued, "There can be no explanation of Filson's thundering proclamation that does not rest upon the assumption that he is a dangerous demagogue.... The Oklahoma situation may be due to bad banking, but the probability is that it is attributable wholly to the fact that there is a blunderer in office."[14]

At the same time, federal government officials worried that Oklahoma's bank holiday sent a bad message to other western states, for in short order banking holidays were declared in Washington, Oregon, and California. Having devoted considerable treasury balances to quelling the New York City situation, the Treasury Department worried that the panic behavior there might spread westward. The Guthrie (Logan County) *Oklahoma State Capitol* was blunt in its response to eastern criticisms:

> The west is not willing to be drained of its currency in order to help out a lot of desperate and dishonest speculators whose main purpose was to rob the country by issuing bogus stocks and bonds.... Now they must suffer the consequences of their own acts and the western bankers by their recent action have protected themselves by stopping the flow of currency from the west to the east and thus leaving Wall Street gamblers to settle their difficulties out of their own resources.[15]

Even as they defended their banks, Oklahoma City businessmen established their own impromptu "Retailers' Bank" to pool their surplus funds. In Guthrie, merchants pledged to extend credit where they could to reduce the need for cash. Meanwhile, a committee of the OBA met with Smock and Haskell to forge a common plan, involving local payments restrictions and the use of cash substitutes, to deal with the looming shortage of currency.[16] While some Indian Territory banks followed Filson's order, others openly rejected his authority and continued operations. Even in Oklahoma Territory, banks did not observe the bank holiday uniformly, particularly in the north-central and northwestern regions where wheat, and not cotton, was the primary cash crop. The Panic also affected banks in the Osage Nation and the northeast part of Indian Territory relatively less. By November 1, a full session of the OBA agreed on a plan for daily and weekly withdrawal limits, along with the use of clearinghouse certificates or other paper as an emergency currency. By early November, over two dozen communities had adopted some sort of bank scrip to meet depositor demands in excess of the cash withdrawal limits.

Table 1.
Oklahoma and Indian Territory Towns Issuing Clearinghouse Certificates, Certified Checks, or Other Circulating Media in 1907

Anadarko (Caddo CTY)	Lawton (Comanche CTY)
Bristow (Creek CTY)	McAlester (Pittsburg CTY)
Bartlesville (Washington CTY)	Mangum (Greer CTY)
Alva (Woods CTY)	Minco (Grady CTY)
Ardmore (Carter CTY)	Muskogee (Muskogee CTY)
Blackwell (Kay CTY)	Mutual (Woodward CTY)
Chandler (Lincoln CTY)	Norman (Cleveland CTY)
Cordell (Washita CTY)	Oklahoma City (Oklahoma CTY)
Carney (Lincoln CTY)	Okmulgee (Okmulgee CTY)
El Reno/Okarche (Canadian CTY)	Tulsa (Tulsa CTY)
Enid (Garfield CTY)	Olustee (Jackson CTY)
Guthrie (Logan CTY)	Weatherford (Custer CTY)
Hartshorne (Pittsburg CTY)	Woodward (Woodward CTY)
Ingersoll (Alfalfa CTY)	

Source: Gatch, "'An' the West Jes' Smiled,'" *Chronicles of Oklahoma* 87, no. 1 (2009).

Outside the larger towns, public support for local banks was widespread and vocal. At numerous meetings, citizens and business groups expressed confidence in their institutions; in return, bank officials opened their books for inspection and in some cases even pledged their personal wealth to guarantee the safety of bank deposits. As the Panic crested nationally by mid-November and it became apparent that Oklahoma would emerge relatively unscathed, public anxiety melted into relief and even a giddy self-congratulation that western communities had withstood a financial tumult originating in the East.

As a counterpoint to these public gestures of mutual support and solidarity was a less comfortable reality: to bolster their credibility in the eyes of nervous depositors, Oklahoma banks not only sought to repatriate their correspondent balances from outside the two territories, but scrambled to call in local loans as well, to augment their cash reserves. As one report from Noble County admitted, "It was the policy of all banks at the beginning to pile up all the money they could against their deposits to safeguard them against possible runs."[18] The resulting tightening of credit inflicted economic pain upon the very communities that were pledging their support to banks. Indeed, the very arguments that some banks used publicly to assure their depositors implied costs imposed upon their borrowers. For example, by mid-December 1907, the Citizens State Bank of Lawton (Comanche County) advertised that it had doubled its legal reserves, and therefore could immediately cover up to 50 percent of deposits. "Our loans," assured the bank, "are composed for the most part of small farmers' notes well secured and so easily collectible that during the past six weeks we have collected thirty-five thousand dollars of this paper, or one thousand dollars a day for every business day." At about the same time, I.E. Cox, cashier of the First National Bank of Anadarko (Caddo County), bragged:

> Our cash reserves are 42% more than the amount of reserve required by law. Our cash resources have INCREASED $24,500. Since the beginning of this senseless panic our cash with other banks is divided so that the closing of any one, or even two, of them would not affect our solvency in the least. Our loans consist of accommodation to LOCAL PATRONS on approved security; NO OFFICER, DIRECTOR OR STOCKHOLDER OF THIS BANK OWES IT A DOLLAR.[19]

While most accounts of the Panic of 1907 have focused on conditions in New York City, country banks behaved more defensively than did banks in regional and central reserve cities.[20] Comparisons of national bank reports for the two call dates bracketing the onset and worst phase of the Panic (August 22 and December 3, 1907) provide an approximate basis for characterizing the behavior of banks. These reports show that country banks reduced loans and discounts, drew down on their correspondent balances, and built up cash to a greater extent than did reserve institutions. O.M.W. Sprague deemed this behavior understandable given the actions of New York banks precipitating the crisis. Elmus Wicker has cautioned such a comparison does not establish whether country banks retrenched in response to depositor withdrawals or in anticipation of them. Inferences from such a comparison are necessarily crude. Indeed, in the case of the Oklahoma and Indian Territories, no comprehensive data exist concerning flows of funds, interest rates, currency premiums, hoarding, bank clearings, the precise amount of currency substitutes, or lending practices beyond the snapshots provided by the quarterly call reports. On the other hand, consolidated figures for the two call dates are available not only for Oklahoma national banks, but also for territorial banks, whose dates (September 3 and December 11) also encompassed the bulk of the Panic.[21]

Table 2.
Condition of National Banks in Oklahoma and Indian Territories
Aug. – Dec., 1907

Assets ($millions)	22-Aug-1907 Oklahoma Territory N=136	22-Aug-1907 Indian Territory N=168	3-Dec-1907 State of Oklahoma N=309	Percent Change, Oklahoma	Percent Change, National Country Banks
Loans & Discounts	18.17	20.93	33.29	-14.9%	- 3.5%
Due from Banks	7.82	5.99	13.28	-3.8	-13.5
Net Bankers' Balances	4.72	4.65	9.55	+1.9	-13.4
Specie & Legal Tenders	2.02	1.58	4.84	+34.4	+18.9
Liabilities:					
National Bank Notes Outstanding	2.84	3.90	6.97	+3.3	+9.0*
Due to Banks	3.10	1.34	3.73	-16.0	-13.6
Deposits	22.64	19.18	38.72	-8.4	-5.3

*All national banks
Notes: "Net Bankers' Balances" equals "Due from Banks" minus "Due to Banks." Data reported for December 1907 were not broken out into Oklahoma and Indian Territories.
Sources: *Annual Report of the Comptroller of the Currency 1907, 1908; Leonard Watkins, Bankers' Balances* (Chicago: A.W. Shaw Co., 1929), 156, 230.

The behavior of national banks in Oklahoma is consistent with the existing narrative of how the Panic of 1907 unfolded. If the New York City banks met (however incompletely) the demand for funds from the interior by incurring a reserve deficit, paying out Treasury deposits, and engaging in imports of gold, the regional reserve and country banks completed the picture by restricting their own payments, drawing down their correspondent balances, and expanding their cash reserves. Additional bank note circulation and the widespread use of clearinghouse certificates both eased the situation nationally and yet provided banks with further justification for their suspension of payments.[22] This was how the panic propagated. Whereas New York banks expanded their lending to replace that of the beleaguered trust companies, country banks retrenched on loans. Indeed, Oklahoma national banks reacted more severely than did country banks nationally. As Table 2 shows, loans and discounts were curtailed by nearly 15 percent, four times the national average, while cash reserves expanded by nearly twice as much as did the reserves of country banks nationwide.

Table 3.
Condition of Territorial Banks in Oklahoma and Indian Territories, Sept. – Dec., 1907

($millions)	3-Sept-1907 OT N = 293	11-Dec-1907 OT N = 293 *IT N = 172*	Percent Change Sept-Dec 1907 OT
Assets:			
Loans & Discounts	11.17	8.72	-21.9%
For IT Dec. 1907	...	*5.08*	...
Due From Banks	4.6	3.96	-13.9
	...	*1.77*	...
Net Bankers' Balances	4.33	3.70	-14.5
For IT Dec. 1907		*-.23*	...
Cash	1.03	1.56	+51.5
For IT Dec. 1907		*.72*	...
Liabilities:			
Due to Banks	.27	.26	- 0.4%
		.20	...
Deposits	13.72	11.59	-15.5%
For IT Dec. 1907		*5.24*	...

Notes: OT = Oklahoma Territory, IT = Indian Territory. "Net Bankers' Balances" equals "Due from Banks" minus "Due to Banks." Data for IT in September 1907 were not collected. Table excludes trust companies.
Source: E.H. Kelley Banking Collection, Oklahoma Historical Society.

The reaction of territorial banks (as seen in Table 3) was even more severe. In Oklahoma Territory, where banks could operate with a capital as small as $5,000, lending was cut by a fifth between September and December, while reserves soared by half, as banks hoarded cash. Perhaps the most basic measure of banker anxiety, the ratio of cash on hand to deposits (Table 4) underscores the banks' defensive tendency: the smaller and more local the bank, the higher the ratio. The national banks of the twin territories showed more stable correspondent balances than national country banks. Yet the relatively large percentage decline in balances owed to other banks suggests that the territorial national banks functioned in some measure as repositories for the territories' non-national banks. Between the two periods, Oklahoma and Indian Territory national banks together lost approximately $710,000 in balances due to other banks; territorial non-national banks in turn drew down $640,000 in correspondent balances, against negligible changes in their own liabilities to other banks. Oklahoma national banks did draw down $530,000 in balances due to them, but it is unlikely these funds flowed from local territorial banks, as opposed to deposits with reserve agents and other banks outside the territories. Thus, territorial non-national banks likely drew substantially upon balances held locally with territorial national banks.

Finally, the behavior of deposits across the two periods provides some sense as to the state of banking in the territories. The percentage drop in deposits in non-national banks was nearly twice that of the territorial national banks, which in turn was two-thirds higher than the decline for country banks nationally. This analysis does not establish to what extent deposits declined because of decreased lending. Such a decrease would have generated smaller deposit credits subject to check, as opposed to withdrawals by nervous depositors. Nonetheless, the greater magnitude in the drop in deposits for smaller institutions suggests that, despite community mobilizations on behalf of local banks, an anxious public perceived them as the weakest links in the chain. The public may have hoarded cash, but the banks were the worse sinners.

Table 4.
Ratio of Cash on Hand to Deposits, Oklahoma and the Nation

	22-Aug-1907	3 & 11-Dec-1907
National Country Banks	7.6%	9.9%
Oklahoma National Banks	8.7	12.5
Oklahoma Territorial Banks	7.5	13.5
Oklahoma and Indian Territory Banks	---	13.5

Note: Reserves for national banks exclude redemption funds held at the Treasury.
Data for Indian Territorial banks not available in August 1907.

While individual bank reports by call date no longer exist, a more detailed series can be reconstructed using the notarized statements banks regularly published in local newspapers. A review of all newspapers published in late 1907 among the large newspaper holdings at the Oklahoma Historical Society yielded 364 usable observations. Thus, 364 out of some 800 territorial and national banks published balance sheets for both the August/September call dates and the December call dates.[23] This data set proves useful for testing a number of propositions about the behavior of Oklahoma banks during the panic.

First, the data highlight the differing situations in cotton and wheat growing areas of the territories. Newspaper accounts of the period fretted about managing the cotton harvest in a period of financial stringency. This challenge should show up in the balance sheet of banks, depending upon their location in cotton or wheat areas. Table 5 displays balance sheet items for banks located in the top ten cotton and wheat growing counties. In terms of loans and reserves, banks in the cotton counties behaved much more defensively than those in wheat counties, even though cotton area deposits contracted at only half the rate of those in the wheat area — reflective, perhaps, of a greater community mobilization to discourage withdrawals.

Table 5.
Condition of National and Territorial Banks as Reported in Newspapers, Aug. – Dec., 1907
Top Ten Wheat and Cotton Counties (by acreage)

	Top Ten Cotton Counties* (N = 88)			Top Ten Wheat Counties# (N = 80)		
	22-Aug	3-Dec	Percent Change	22-Aug	3-Dec	Percent Change
Assets ($millions)						
Loans & Discounts	8.10	6.04	-25.4	4.85	4.24	-12.6
Reserves	1.26	1.82	+44.4	1.17	1.11	-5.1
Liabilities($millions)						
Deposits	7.58	6.84	-9.8	6.38	5.05	-20.8

*Top ten cotton counties are: Lincoln, Greer, Comanche, Pottawatomie, Caddo, Jackson, Payne, Jefferson, Garvin, Logan.
#Top ten wheat counties are: Grant, Garfield, Alfalfa, Woods, Beaver-Texas (still a single county at this time), Kay, Blaine, Kingfisher, Ellis, Noble.
Sources: *First Biennial Report of the Oklahoma State Board of Agriculture, 1908*; newspaper microfilms, Oklahoma Historical Society.

The data set also enables a more systematic investigation of factors influencing the behavior of Oklahoma banks. The broad comparison, presented above, of descriptive statistics from both call dates supports the contentions that Oklahoma territorial banks reacted more defensively than national banks, and Oklahoma country banks more defensively than country banks nationwide. In more formal terms, a multiple regression model can both confirm these contentions and explore the influence of other factors. Did Filson's order closing banks in Oklahoma Territory, however partially obeyed, affect the behavior of banks there compared to those in Indian Territory? Did the size of the banks affect how defensively they behaved? Finally, did the employment of cash substitutes (clearinghouse certificates, certified check, etc.) reduce pressure on banks to hoard funds?

The key behavioral variable is changes in bank reserves between the first call date (August-September 1907) and the second call date (December 1907). Testing the relationships between reserve changes and these other factors involves specifying a regression model capturing change in reserves between August/September (t_1) and December (t_2). The dependent variable is the natural log of reserves at t_2. To model the change in reserves during the period, a lagged dependent variable strategy is employed. In other words, the log of reserves at t_1 serves as a control variable. Other independent variables include measures related to the banks themselves, and to the geographical areas where they operated.

Predictors related to geography include a dummy variable indicating whether the bank was in Oklahoma Territory or Indian Territory, and a measure of the proportion of cotton acreage to total acreage planted in the county where the bank was located. Reserve changes should have been greater in Oklahoma Territory than in Indian Territory, reflecting the greater defensiveness occasioned by Filson's order. Reserve growth should also have been higher in counties where cotton planting prevailed over wheat, since the latter had already been harvested when the panic struck.

The three remaining independent variables model the characteristics of banks. If banks were located in counties where cash substitutes were in use, they should have behaved less defensively. Accordingly, the model includes a dummy variable, coded one if cash substitutes were present and zero if not. The difference between state banks and national banks could also matter, with national banks expected to have shown less defensiveness. Thus the coefficient for the "National Banks" dummy would be predicted to take a negative sign.

Finally, the size of the bank ought also to have affected the degree of reserve change. Size is defined by the capitalization at which banks were chartered. Larger banks tended to have more reserves as a function of their size. (Given their higher minimum capital requirements, national banks in Oklahoma were generally larger than territorial banks.) Thus one would expect a positive association between bank size and reserves. However, the confounding factor is that larger banks are expected to be less defensive, which implies a smaller change in reserves between t_1 and t_2. In other words, big banks have larger reserves than smaller banks, but bigger banks are also expected to be less defensive when stress occurs. Adding an interaction term to the model accounts for this opposite effect.[24]

Results from the regression analysis are shown in Table 6(*opposite*).

Adjusted R^2 indicates that the independent variables account for 64 percent of the variation in reserves at t_2. As expected, the strongest predictor is the lagged dependent variable, which takes the expected sign. In other words, the best predictor of reserves at time 2 is reserves at time 1. However, the coefficient of .68, which reveals a less than perfect association between t_1 and t_2, indicates the presence of other significant effects.

Jurisdictional and agricultural effects are captured by the Oklahoma Territory dummy variable and the Cotton variable. The positive coefficient (.096) for Oklahoma Territory takes the expected direction, but is not statistically significant. However, the variable does contribute to the model, as is indicated by a t-statistic above 1. With respect to agriculture, the positive coefficient (.008) is significant, suggesting greater defensiveness in cotton-dominated counties.

Bank-specific predictors produce results that are statistically significant and in the hypothesized directions. Cash substitutes, for example, allowed banks to remain comfortable with lower levels of reserves (coefficient

Table 6.
Explaining Changes in Bank Reserves in Oklahoma, Pre- and Post-Panic (1907)

Independent Variables	Coefficient	t-statistic	Probability value
Reserves (logged) pre-panic	.683	18.40**	.000
Oklahoma Territory	.096	1.11	.134
Cotton (% of Total Acreage)	.008	4.17**	.000
Cash Substitutes	- .134	- 1.95*	.026
National Bank	- .270	- 2.33**	.010
Bank Size	.002	3.11**	.001
Bank Size * National Bank	- .001	- 2.03*	.022
Constant	*3.21*	*8.76***	*.000*
Adjusted R^2	.639		
Standard error	.606		
F	92.76**		
N	364.00		

Dependent variable: Reserves (logged), post-Panic.
Note: ** $p < .01$; * $p < .05$ (one-tailed tests).

= -.134, $p < .05$). In other words, when controlling for other factors, the presence of cash substitutes in a county was associated with decreased reserve growth for its banks at t_2. Similarly, the National Banks dummy indicates reduced defensiveness (coefficient = -.27, $p < .01$).

Finally, the size variable has the expected effect. Considered alone, bank size is positively associated with reserves at t_2 (coefficient = .002, $p < .01$). Yet the interaction term, which captures the effect of size among the larger (i.e., national) banks, though not among the state banks, suggests a statistically significant negative relationship. In other words, when controlling for all other factors, including reserves at t_1, the effect of bank size on reserves at t_2 (coefficient = -.001, $p < .05$) suggests that bigger banks were indeed less defensive in response to the panic.

Beyond these numbers, private correspondence among bankers also hinted at the squeeze Oklahoma banks were applying to their borrowers to shore up their balance sheets. Robert Williams, who soon would become the state's first chief justice and later its third governor, was president of the First National Bank of Bennington (Bryan County). In early December 1907, Bennington bank officials reported to him their situation: "We are pushing collections very vigorously and doing everything within our power to collect. As you are aware, nothing can be sold for cash, and this makes it very hard . . . We think everything is in good shape now; are getting in a little more cash all the time, and while it is a pretty hard task, are holding them down so that our cash is increasing."[25] Frank English, a Lawton banker who was also president of the nearby Farmers and Merchants Bank of Eschite (Tillman County),[26] received frantic reports from his harried and profane cashier, Roy C. Smith. On October 30, when the local banks had shut down through the following Monday, Smith implored English:

> Could you possibly spare one thousand or two dollars? I could pull through on that . . . I certainly hope this will soon adjust itself as I have already turned a little grey. D — Banking anyhow . . . I will tell all depositors if they want to draw any balances will ask them how they brought their money here. Of course it was done by draft and I will tell them I will pay them just like they brought it here in other words will give them a draft as good as the one they brought here. And if they don't like that tell them to go straight to H —.

The president of another state bank in Faxon (Comanche County) who relied upon English explained his own activities: "Am making pretty good headway in collecting, but under such conditions it is mighty hard to get these farmers to pay up. But I keep 'prodding,' and I think I will be able to pull through if this does not last too long.... I am going to make ever[y] effort in the world to pull this Bank through, and if you will only stay with us we will get there all right."[27]

The Lessons of 1907

Oklahoma became a state on November 16, 1907, when currency and credit conditions nationwide were still tight. That Oklahoma banks emerged relatively unharmed from the Panic provided an enormous boost to the new state's collective self-regard. The Panic also provided a convenient rationale for passing Oklahoma's deposit guaranty law a month later, which quickly set a precedent for seven other state-level schemes for deposit insurance, all of which failed by the 1920s.[28] Ostensibly a response to the instability created by national panics, deposit insurance had been a staple of the Populist agenda since 1893. The Panic of 1907 simply provided a convenient political opportunity for the law's enactment, and reflected the interests of small unit banks that sought to preserve their independence against the threats of branch banking. The guaranty of bank deposits otherwise did little to address the specific causes of the Panic of 1907.[29]

Across the Oklahoma and Indian Territories, cooperation between bankers, businessmen, and civic leaders quelled any panicky inclinations among depositors and provided a variety of cash substitutes to replace national currency. At the same time, aggregate bank data for Oklahoma suggest that bank retrenchment inflicted considerable economic pain upon territorial communities. Loans were curtailed and reserves built up to a degree that confirms the broader national narrative about the defensive behavior of interior banks. Moreover, within Oklahoma, the economic divide between cotton and wheat growing regions, much remarked upon in contemporary press accounts, was also reflected in the markedly different behavior of banks in the respective areas. As measured by the change in certain balance sheet items over the two call dates, banks in cotton areas reacted much more defensively than did banks in wheat areas. A regression model of changes in Oklahoma bank reserves over the two call periods not only upholds the significance of cotton but also suggests that both size and jurisdiction matter. Smaller banks built up their reserves to a greater extent than larger banks. National banks behaved less defensively (i.e., increased their reserves less) than did territorial banks. Similarly, the presence of cash substitutes by county was also associated with a less defensive response to the Panic.

These findings for Oklahoma are consistent with the existing accounts of the Panic that attribute its origins to mishandled asset shocks in the New York City market, but its nationwide reverberation to the rules and incentives of the National Banking System. Under that system, regional reserve and country banks aggravated the situation (and, in New York eyes, even brought it about) by suspending payments and hoarding cash. Oklahoma's experience bears out this account. The particular challenge the Oklahoma's cotton harvest posed also supports a common criticism of unit banking — that a larger number of small, independent banks lack the portfolio diversification afforded to a smaller number of large banks operating branches.[30] In Oklahoma's case, the large number of small unit banks meant that those located in cotton growing areas would behave noticeably differently from those in wheat growing areas. Oklahoma data also support this conclusion.

As Charles Calomiris and Gary Gorton stress, "institutional structure matters" in explaining why the United States was prone to panics in the pre-Federal Reserve era.[31] For Tallman and Moen, the "uneven" regulation of trust companies enabled them to acquire excessively risky portfolios, which, in the face of a shock to asset prices, threatened the trusts with insolvency.[32] While the Knickerbocker's problems did not "cause" the Panic in any direct way, in the institutional context of the National Banking System, the woes of the trust companies intersected with the structural incentives that the system provided for preemptive defensiveness on the part of financial institutions. The result was the suspension of payments by New York banks, followed by a cascade of similar actions across the country.

Even to Sprague's contemporaries, the "lessons" of 1907 differed according to how they diagnosed the proper functioning of the banking system. The Federal Reserve System in its 1913 version was no preordained conclusion. Oklahoma's experience of, and response to, the Panic also suggests that the lesson learned depended upon geography. From the hinterland perspective of country banks, convulsions in distant New York City made deposit insurance an attractive alternative to the financial and monetary concentration of power that any future central bank would likely entail.

That Oklahoma's lesson learned from 1907 was the wrong one, in the sense that state-level deposit insurance proved to be a failure, may also express the cunning of history. For those structural features of the 19th century financial system that predisposed it to crisis — above all, the prevalence of unit banking — also created the trap of path dependency in the policy innovations undertaken in response to the crisis.

ACKNOWLEDGEMENTS

The author wishes to thank Ken Kickham for his statistical suggestions, Brad Watkins for his map-making skills, and above all Amber Freudenberger for her work with Oklahoma newspapers. Research for this article was funded in part by a grant from the Oklahoma Humanities Council.

NOTES

1. Sprague, *History of Crises under the National Banking System* (Washington, D.C.: GPO, 1911), 216-319, quote 280. For a recent and vivid narrative of events in New York see Robert F. Bruner and Sean D. Carr, *The Panic of 1907: Lessons Learned From the Market's Perfect Storm* (Hoboken: John Wiley & Sons, 2007).
2. Elmus Wicker, *Banking Panics of the Gilded Age* (Cambridge: Cambridge University Press, 2000), 83-113; Jon Moen and Ellis W. Tallman, "The Panic of 1907: The Role of Trust Companies," *The Journal of Economic History* 52, no. 3 (1992): 611-630; and Moen and Tallman, "Clearinghouse Membership and Deposit Contraction During the Panic of 1907," *The Journal of Economic History* 60, no. 1 (2000): 145-163.
3. Charles W. Calomiris and Gary Gorton, "The Origins of Banking Panics: Models, Facts, and Bank Regulation," in R. Glenn Hubbard, ed., *Financial Markets and Financial Crises* (Chicago and London: University of Chicago Press, 1991), ch. 4.
4. Richard H. Timberlake, Jr., "The Central Banking Role of Clearinghouse Associations," *Journal of Money, Credit and Banking* 16, no. 1 (1984): 1-15; Gary Gorton, "Clearinghouses and the Origin of Central Banking in the United States," *The Journal of Economic History* 45, no. 2 (1985): 277-283; Gary Gorton and Donald J. Mullineaux, "The Joint Production of Confidence: Endogenous Regulation and Nineteenth Century Commercial-Bank Clearinghouses," *Journal of Money, Credit and Banking* 19, no. 4 (1987): 457-468.
5. Specifically, the pattern of correspondent banking that developed under the National Banking System enabled banks to concentrate reserve balances in the regional and central reserve cities, above all New York City, where bankers' balances were lent out in the call loan market. Any fear of financial panic gave banks outside of the central reserve cities an incentive to anticipate payments

restrictions by drawing down their reserve balances — thus making payments restrictions more likely. Contemporaries like Sprague were of course quite aware of this dynamic (*op. cit.*, 259-260). For a more extended treatment, see John A. James, *Money and Capital Markets in Postbellum America* (Princeton: Princeton University Press, 1978), ch. 4, esp. 119-121.

6. For the development of Oklahoma banking up to 1907, see Linwood O. Neal, "The History and Development of State Bank Supervision in Oklahoma" (thesis, Graduate School of Banking, American Bankers Association, Rutgers University, 1942), ch. 2; E.H. Kelley, "Early Banking in Oklahoma," *Oklahoma Banker* (September 1954); 32; James M. Smallwood, *An Oklahoma Adventure: Of Banks and Bankers* (Norman: University of Oklahoma Press, 1979), chs. 1-3 Numbers on the growth of banks to 1907 can be found in Roy Shelley Phillips, "The Development of Commercial Banking in Oklahoma, 1890-1940" (MBA thesis, University of Tulsa, 1971), 13, 20.
7. James R. Scales and Danney Goble, *Oklahoma Politics: A History* (Norman: University of Oklahoma Press, 1982), 29-33. For a more detailed account of how the Oklahoma bankers reacted to the Panic, see Loren Gatch, "'An' the west jes' smiled': Oklahoma Banking and the Panic of 1907," *Chronicles of Oklahoma* 87, no. 1 (2009): 4-33.
8. For the August-September call dates, territorial and national authorities reported cash and specie reserves for all Oklahoma and Indian Territory banks of $4.63 million but net bankers' balances of $18.42 million. See Tables 2 and 3.
9. *The Daily Oklahoman*, 29 October 1907; *Tulsa Daily World*, 26 October 1907. Filson's proclamation was also reproduced in Sprague, *op cit.*, 286-287.
10. James, *Money and Capital Markets*, 162-163.
11. "Banks Closed," *The Herald-Sentinel* (Cordell, OK), 1 November 1907; *The Advocate* (Fletcher, OK), 1 November 1907; "Walters Banks Close," *The New Era* (Walter, OK), 31 October 31 1907.
12. Text of telegram to the *New York World*, reprinted in *Oklahoma State Capitol* (Guthrie, Oklahoma), 30 October 1907.
13. *The Commercial and Financial Chronicle* (New York), 2 November 1907, 1110.
14. "Oklahoma's 'Acting Governor'," *St. Louis* (Missouri) *Post-Dispatch*, 29 October 1907.
15. "Here is the Whole Situation of Today in a Nutshell," *Oklahoma State Capitol*, 1 November 1907.
16. *Proceedings of the Twelfth Annual Convention of the Oklahoma Bankers' Association* (Kansas City, MO: Franklin Hudson Publishing Co., 1908), 52-59; *Oklahoma State Capitol*, 29-31 October 1907; *Guthrie Daily Leader*, 29-31 October 1907.
17. Smallwood, *An Oklahoma Adventure*, 53-55; Gatch, "Oklahoma Banking and the Panic of 1907," 10-11.
18. "On Local Banks," *The Red Rock Opinion* (Red Rock, OK), 20 December 1907.
19. "Financial Statement of Citizens State Bank" *Daily News-Republican* (Lawton, OK), 17 December 1907; *The Anadarko* (Oklahoma) *Tribune*, 11 December 1907.

20. Sprague, *History of Crises*, 305-7; Wesley Clair Mitchell, *Business Cycles and Their Causes* (Berkeley: University of California Press, 1950), 83; Wicker, *Banking Panics of the Gilded Age*, 102-3.
21. Nonetheless, a complete contrast between banking conditions in Oklahoma and Indian Territories is clouded by the accident of statehood. For national banks, data broken out between the two territories on August 22 were consolidated by December 3, since Oklahoma had achieved statehood in the interim. For territorial banks, data reported at the September call excluded Indian Territory institutions, which had no reporting requirements at all before the onset of statehood.
22. Mitchell, *Business Cycles*, 127. As Sprague, *op. cit.* (275) summarized the paradox: "One of the unfortunate effects of suspension is the creation of seemingly conclusive evidence for its necessity."
23. For each bank, figures for three different balance sheet items were recorded: loans & discounts, reserves, and individual deposits subject to check. Data were collected for 89 national banks in Oklahoma Territory and 103 national banks in Indian Territory. For territorial banks, the numbers are 163 in Oklahoma Territory and 10 in Indian Territory. The low number of territorial bank observations in Indian Territory reflects the lack of reporting requirements for those banks prior to statehood.
24. Specifically, the National Banks dummy variable is multiplied by the size variable to generate the interaction term (Bank Size times National Bank). While the Bank Size term is expected to capture the effect of size on reserves regardless of time period (i.e., a positive coefficient), the interaction term is included to model the effect of reduced defensiveness associated with the change from t_1 to t_2 (i.e., a negative coefficient). That is, among state banks, bigger banks were less concerned with increasing reserves. Similarly, among national banks, the same effect is expected — an inverse relationship between size and change in reserves.
25. Lewis T. Martin to Robert L. Williams, December 8, 1907, Banking, 1907-8, Box 3, Folder 1, Robert L. Williams Collection. Oklahoma Historical Society Research Center.
26. Eschite (Eschiti), established in 1907, was platted and promoted in anticipation of the extension of the railroad through the area. When this did not happen, the town disappeared by 1909. See John W. Morris, *Ghost Towns of Oklahoma* (Norman: University of Oklahoma Press, 1977), 78-79.
27. Smith to English, October 30, 1907, Box 7 Folder F(1); Charles L. Thornton (Bank of Comanche County) to English, November 22, 1907, Box 4. Folder B(2), Frank Miller English Collection, Western History Collection, University of Oklahoma.
28. Norbert R. Mahnken, " 'No Oklahoman Lost a Penny': Oklahoma's State Bank Guarantee Law, 1907-1923," *Chronicles of Oklahoma* 71, no. 1 (1993): 42-63.
29. Eugene Nelson White, "State-Sponsored Insurance of Bank Deposits in the United States, 1907-1929," *The Journal of Economic History* 41, no. 3 (1981): 537-557.
30. Charles W. Calomiris, "Regulation, Industrial Structure, and Instability in U.S. Banking," *U.S. Deregulation in Historical Perspective,* ed. Charles W. Calomiris (Cambridge: Cambridge University Press, 2000), 22-28.

31. Calomiris and Gorton, "The Origin of Banking Panics," 110.
32. Ellis W. Tallman and Jon R. Moen, "Lessons from the Panic of 1907," *Economic Review*, Federal Reserve Bank of Atlanta (May/June 1990), 2-11.