Remembering the POSTAL SAVINGS SYSTEM

With advocates that include Sen. Elizabeth Warren (D-MA) and presidential candidate Sen. Bernie Sanders (I-VT), the concept of postal banking has emerged as a way to ease the financial burdens faced by the poorest Americans. But critics have scoffed at the idea. "How could postal employees run a bank?" they ask.

Though little remembered, there was a time when the U.S. Post Office was the safest bank in the country, helping to keep the entire financial industry afloat. For millions of Americans, the idea of postal workers running a bank is what convinced them to do any banking at all.

As postal banking returns to the national stage, *The Postal Record* takes a look back at the United States Postal Savings System (USPSS).

International idea

Postal banking started in Great Britain, which established it in 1861. Geared toward the lower classes and offering an interest rate of only 2 percent, it became such a success that one contemporary called it "the greatest boon ever conferred on the working classes of this country." From Great Britain, postal banking spread throughout the British Empire—to New Zealand in 1876, Canada in 1868, Australia in 1871—and then to almost every Western country and Japan by the end of the century.

In 1871, John Creswell, appointed by President Ulysses S. Grant, became the first postmaster to propose a postal bank. Creswell said that the banking profits would be used to pay for a telegraph system. His proposal was modeled directly after Great Britain's banking system, though with a 4 percent interest rate, with the idea of bringing banking to the working poor.

There was a feeling that workers would be more trusting of a public institution, and that the many immigrants among the working class would already have trust in a postal bank, as those institutions often existed in the countries they had come from. Most banks operated on "bankers' hours," meaning they were not open when workers could access them, and were reserved for cities, especially in the Northeast. (In 1909, more than half of all the banks in the country were in New York and Massachusetts.) With stations in every town and city, the Post Office seemed the ideal institution for the federal government to create a banking network.

The U.S. banking industry balked at the idea of competing with the federal government, and small-government advocates believed there was no place for the federal government in the industry. This was at a time when there was no insurance for depositors, meaning that if a bank went out of business, peoples' savings went with it. It was also during a time when the federal government had few tools to put money into circulation during a recession or depression as banks would hoard funds and not loan them out, lengthening the recession or depression.

Opposite page: Boy Scouts participate in the Postal Savings System in 1913.

Above: The first day at the postal bank in New York

To reduce opposition, Creswell reduced the proposed interest rate to a modest 2.5 percent (well below what could be earned at private banks) and limited deposits to $300 annually or $1,000 total. President Grant took the idea to the people in his annual message to the country at the end of 1873: "Every laborer…receives his wages, and, for want of savings banks, the greater part of wages is carried in the pocket or hoarded until required for use…. I urge favorable action by Congress on the important recommendations of the Postmaster-General for the establishment of the United States postal savings depositories."

Congress refused to act on Grant's request or that of any subsequent president for the next 40 years, even as 72 bills were proposed.

The Panic of 1907

A postal savings depository window

Pivotal panic

In mid-October 1907, a financial crisis hit the New York Stock Exchange, with stock prices falling 50 percent from their peak the previous year. Panic ensued, with people attempting to withdraw their money from the banks, causing many state and local banks, as well as businesses, to go under. Those banks and individuals who did have currency refused to lend it, exacerbating the panic. It wasn't until financier J. P. Morgan pledged the backing of large sums of his own money that the panic subsided.

Out of this panic came calls for greater federal control of currency. The postmaster general of the time, George V. L. Meyer, renewed calls for a postal banking system, but with a twist: Whereas previous efforts had included the idea that deposits in the postal system would go to the U.S. Treasury, Meyer suggested that deposits go to local banks. The idea that the currency would not end up in the banks in the Northeast helped thrust the idea into the presidential election of 1908. Republican William Howard Taft backed postal banking, while Democrat William Jennings Bryan preferred federal deposit insurance.

Taft won the election, and his Republican majority in Congress passed the bill on June 22, 1910, along partisan lines. It was signed into law on June 25. A board of trustees consisting of the postmaster general, the secretary of the Treasury and the attorney general handled the administration of the system. The Post Office Department initiated the system in a trial period at 48 depositories, opening one per each state and territory on Jan. 3, 1911.

The law set the interest at a low 2 percent, and the postal banks couldn't pay interest on any account held less than a year. Also, 95 percent of the deposits were to remain in the local communities in established banks, where they earned 2.5 percent interest (with the half-percent difference used to pay for the operation of the system). Monthly deposit caps were set at $100 with a total savings cap of $500.

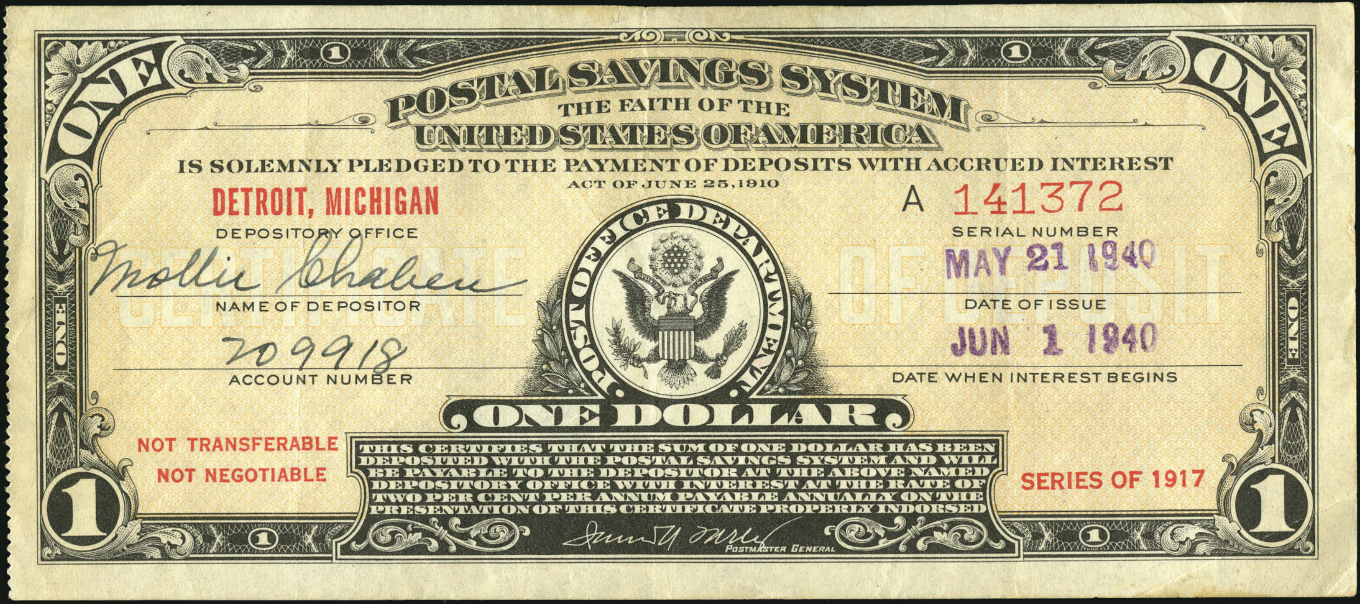
The initial minimum deposit was one dollar, though customers could purchase a 10-cent postal savings card and 10-cent postal savings stamps to fill it. When the card's value reached a dollar, it could be used to open or be added to an account, or redeemed for cash.

Unlike in other countries, each post office was treated as a unique bank, so a depositor couldn't withdraw his or her money from a separate station. Additionally, letter carriers could not handle deposits or withdrawals.

Thus was the United States Postal Savings System (USPSS) born.

An immediate success

Within the first year, $20 million was deposited in postal banks, and by the end of 1913, the total had reached $33 million. *The New York Times* reported that the postal banks were nearly self-sustaining and that, despite the private bankers' belief that those deposits would be from withdrawals from their banks, almost all



POSTAL SAVINGS SYSTEM
THE FAITH OF THE
UNITED STATES OF AMERICA
IS SOLEMNLY PLEDGED TO THE PAYMENT OF DEPOSITS WITH ACCRUED INTEREST
ACT OF JUNE 25, 1910

DETROIT, MICHIGAN
DEPOSITORY OFFICE

Mollie Chaben
NAME OF DEPOSITOR

709918
ACCOUNT NUMBER

A 141372
SERIAL NUMBER

MAY 21 1940
DATE OF ISSUE

JUN 1 1940
DATE WHEN INTEREST BEGINS

CERTIFICATE OF DEPOSIT

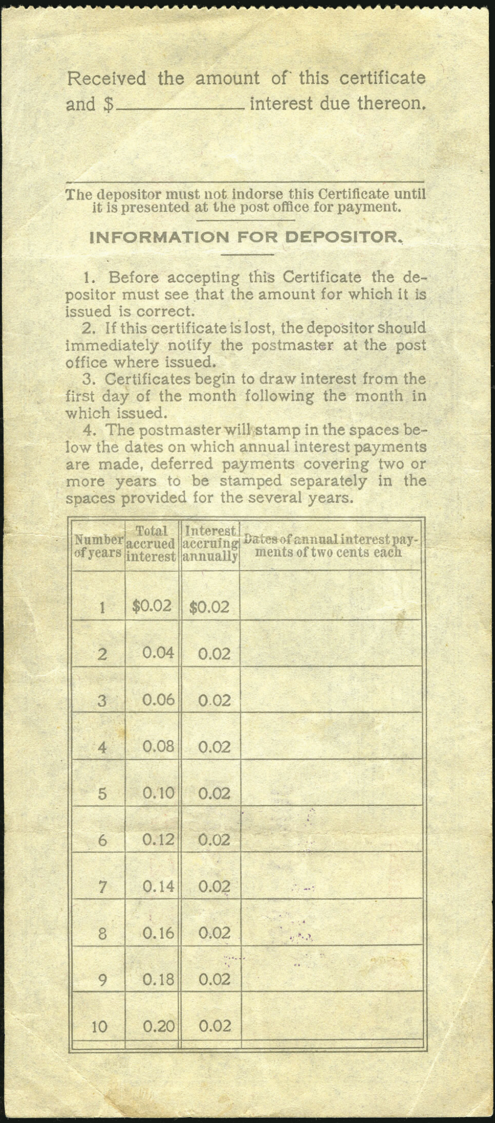
ONE DOLLAR

NOT TRANSFERABLE
NOT NEGOTIABLE

THIS CERTIFIES THAT THE SUM OF ONE DOLLAR HAS BEEN DEPOSITED WITH THE POSTAL SAVINGS SYSTEM AND WILL BE PAYABLE TO THE DEPOSITOR AT THE ABOVE NAMED DEPOSITORY OFFICE WITH INTEREST AT THE RATE OF TWO PER CENT PER ANNUM PAYABLE ANNUALLY ON THE PRESENTATION OF THIS CERTIFICATE PROPERLY INDORSED

POSTMASTER GENERAL

SERIES OF 1917



Received the amount of this certificate and $__________ interest due thereon.

The depositor must not indorse this Certificate until it is presented at the post office for payment.

INFORMATION FOR DEPOSITOR.

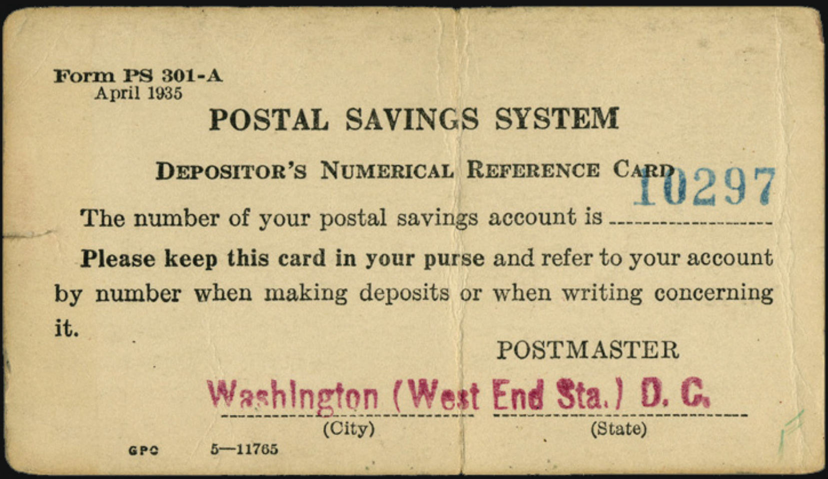
1. Before accepting this Certificate the depositor must see that the amount for which it is issued is correct.
2. If this certificate is lost, the depositor should immediately notify the postmaster at the post office where issued.
3. Certificates begin to draw interest from the first day of the month following the month in which issued.
4. The postmaster will stamp in the spaces below the dates on which annual interest payments are made, deferred payments covering two or more years to be stamped separately in the spaces provided for the several years.

Number of years	Total accrued interest	Interest accruing annually	Dates of annual interest payments of two cents each
1	$0.02	$0.02	
2	0.04	0.02	
3	0.06	0.02	
4	0.08	0.02	
5	0.10	0.02	
6	0.12	0.02	
7	0.14	0.02	
8	0.16	0.02	
9	0.18	0.02	
10	0.20	0.02	

Above and far left: A Postal Savings System note from the Post Office Department of the United States of America issued in 1940. The front had an ornate border, a vignette of the U.S. Seal and the printed signature of the postmaster general. On the back was a chart for when the interest would be received.

Left: U.S. Postal Savings stamps were issued in 10 cent, 25 cent, 50 cent, 1 dollar and 5 dollar increments. When these 10-cent stamps were collected into a dollar, they could be used to open or be added to an account.

Below: A Postal Savings System account-holder card issued in Washington, DC, in 1935



Form PS 301-A
April 1935

POSTAL SAVINGS SYSTEM

DEPOSITOR'S NUMERICAL REFERENCE CARD 10297

The number of your postal savings account is ____________

Please keep this card in your purse and refer to your account by number when making deposits or when writing concerning it.

POSTMASTER

Washington (West End Sta.) D. C.
(City) (State)

GPO 5—11765

An ad in the November 1913 edition of *Boy's Life* for the Postal Savings System

A poster advertising the security of the USPSS

of it came from money that had been hidden under mattresses or in other locations.

Due to deposit caps, many deposits were turned away. The *Times* reported that a miner in one western town had attempted to deposit $20,000 in coins "tarnished and long unused" from being saved in canvas sacks. Turned away beyond the maximum deposit, the miner took the majority of the coins back, likely returning them to his sacks. The *Times* estimated that more than $30 million had been turned away in similar fashion.

One of the surprises of the early success was where the money was coming from. Before going into effect, many assumed that the money would come from the rural poor in the South and Midwest, but instead it came predominantly from the urban areas, largely from immigrants.

According to congressional testimony in 1913: "Hundreds of thousands of our newly made citizens distrust banks and will not patronize them. They have absolute confidence in the Government and know what postal savings banks are."

The Postal Savings System encouraged this phenomenon, offering information in 24 languages with postmasters using phrase books in various languages to handle deposits from non-English speakers. Advertisements were run in foreign-language newspapers and magazines in the United States. By 1915, immigrants accounted for 60 percent of account holders and 75 percent of the total deposits, despite only being 15 percent of the U.S. population.

The limits on deposits were raised over time, but still were held in check. The savings limit was raised to $2,500 in 1918. If people wanted better returns, they could exchange increments of $20 for postal savings bonds, which yielded 2.5 percent interest.

Things continued like that until the 1930s, when the Great Depression changed everything.

Banking refuge

Following the stock market crash in the fall of 1929, the world economy plunged off a cliff. Unemployment in the United States rose to 25 percent. Farming and rural communities suffered as crop prices fell by nearly 60 percent. Construction virtually halted in many areas. And many banks went out of business, taking away whatever savings people had in them.

In 1930, nearly 50,000 new depositors took their savings to the Postal Savings System, adding almost $22 million in new deposits. At that time, the USPSS had $191 million in deposits. Those deposits nearly doubled every year for the next three years, eventually reaching $1.2 billion during the 1930s.

With these additions, the demographics shifted from the immigrant hubs in the Northeast and West to the Midwest and South, where banks were going under much more frequently. It's highly likely that the USPSS reduced the number of bank runs by putting money back into the local banks.

"The postal savings system is a logical refuge for the timid, and functions best in areas of financial stress," then-Postmaster General Walter Brown told *The New York Times*.

Even though this was one of the most successful times for the system, when President Franklin D. Roosevelt signed the Federal Deposit Insurance Corporation (FDIC) into law as part of the Banking Act of 1933, it ultimately marked the beginning of the end of postal banking.

'Buy war bonds'

Though selling savings bonds had been part of the USPSS for its entire existence, they took on prominence during World War II.

In 1941, citizens could buy "Defense Savings Stamps," which were treasury defense bonds used to fund the war effort. These were advertised to children, who bought them in droves, bringing in $100 million in the first year. It was the Post Office's most popular product during the war, ultimately raising $8 billion in additional war funding.

By 1947, deposits had jumped to $3.4 billion from 4 million depositors, thanks in part to a shortage of goods to buy and to the drop in interest rates at normal savings banks. Additionally, starting in the 1940s, the USPSS introduced the first-ever banking by mail service to military personnel stationed abroad, bringing in even more deposits.

The end of USPSS

The 1950s saw a shift away from postal banking. With the proliferation of cars and highways, it was easier for citizens to get to banks, and the FDIC meant that banks were safer and people had much more confidence in them. As interest rates at those banks started to rise, people began taking their postal savings elsewhere.

Over the next 14 years, postal bank deposits declined, and the government began to question the need for the Postal Savings System. Two government studies found that the original goals of the program no longer applied, and several bills were introduced in Congress to end the program.

By 1964, deposits had dropped to $416 million, and two years later President Lyndon Johnson's administration called for its end as part of streamlining the federal government. Congress soon acted to officially abolish the USPSS. The only opposition came from the United Federation of Postal Clerks and the National Postal Union, two unions that merged with others into the current American Postal Workers Union in 1971.

On April 27, 1966, the Post Office stopped accepting deposits and refused to open new accounts. Interest payments were cut off, and by the time the Postal Savings System officially ended on July 1, 1967, about $50 million remained in deposits. Over the next 17 years, most of those funds were either claimed or turned over to the Treasury.

Mostly forgotten

Even at the time of its demise, many already had forgotten about the program. *Time* magazine did an article on it in its July 13, 1970, edition and solely focused on the war bonds aspect:

"There was a time when they were as ubiquitous as victory gardens, rationing coupons, or the vats of bacon grease that mothers used to collect as part of the war effort. In World War II, nearly every schoolchild saved his nickels and dimes for Government Defense Savings Stamps to paste into a book toward the day he could purchase a $25 war bond.... Many Americans under 30 hardly knew that such stamps existed."

Even fewer know now. But until the FDIC revolutionized banking and made it safe, postal banking helped millions of Americans protect their savings. It brought uncounted immigrants and working poor into the banking system and helped ease the flow of money during financial calamities.

Today, new problems have arisen that have led many advocates of financial services reform to go back to the future. Retail banking networks have shrunk in many urban and rural communities, leaving nearly 70 million Americans unbanked (for more on the proposal for modern postal banking, see the December issue of *The Postal Record*).

Whether postal banking will ever exist in the future of the United States isn't knowable right now, but it's important that its past not be forgotten. **PR**

Depositors in 1946

This article was written from information in Mehrsa Baradaran's How the Other Half Banks *and the USPS historian's July 2008 article on the Postal Savings System, found at about.usps.com/who-we-are/postal-history/postal-savings-system.pdf.*