
Raymond B. Vickers

PANIC IN PARADISE: FLORIDA'S BANKING CRASH OF 1926

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Raymond B. Vickers is the physician who asks a patient if he would like to cut his family medical bills by 90 percent, extend his life-expectancy and that of his wife and children by perhaps a score of years, improve his and his family's general health, cut clothing expenses, extend the life of household furniture, lower insurance premiums, improve the trade-in value of the family car and the resale value of the family home, and maybe even make himself and family more socially

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attractive. Of course the patient is eager for an opportunity to improve his life drastically, but hesitates because it must be expensive. But no, the doctor says, the change will save hundreds of dollars a year and thousands over a lifetime. And how does the patient win the jackpot? Stop smoking. The patient leaves the office, angry at being tricked.

Vickers is a social reformer of the first order, an anachronism, a man of reason in an age of insanity. His panacea is sunshine, the removal of the secrecy shrouding public documents pertaining to financial institutions, their operators, and regulators. Vickers is angered by contemporary financial dealings that repeat crimes society might be spared if it were fully informed about earlier events. Decades after Florida's 1926 financial debacle Vickers was for years denied access to surviving state records—most have been destroyed to protect the guilty. Had the truth of the dealings and double dealings that led to the 1926 collapse been known and entered the historical record public losses from the savings and loan fiasco of the 1980s might not have materialized or would at least have been minimized. Elected officials insist that secrecy in public affairs benefits the commonweal. The news media reinforces that position and people in general accept it as social gospel, something that hardly makes sense on close perusal but must be accepted as a matter of faith.

Vickers is convinced that regulators are pledged to protect the public, not shield corrupt operators of publicly chartered financial institutions. The reactions to Vickers' presentations in an academic forum—Vickers is a practicing attorney and professor of history with an earned Ph.D.—offer insight into just how effectively the financial lobby manipulates the media. With skill that overshadows the tobacco lobby's, banking and financial houses buy the support of academics who write business and economic histories. What is so rare as a seriously critical study of a bank or an investment house? Academics pride themselves on their freedom from control, but willingly accept financial support to write business histories then angrily assail critics like Vickers who question freedom where large sums of money are involved. Vickers can document at least one case of a banking history that has not been published and is unlikely to be because the author accepted payment that made the manuscript the property of the bank about which he wrote. Naively the professor believed the officials who assured him that he was free to write what he perceived as the truth. What they did not add was their freedom to seize the manuscript should they find his version of the truth offensive. I have seen Vickers present his arguments for open records and freedom of access to regulators' files and have listened, amazed, as long-trusted colleagues argue that too much information about financial institutions is bad for the public. Without exception Vickers' assailants are authors of banking histories who are indebted to the industry but who rankle at the suggestion they are biased toward their source of lucre.

Panic in Paradise: Florida's Banking Crash of 1926 is Vickers' first complete investigation of financial fraud on a grand scale. He is currently investigating other deceptions conceived and directed by men (most of Vickers' villains are male) held in high esteem because their fraudulent activities are hidden from public view by laws that prevent access to public information, secrecy designed to protect the guilty because the guilty own the officials with the power to pass such laws.

The Florida crash grew from grandiose plans to turn the Sunshine State into a

semi-tropical paradise of planned communities designed to attract investors and generate profits. Financing projects like Boca Raton required huge sums of money without the strings that usually accompany it. Investors insist on prospectuses and regular accounting, but bank depositors can be duped into thinking their money is available on demand—the Bankers Financing Company of Jacksonville was presented as a deposit insurance system to 170 financial institutions when in fact there was not a dime set aside for depositor insurance (p. 143)—while it is tied up in development projects. Investors carefully monitor their profits and losses with an eye to selling out if expectations dim, but bank depositors who have no idea their money is being used to finance risky enterprises sleep contentedly, thinking the state regulators are protecting their best interests. Who would guess that regulators could be cheaply bought? If an investment fails, the banker need only divert assets of the bank into another institution under his control and declare bankruptcy. Losses are sustained by depositors, who are blamed for the collapse of their bank because they lacked faith in it and asked for their money. Meanwhile the banker who cost depositors their money continues operations from another bank or banks as the game goes on uninterrupted. Secrecy keeps the public from knowing who and what institutions are to be trusted.

The trick to big money in 1920s Florida was banking. The men who controlled the banks had access to vast sums of money at little cost and no risk. Gaining control of banks meant including public officials in the scam, spreading the gain around, reducing the risk of investigation, and eliminating the danger of conviction and punishment. If this sketch sounds outrageous, ask how many people have been jailed in the 1980s and 1990s for the great savings and loan heist that bilked billions of dollars from Americans, most of whom still have no idea how or why they are paying the tab while obscenely rich rogues are invited to address business schools on entrepreneurship.

Vickers presents his evidence in detail and with substantiation. Part 1, "Promoter-Bankers," comprises three chapters on the promoters, their connections with banking, and how they controlled their regulators. The great Florida feeding frenzy did not flourish in a vacuum. Vickers carefully places the schemes and dreams of the Sunshine State promoters in the context of American history—the roaring twenties, the interwar years, the automotive age, the decade of agricultural depression that paved the way for the industrial depression of the 1930s. Americans then, much like Americans in the 1990s, had no dream, no great goals to attain. The challenges of the twenties, like the challenges of the nineties, were not attractive, did not lend themselves to quick understanding and devotion. Illegal alcohol in the twenties, like unlawful drugs in the nineties, defied solution and sent reformers in search of riddles with answers. National heroes were scarce in the society that had conquered the frontier at home, and abroad had made the world safe for democracy by winning the war to end wars. Florida real estate promoters offered a dream to a society in search of one. Fuel up the family Ford and venture to America's paradise where planned communities would offer everything leisure-seeking, sun-worshipping citizens could desire. "Tales of quick profits caught the attention of the nation. Even William Jennings Bryan, the former secretary of state and three-time Democratic nominee for president, made more than \$500,000 by speculating

in his adopted state. Bryan became a believer in Florida" (p. 19). In an era when a Ford automobile could be purchased for less than \$300 (p. 18), \$500,000 was a fortune.

Vickers begins his story with Addison Mizner, the creator of Boca Raton, who launched his visionary empire with the financial support of celebrities attracted to his grandiose ideas. When that well soured, he tapped deposits of the Palm Beach National Bank, which he and his partners acquired and plundered, aided and abetted by Florida bank regulators. Mizner was not a lone corsair terrorizing Florida. James R. Anthony and Wesley D. Manley led a fleet of nearly two hundred banks against honest financiers in Florida, Georgia, New York, and New Jersey. Rather than fight bank regulators, Anthony and Manley piped them aboard and created an invincible armada under a single banner, the Jolly Roger.

Vickers devotes the three chapters of part 1 to the major characters in the drama of deceit and to explaining the plot. Part 2, "Regulatory Complicity," exposes the machinations of the regulators to conceal the fraud behind the real estate collapse then condemn bank depositors for causing their own losses. In July 1926, as banks closed their doors by the dozen and developers' empires in the clouds materialized as undrained swamps, "T. R. Bennett, Georgia superintendent of banks, proclaimed: 'The trouble . . . is not with the banks, it is with the people . . . agitators and hysterical people are doing incalculable harm'" (p. 78).

The technique was simple and straightforward. The developer and his partners secured a charter for a state (and sometimes federal) bank. Obstacles to chartering were overcome by bringing powerful politicians into the company. Once established the developers drew off depositors' money in unsecured personal loans for themselves, supporting politicians, and bank regulators. These loans were rarely repaid. Bank officials raised funds for the development project by selling their bank shares in the project then repurchasing the shares at original price if the market value had increased but otherwise leaving the shares with the institution. It was not unusual to leave the bank with paper that represented nothing, for the funds were invested in an ancillary company that either had no assets or had liabilities vastly outweighing its assets. When a bank or development company faced receivership, the bandit operators diverted anything of value to another bank or company they owned, leaving in its place worthless paper. Bank examiners reported insolvent banks to their superiors (regulators) without effect. Insolvent banks operated for years, financial time bombs waiting to detonate.

When the public lost confidence in a bank and demanded their deposits, insolvency quickly revealed itself. Tellers were instructed to discourage withdrawals, even refuse to return depositors' funds. Patrons were rudely greeted by gruff bank officials only until the doors could be locked and the shades pulled. But receivership did not end the deceit. Because the bank records were secret, regulators could appoint receivers who had unsecured loans with the bank they were supposedly putting right. Politicians' unpaid loans were written off and the depositors absorbed the losses. Attorneys and receivers assigned themselves princely fees for their skulduggery, fees approved by the regulators they protected by keeping the source of the bank's drainage a secret to be interred with their reports. Most states have destroyed the documents that would bring such financial chicanery to light.

Are states better off to elect or appoint their bank regulators? Vickers assigns two chapters to comparing the appointment system adopted by Georgia and the election system still used in Florida—Florida alone among the fifty states elects its bank regulator. He concludes that although abuses flourish under both systems, appointed comptrollers are easier to replace than elected ones, who can build a power base by abusing their office. The public only hears the accolades from the bankers because the fraud is a state secret even when documented.

The third and final part of Vickers' study reports the financial duplicity that accompanied the post-panic reconstruction. The second wave of bandits found plenty of booty for their efforts. Even U.S. Vice-President Charles G. Dawes, the recipient of a Nobel Peace Prize, participated in the profit-taking from the Florida collapse in the post-panic years. Dawes and his brothers gained control of the Mizner empire, siphoned off the assets, and left the offal for the bankruptcy courts to distribute to the depositors in Mizner-connected banks.

Chapter 7, "The Mad Banker," relates the story of Manley's efforts to avoid the loss of stolen wealth and the prosecutors' drive to convict offenders. Manley did not willingly become the lightning rod for his fellow corsairs, who were all too eager for him to shoulder the blame and public antipathy that belonged to them all. No easy target, he refused to follow the lead of men who had killed themselves rather than face trial, public humiliation, perhaps even the loss of plunder. Feigned madness may have caused Manley more pain than simple prosecution would have, but it certainly bought him time and a unique place in the history of pirates.

Chapter 8 is not as fascinating as the tale of Manley's madness, yet it cannot but rankle honest citizens to read about U.S. Senator Lawrence Sherman, his friends, and associates. Sherman used his position and contacts to slip under the umbrella of secrecy and deceit and join the looters of the remains of Florida banking after the panic of 1926. Vickers titles the chapter "Senatorial Privilege," but might just as well have called it Hyenas Feed in Florida.

A reading of *Panic in Paradise* is numbing. How could so many men have so few scruples among them? Why does the public continue to accede to secrecy for financial records and investigations when time and again that secrecy has cloaked fraud on a grand scale? Why are Vickers and men and women like him who call for sunshine laws and open records damned as villains for questioning the integrity of people who violate public trust? Why does the public tolerate grandiloquent swindlers who cost the commonweal billions, yet vent its spleen over welfare recipients who, combined as a national host, receive entitlements that total a fraction of the savings and loan booty? Why do people smoke cigarettes in light of the current knowledge of their ill effects?

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