

**The Kirtland Safety Society:
The Myths, the Facts, and the Prophet's
Good Name**

R. McKay White

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1. Introduction

The purpose of this paper isn't to provide a historical narrative of the Kirtland Safety Society. In this respect it departs from many of the previous works on this topic. Its purpose is provide reasoned answers, based on fact and analysis, to the many criticisms levelled against Joseph Smith and the Church regarding the Kirtland Safety Society. Because this is not a narrative it will not contain facts that, while relevant to the Safety Society, is not material to the criticisms. For example, there were two attempts to obtain a bank charter. While the fact that neither succeeded is important, the fact that there were two is not. For those interested in a complete exposition of all events pertaining to the Kirtland Safety Society, I refer you to other works.

In researching history, it is rare to come across a "fact" in the true sense of the word. Different people remember things differently, and errors can be made. As a result, two sources of the same event may be different in various respects. Identifying every such instance is outside my objective in this study. When differences occur, I adopt the one most likely to be correct. I do not indicate whether this has been done. If, however, the existence of conflict between two accounts is material to the describing and answer of criticism, both accounts are discussed.

Critics of the Church have taken many opportunities to impugn the Prophet and the Church based on their accounts of the matters at hand. These efforts are based on sensationalist tactics, repression of information, and poor academic methods¹. They grasp the imagination, so for one who is unacquainted with the full context of information, with the answers to the accusations, or with the fact that there are answers, these attacks can be faith-destroying or create ill-will toward the Church. As a result, it is time for a full explanation to be made and full answer to be given.

This paper will not follow the same manner as my presentation at the 2009 FAIR Conference. That presentation and this paper have different purposes. The purpose of my presentation seems to have generally been misunderstood. Forty minutes is severely insufficient to provide full information and to provide all sources. The purpose of the presentation was therefore to assure that there are answers to criticisms regarding the Safety Society and to provide a summary of

¹ In some cases, these methods are decidedly non-academic.

what those answers are. The intended audience was members of the Church. This paper is the medium by which the answers will be fully expounded and my sources will be made open to review. Its intended audience is any interested person. This paper is academic in nature, but every attempt is made to make each point understandable to the lay person.

There has been previous work by Church scholars on the Safety Society, and I am indebted to those authors. I will briefly review a few of the more important papers. Brothers Sampson and Wimmer (1972) provide a detailed analysis of the Safety Society's stock ledger. In doing so, they provide some points about possible causes of the Safety Society's failure and detail about the management of the ledger book. Brother Adams (1983) discusses the Safety Society's lack of a bank charter and the possible impact that had on its operations. Brother Partridge (1971-1972) explains the historical context in which the Safety Society was created, with emphasis on the social and economic environment. Brothers Hill, Rooker, and Wimmer (1976-1977) address some criticisms stemming from the Safety Society. In doing so, they explore the viability of Kirtland's economy and analyze some of the Safety Society's operations.

These studies are not comprehensive. Some important issues and criticisms need further addressing. This work treats the entire scope of the circumstances related to the Safety Society, and answers the main criticisms levelled against Joseph Smith and the Church. This task requires both economic and legal analysis. I am a lawyer and an economist. With this training, and source material unpublished in other works on this subject, I will put the controversial issues of the Safety Society to rest.

1.1 Timeline

Though this is not the purpose of this paper, a short historical account of events is necessary to understand the issues at stake. The history of the Safety Society began in the summer of 1836, shortly after the completion of the Kirtland Temple. The Church was in significant financial difficulty. As observed by Joseph Smith, "there are many causes of embarrassment, of a pecuniary nature now pressing upon the heads of the Church" (Smith, 1960). Church leaders discussed how these financial difficulties could be alleviated. They would have known that many

people in their situation found financial problems could be resolved by organizing a bank (Partridge, 1971-1972). As a result, they began investigating the formation of a bank in Kirtland. In November, they drafted a constitution for the bank. Oliver Cowdery was sent to Philadelphia to acquire plates for printing bank notes. Orson Hyde was sent to the state legislature to request a bank charter.

Both Oliver Cowdery and Orson Hyde returned on January 2, 1837. Brother Cowdery had obtained plates; however, Brother Hyde's application for a charter had been rejected. Because a charter was denied, the bank constitution was annulled and redrafted to form a joint-stock association. Following precedent set by other unchartered banks in Ohio and adjoining states, they called it an "anti-bank". Regular proceedings for management and auditing were codified in the Articles of Agreement, and published in the *Painesville Republican*². The Kirtland Safety Society Anti-Banking Company opened its doors on January 3.

Trouble began shortly thereafter. On January 23, 1837, the Safety Society stopped redeeming its notes for specie³. In March, Joseph Smith and Sidney Rigdon were charged with illegal banking. Their trial occurred in October, 1837. The jury found them guilty and fined them \$1000 each.

In May of 1837, a general banking panic sparked in the eastern states and spread across the country. Joseph Smith withdrew from the Safety Society in June, and publicly warned the Saints about continuing to use the Safety Society's notes. The Safety Society failed around November.

1.2 Criticisms and Brief Answers

There are a multitude of criticisms against Joseph Smith and the Church that relate to the Safety Society. These can be loosely grouped into four main criticisms. These are the criticisms that I will specifically address. In doing so, other possible criticisms, though not specifically mentioned, are also answered. The criticisms are:

1. The failure of the Safety Society proves Joseph Smith wasn't a prophet.

² vol. 1, no. 10, Thursday, January 19, 1837

³ Also called "hard money". This was gold, silver, and copper coins minted by the government.

2. Joseph Smith intended to use the Safety Society to defraud people of their money. This is usually supported by the following claims:
 - a. Kirtland's economy did not justify a bank.
 - b. The Safety Society was infeasible.
 - c. Joseph Smith recklessly printed bank notes.
 - d. Joseph Smith deceived people about the amount of specie the Safety Society had.
3. The Safety Society was illegal, and Joseph Smith knowingly broke the law.
4. Joseph Smith caused the failure of the Safety Society through his reckless printing of bank notes.⁴

In my analysis of the Safety Society, I establish:

1. Its failure supports the assertion Joseph Smith is a prophet.
2. Kirtland's economy required a bank.
3. The Safety Society was feasible.
4. Its risk was acceptable for the time.
5. Joseph Smith had honest motives for forming a bank.
6. Joseph Smith did not use the Safety Society as a dishonest means of making money.
7. Joseph Smith did not lie about the amount of specie.
8. Joseph Smith's and Sidney Rigdon's management was sound.
9. The Safety Society was legal.
10. The failure was due to Church antagonists and Warren Parrish.

The rest of the paper is organized as follows. Section 2 provides the economic foundation necessary for my analysis. In it, I explain the purposes of money, and money and banking in 1837. Section 3 discusses the necessity and feasibility of the Safety Society. I justify the creation of a bank in Kirtland, explain why it was Church leaders that started it, and establish the feasibility. In section 4 I establish the Safety Society's legality. In Section 5, I discuss the

⁴ The main criticisms can be found in the following works:

Fawn M. Brodie, *No Man Knows My History: The Life of Joseph Smith* (New York: Alfred A. Knopf, 1945)

Sally Denton, *American Massacre: The Tragedy at Mountain Meadows* (Secker & Warburg, 2003)

William Alexander Linn, *The Story of the Mormons* (New York: Russell & Russell, 1902)

Wilhelm Wyl, *Mormon Portraits Volume First: Joseph Smith the Prophet, His Family and Friends* (Salt Lake City: Tribune Printing and Publishing Co., 1886)

Society's failure. I explain previously proposed causes, and present the two factors that I argue caused the failure. Finally, I provide my conclusions.

2. Economic Foundation

Justifying the Safety Society and establishing its feasibility requires a working knowledge of economic conditions in frontier America in 1837. This, in turn, requires some understanding of the purpose of money, and how money and banking worked at the time, in the United States.

2.1 The Purposes of Money

Think of the last time you went grocery shopping. You had a list of what you needed, but it still took time to walk through the store looking for those items. When found, you may have looked at the different brands, trying to decide which one was best. Then you took your cart to the checkout lanes and had to wait in line. Once the cashier scanned all your purchases, you paid and left. That payment of money (whether cash, check, or card) in exchange for goods was a transaction. A transaction is any exchange of goods or services between two or more parties. All the other elements of our story – travel time, search time, wait time – were transaction costs. Transaction costs are any expenditure of time and money spent to make a transaction. Every transaction incurs some degree of cost. For example, consider selling a house. Usually, to sell a house the owner hires a real estate agent. There may be some effort in finding an agent the owner likes. Then there are the expenses of advertising the house. Time is also expended to show the house to potential buyers. If someone is interested, there is a period of negotiation. These are all transaction costs – finding an agent, advertising, looking for a buyer, and negotiating a price. Some of these costs are monetary; others are due to time or effort.

Transaction costs are bad. In economics, the point of transactions is to reallocate goods and services to those who value them most. Transactions improve overall welfare. Transaction costs impede the flow of goods and services, and so reduce welfare. It is possible for transaction costs to be high enough to prevent a good from being transferred to someone who values it more. One part of economics is to figure out how to minimize transaction costs.

Money helps reduce transaction costs. To see how, we'll consider the situation where money doesn't exist. If there is no money, that means we have a barter economy. Transactions occur by barter. Goods and services cannot be bought and sold because there is no money with which to do the buying. Instead, goods and services are traded. There are a couple problems when barter is the only method by which transactions can occur. The first is in the valuation of goods and services. Nowadays, when going to the store one knows exactly what something costs because there's a price tag specifying the dollar amount. In a barter economy there are no price tags. In order to value a good, it would have to be valued in terms of every other good. It can't be done. A shopper at the marketplace, then, has no information about how sellers are valuing their goods. A price has to be negotiated in terms of what the buyer has to offer. There can be no comparison shopping. The lack of valuation increases transaction costs.

The second problem is something called a "coincidence of wants". It is not enough for the shopper to find someone selling what he wants. He must also have something the seller is willing to trade for. This increases the effort required to find a trading partner. Transaction costs become even greater.

Because of these costs associated with barter, barter economies are very inefficient and hamper economic progress. Money provides a solution. It eliminates these problems, improves efficiency, and facilitates economic growth. How money accomplishes all this can be seen by explaining the purposes money serves.

There are several purposes to money, but two are relevant to the present discussion. First, money provides a standard unit of account. It is similar to the measurement of anything. If you want to know how long something is, you measure it in inches. The inch is a known, standardized amount. Likewise, if you want to know the value of a good, you measure it in dollars. This eliminates the requirement for negotiation in the majority of transactions. It assists negotiation by creating a common unit of account in which to negotiate. Furthermore, price comparisons can be made.

The second purpose can now be clearly seen. Money acts as a medium of exchange. There is no need for a coincidence of wants. Money can be exchanged for any good or service. A shopper can buy from any seller that has the desired good. Thus, the problems of a barter economy are eliminated. Goods are easily valued in terms of dollars, and by using money to make transactions there is no need for a coincidence of wants.

2.2 Money and Banking in 1837 America

The purpose of the preceding discussion was to establish the importance of money in a well-functioning economy. I will now explain how money and banking worked in the United States at the time of the Safety Society. We must beware indulgence in presentism – the tendency to impose present day conditions, customs, and values on a historical period. 1837 was different from today in ways other than the lack of electricity and automobiles. The banking sector was in its infancy. There had been two experiments with a central bank, and both had been terminated. People were still working out how banks function and what they could do. Banks in 1837 served some very different purposes than banks do today.

Money also worked significantly differently than it does now. In 1837 there was no national currency. There was no federal reserve controlling the supply of dollar bills. Instead, there were two types of money: specie (or hard money), and bank notes (or currency).

Specie was gold, silver, and copper coins minted by the government. Each coin was worth what the metal it was composed of was worth. There were many who argued that specie ought to be the only money in circulation. There would be benefits to such an economy. There would be no banking crises. But there would also be significant problems. Firstly, the economy could grow only so fast as new specie could be created. Given the difficulty and cost associated with minting new specie, this puts a severe limit on economic growth. Secondly, specie eliminates the problems of a barter economy only so long as there's enough specie to go around. If the supply of specie does not grow fast enough (which was often the case), transaction costs sharply increase and economic growth is retarded.

The problems with specie were ameliorated by bank notes. Bank notes were pieces of paper issued by individual banks. Each note was worth a specified, dollar amount. Bank notes were, in essence, debt instruments. A one dollar bank note was an obligation of the issuing bank to pay one dollar in specie to the bearer if turned in for redemption. This gave the notes value.

Explaining how bank notes fixed the problems in a specie-only economy gets into the purposes of a bank. Banks had three main purposes:

1. Increase the money supply
2. Provide liquidity
3. Make loans

Banks increased the money supply by operating on a fractional reserve basis. As stated, bank notes could be redeemed for specie. For the most part, they weren't. There was no reason to. What banks did, then, was issue notes beyond the amount of specie held in their vaults. They only had to maintain the amount of specie necessary to meet day-to-day demand. By increasing the money supply and providing flexibility to that supply, banks eliminated the short-comings of specie⁵.

This was supplemented through other processes. As described by Partridge (1971-1972):

Banks were able and willing to meet the demand for money by the simple process of exchanging the notes of a bank for a promissory note or bill of exchange of a firm or individual, i.e., by exchanging one kind of debt for another. The evidence of a bank's debt had general acceptability as a medium of exchange; the evidence of a firm's or individual's debt did not. Thus, by monetizing private debt, the growing demand for money was met.

Banks also provided liquidity. Every asset and debt is of varying degrees of liquidity. Liquidity is a measure of how easily something can be used, or transformed into something that can be

⁵ A national currency solves the problem of coordination. A central authority can manage the money supply more easily than several uncoordinated suppliers.

used, to make transactions. Money is obviously the most liquid asset. Land is very illiquid, as are machinery and equipment. Stocks and bonds are very liquid as they can easily be sold for money. Increasing the liquidity of assets was important. Farmers were not poor. The problem was that all their assets were illiquid – land and equipment. This made it difficult to buy and sell goods and services. It was very common for sales to be made on an open book account. The closing of books would occur only once a year (Williamson, 1951). Business of this sort is risky. When the day of reckoning comes at the end of the year, the debtor may be unable to pay. Banks resolved this problem by enabling farmers to borrow cash with their assets as collateral.

Finally, banks made loans. It is very rare for businesses and individuals to carry enough money for large economic projects like business expansion or start-up. Banks provided loans to enable economic expansion. By 1837 the United States had been experiencing a long period of economic prosperity. The boom in industry was accompanied by an explosion in the number of banks. The banks met the urgent need for credit created by industrial expansion (Bolino, 1961).

An illustration may help to convey the importance of banks in 1837. Consider someone looking to buy land for a farm. He has little money, but a speculator is willing to sell him good land for an obligation to pay at some time in the future. The new farmer works hard. He builds a house, plants crops, and makes other improvements. He has an excellent harvest and sells it all. The buyers don't have enough specie, so they give promissory notes. This isn't a problem; it was common to do business by promissory note, because of the lack of specie. The farmer is pleased. He's earned enough money to pay back the speculator. It comes time to pay. The farmer offers the promissory notes, but the speculator refuses. He demands specie. The farmer doesn't have specie. Those who owe him based on the promissory notes don't have specie. The farmer defaults on his debt obligation. He loses the farm, and all the improvements he made to the land. The speculator moves in and enjoys the fruits of the farmer's efforts.

This scenario was common. It could be avoided by a bank. Rather than being paid by promissory note, the farmer could be paid with bank notes. If the speculator refused them, the farmer could redeem them for specie. He kept the farm and all the work he put into it.

For all these advantages, there must be risks. Banks solve the problems of a specie-only economy, but introduce other potential problems. The first is the risk of a bank run. In 1837, there were two types of bank runs that could occur. The first has to do with the redemption of bank notes for specie. As stated above, banks operated on a fractional reserve basis. They issued bank notes in excess of the actual amount of specie they held. Usually this wasn't a problem. It happened now and then, however, that for whatever reason a large number of customers would seek to redeem their notes. In this way, the bank's specie reserve could be severely depleted or even exhausted. Unless the bank stopped redemption, the bank would be ruined. By stopping redemption, however, confidence in the bank's notes would decrease. The usual consequence was that the notes would trade for a discount, if at all.

The second type of bank run is one that can still occur today. Like today, people made deposits of money in banks. Periodically, they would add to or withdraw from their bank account. Banks did not, and do not, simply keep the deposited money in the safe. They only needed to keep a reserve sufficient to meet day-to-day demand. The rest was loaned out to others or otherwise invested. This is how banks make money. But just as customers could make a run on the bank's specie reserve, they could also make a run on its deposit reserve. If enough customers try to withdraw their money, the bank's reserves run out and it fails.

The second potential problem with banks was inflation. There were two means by which inflation could occur. The first type of inflation is the same as occurs today. If banks printed too much money, there would be an oversupply. The value of a dollar decreased. The result was that prices increased – there was inflation. The second type of inflation was if an individual bank printed too many bank notes. Too many notes would decrease confidence in the bank's ability to redeem them for specie. As a result, a one dollar note *from that bank* decreased in value. But other notes and specie were still as valuable. Therefore, instead of the general price level rising, that bank's notes would trade at a discount. Instead of being accepted as one dollar, a one dollar note would be accepted as 75 cents, or even less.

It should be noted that there are other possible causes of inflation. Inflation isn't always because of an oversupply of money. Inflation can be demand driven. If demand for goods increases faster

than supply, you have more people vying for the same good. As a result, the price is bid up. If prices are bid up, you have inflation. The solution to this type of inflation is to either increase supply or find a way to reduce demand.

3. Feasibility and Necessity

As an author noted, “Looked at from the dispassionate ground of a business view alone, one can hardly criticise the Mormon leaders for many of the ventures into which they were led” (Kennedy, 1888). The Kirtland Safety Society was one such venture. No criticism can justly be made, because the Safety Society was both feasible and necessary.

3.1 Necessity

The United States experienced tremendous economic expansion in the 1830s. This expansion increased the demand for money and credit. The increase in the number of banks met this demand (Hill et. al., 1976). Kirtland was no exception. Just like many other parts of the United States, a bank was necessary. Economic conditions made it so. Given Kirtland’s abundance of raw materials, labour, and entrepreneurial talent, and its rapidly expanding economy, the only limit on productive growth was a shortage of money (Partridge, 1971-1972). There was a need for the services a bank provides: liquidity, an increased money supply, and a source of loans. This section establishes the economic conditions that necessitated a bank and explains why they created a need for a bank.

The first point is that the economy was booming. Hill, Rooker and Wimmer (1976) provide a thorough analysis of Kirtland’s economy. They conclude conditions were very prosperous. It’s easy to see how that conclusion can be drawn. The Kirtland area produced dairy products, sheep, maple sugar, grain, cattle, iron castings, ash, and bricks. It also had a tannery. When the extension of the Ohio canal to Cleveland was completed in 1833, trade drastically increased for the area. For example, trade in wheat and flour increased tenfold (Hill et. al., 1976). When an economy is booming, there is demand for financial services. Businesses need money to expand production to meet increasing demand. Banks provide that money in the form of loans. Without a

bank, businesses in the Kirtland area would find it very difficult to expand. The increase in demand would not be met, and inflation would become severe.

Inflation was, in fact, a problem in Kirtland. The mid-1830s saw a general increase in the price level (Ludlow, 1992). Land prices increased 500% from 1830 to 1837 (Hill et. al., 1976), and food prices increased by almost 100% from 1836 to 1837 (Anderson, 1989). This inflation was due, in part, to the inability of firms to increase production to meet demand. A bank was needed to fund expansion projects.

The second point is that Kirtland had a money shortage. We do not know how much specie was in the area, nor do we have any data from which to estimate the amount. But we can look at some circumstantial evidence and draw conclusions from that. Firstly, there were no banks nearby. Money could not be transferred electronically. Bank notes could not be redeemed just anywhere. Banks had a limited effective area of service. There were no banks close enough to Kirtland to supply significant amounts of money. Secondly, specie was limited. This was true over most of the United States, but particularly true in the west, and in Kirtland (Firmage & Mangrum, 2001).

The final cause of a money shortage was that demand for money was increasing. Three factors were causing the increase in demand. Firstly, the population was growing (Hill et. al., 1976). More people in an area increases the number of transactions being made. With more transactions, more money is needed. Secondly, incomes were rising (Hill et. al., 1976). Wages were not paid by direct deposit. They were paid with money. If more must be paid out in incomes, more money is needed. Thirdly, there was inflation, as explained. Because prices were increasing, each transaction required more money. Again, the demand for money increases.

Given no bank in the vicinity, a limited supply of specie, and increasing demand for money, we can conclude there was a shortage of money in the Kirtland area. There is evidence this conclusion is correct. In the *Painesville Republican*, the editor expressed the following in an announcement of the formation of the Kirtland Safety Society⁶:

⁶ *Painesville Republican*, vol. 1, no. 10, Thursday, January 19, 1837, emphasis added

It is said they have a large amount of specie on hand and have the means of obtaining much more, if necessary. If these facts be so, its circulation in some shape would be beneficial to community, and *sensibly relieve the pressure in the market so much complained of.*

That pressure in the market was the shortage of money. The consequences of the shortage would be those discussed in section 2.2.

Finally, while the Safety Society's notes were accepted, the commercial health of Kirtland was improved (Fielding, 1957).

3.2 Feasibility and Risk

Having established that a bank was necessary in Kirtland, it is a simple matter to establish its feasibility. Kirtland was prospering, and given economic knowledge at the time, no one could have foreseen that that would change. An economy as prosperous as Kirtland's, with as much production and diversity of products as Kirtland, could support a bank.

There was also demand for the services a bank offers. There was demand for an increase in the money supply. There was a demand for loans to expand production. There was a demand for increased liquidity – for farmers trying to keep their farms and the improvements they had made. If there is demand for a service, provision of that service is feasible.

Finally, the Safety society had significant assets (Dudley, 1970). Most of those assets were in land (Dudley, 1970), but that was true of most banks (Kroos, 1955). There weren't really any alternatives. There was no stock market as there is today, or global market in commodities. Banks were very limited in the types of assets they could hold. They were, for the most part, quite illiquid. But in this, the Safety Society is no exception.

Linked to the issue of feasibility is the issue of risk. Was the Safety Society's risk acceptable? In assessing this issue, we must consider whether the risk was a typical for the time period. If typical, "...it then loses much of its significance as evidence for or against the management skills

of the Mormon leadership. How typical or representative an institution might be in a given period is crucial in the historical analysis of economic institutions” (Partridge, 1971-1972).

It is charged that the Safety Society was too risky, because Joseph Smith and Sidney Rigdon didn't know how to run a bank. However, this was common for banks in the west (Partridge, 1971-1972). Anyone who knew how to run a bank was already doing so. There were no educational institutions at which people could earn a degree in bank management. The people emigrating to the western frontier weren't established eastern businessmen. So, given starting a bank without experience was typical, this criticism is insignificant.

Furthermore, other organizations exhibited much riskier behaviour. It was common for states, municipalities, and businesses to undertake economic projects beyond their ability to pay (Partridge, 1971). They all regularly defaulted on their financial obligations, too. The Safety Society, therefore, did not exceed any expected level of risk. In the social and economic context, its risk was acceptable.

3.3 Joseph Smith

As was common for religious organizations and their leader, Joseph Smith and the Church were a single financial entity. The assets and liabilities of one were the assets and liabilities of the other. Because Joseph Smith had to manage not only his own affairs, but also the growth and establishment of the Church, he incurred significant debts. On the other side, he also had significant assets. His assets were sufficient to cover his debts (Adams, 1983). He had a problem, however. Whereas his debts were short term and liquid, his assets were mostly land, which is very illiquid. This created a cash flow problem. He couldn't turn his assets into cash to pay his and the Church's debts.

Church leaders concluded that a bank in Kirtland would help solve their problem (Partridge, 1971-1972; Hill et. al., 1976-1977). A bank would enable them to turn the Church's assets, land, into money in order to pay debts. They also recognized that a bank would help the Saints with similar cash flow problems. Joseph Smith's situation was not unique.

Critics charge that Joseph Smith concocted the bank as a money making scheme. Heaven forbid that Joseph Smith should have ever done anything to try to earn money. Of course he intended to earn money with the Safety Society. Anyone who started a bank had that expectation. The only problem is if Joseph Smith intended to use the Safety Society to *dishonestly* make money. The evidence overwhelmingly supports the conclusion that Joseph Smith had only honest intentions.

Joseph Smith's behaviour is not consistent with someone trying to bleed as much money out of an organization before it fails. Joseph Smith was the second largest shareholder (Backman, 1983), and paid more per share than 85% of the subscribers (Sampson, 1972). This means he had more at stake in the success or failure of the Safety Society than almost everyone else. Failure would incur great losses for him.

Joseph Smith increased his subscription when the Safety Society was in serious trouble (Sampson, 1972). In March and April, when a dishonest speculator would have taken what he could and jumped ship, Joseph Smith increased his financial investment in an effort to help support the Safety Society. Furthermore, he took out three loans on behalf of the Safety Society (Backman, 1983), and sold personal property for \$5000 for further support (Backman, 1983). Joseph Smith lost a significant amount of money from the Safety Society. This is not consistent with a dishonest business endeavour. On the contrary, it suggests an interested investor trying to make his enterprise succeed.

There was an accusation that Joseph Smith tried to deceive people about the amount of specie in the Safety Society's reserves.

Lining the shelves of the [Kirtland Safety Society] bank vault... were many boxes, each marked \$1,000. Actually these boxes were filled with 'sand, lead, old iron, stone, and combustibles' but each had a top layer of bright fifty-cent silver coins. Anyone suspicious of the bank's stability was allowed to lift and count the boxes. 'The effect of those boxes was like magic;' said C.G. Webb. 'The created general confidence in the solidity of the bank and that beautiful

paper money went like hot cakes. For about a month, it was the best money in the country. (Wyl, 1886)

This claim can be easily discounted. Firstly, Safety Society notes started trading at significant discounts within two weeks of opening day, not a month as Webb said. Secondly, if Webb was aware of this fraudulent behaviour, why did he wait until after the Safety Society failed to say anything? Finally, the claim is impossible. The bank “vault” was a safe measuring 25” x 24” x 29” (Anderson, 1989). There was hardly enough room for the number of boxes suggested by Webb’s account. It would be sufficient for the \$21,000 the Safety Society actually had, and little else.

4. Legality of the Safety Society

For years, critics of the Church have enjoyed claiming the Safety Society was illegal, and therefore Joseph Smith broke the law. Church apologists have been able to do little to answer this criticism, and little attention has been paid to it by scholars. The judgement of an Ohio court that Joseph Smith and Sidney Rigdon were guilty of unauthorized banking seems to be conclusive evidence. It is not. This section will explain why.

4.1 Wildcat Banks

An almost amusing claim by some critics is that the Safety Society was a wildcat bank. It seems likely this claim is based on the expectation that most readers today don’t know what a wildcat bank was, and therefore will be unable to judge for themselves whether the claim is true. It is wholly false, and easily demonstrated as such.

A wildcat bank was an enterprise intended only for defrauding the public. The operators would open for business, accepting deposits of specie and issuing bank notes in return. They would print more notes, and use them to go out and buy whatever they liked. The problem was where they located the bank office. The location was somewhere in the middle of a forest, or in the mountains, or some other location very difficult to find. Only the wildcats went there. Because

the bank office could not be found, no one could redeem the bank notes for specie. Once this was recognized, the bank notes quickly became worthless, and the operators of the bank disappeared with their goods and stolen specie.

The Safety Society office was down the street from the Kirtland Temple, a block from Joseph Smith's house and across the street from Sidney Rigdon's. If Joseph Smith and Sidney Rigdon were trying to make the office impossible to find, they did a pretty poor job of it.

4.2 Unauthorized Banking

In October, 1837, Joseph Smith and Sidney Rigdon were found guilty of unauthorized banking and fined \$1000 each. They paid the fines and appealed the verdict. Unfortunately, they were forced to leave Ohio for the safety of their lives before the appeal could be heard. Because of the conviction, however, it is usually concluded the Safety Society was illegal. Critics further charge that Joseph Smith *knowingly* broke the law. This charge is false. Furthermore, the Safety Society was not illegal. It was legal. The court got the law wrong.

Joseph Smith and Sidney Rigdon were charged and convicted under an Act passed in 1816 (1816 Act). It defines a bank as any institution performing banking functions, such as issuing notes for circulation. The Safety Society issued notes for circulation. It was therefore a bank. The 1816 Act makes operating a bank without a bank charter illegal. The Safety Society didn't have a charter, so it was therefore illegal under the 1816 Act.

The key to this issue is that the 1816 Act wasn't in force in 1837. The following argument will establish this fact.

On January 1, 1823, the Ohio legislature, by resolution, formed a Committee of Revision. The Committee's mandate was to review all laws of Ohio of a general nature⁷, draft revisions and new statutes as necessary, and to discard those statutes that ought to be discarded. The 1816 Act was discarded by the Committee, and a new statute was drafted in its place.

⁷ Meaning laws applicable to all of Ohio and not just a specific region

The Committee's work was completed in 1824. Based on the results of that work, the government published a revised code of Ohio. A revised code contains all statutes in force in a given region. The 1824 revised code of Ohio would therefore include all statutes in force in Ohio. It did not include the 1816 Act. It did include the replacement drafted by the Committee.

Is it any wonder that legal opinion at the time leaned strongly to the belief that the 1816 Act wasn't in force? Consider these two excerpts from the Painesville Republican:

It is doubted however, by good judges, whether the law to which we have alluded, is now in force, or if in force, whether it is not unconstitutional, and therefore not binding upon the people.⁸

This second is from a letter to the editor, undoubtedly written by a lawyer:

The law of 1816 ... has long since become obsolete and inoperative.... The law of '16 against private banking ... was rejected by the [Committee of Revision] and was not republished by the legislature.... We must suppose the legislature regarded the law of 1816 as not in force, and hence they did not publish it with their revised code....⁹

As stated above, the Committee of Revision drafted a statute to replace the 1816 Act, which was adopted by the government in 1824 (1824 Act). This Act did *not* make banking without a charter illegal. The only legal consequence of circulating notes from a bank without a charter was that such notes were deemed null and void in the courts. There is no prohibition against issuing and circulating these notes and no penalty for officers of unchartered banks. Under the 1824 Act, the Safety Society was legal.

There is further evidence the 1816 Act was not in force. The Kirtland Safety Society was not the first bank to operate without a charter. There were many other institutions in Ohio at the same time issuing bank notes without government authorization (see Backman, 1983; Hill et. al., 1976). These included insurance companies, savings institutions, the rather prominent Ohio

⁸ *Painesville Republican*, vol. 1, no. 10, Thursday, January 19, 1837

⁹ *Painesville Republican*, vol. 1, no. 14, Thursday, February 16, 1837

Railroad Company, and the Granville Alexandrian Literary Society. This last one even paid taxes levied only on banks. The remarkable point is, however, that none of these were prosecuted. They weren't prosecuted because they weren't illegal.

So what happened to the 1816 Act? There was no specific act of the legislature repealing it. This question was answered by the courts. The 1824 Act was repealed in 1839, well after the Safety Society existed. Subsequently, an Ohio court explained that the 1824 Act had suspended the operation of the 1816 Act (*Johnson v. Bentley*). The 1816 Act was not in force so long as the 1824 Act was in force. Once the 1824 Act was repealed, the 1816 Act was operative again.

In summary, the legal evidence is as follows. A committee formed by the State legislature discarded the 1816 Act and drafted the 1824 Act in its stead. The 1824 Act was accepted by the legislature. The 1824 Revised Code of Ohio included the 1824 Act, but not the 1816 Act. The opinion of many lawyers and judges was that the 1816 Act was not in force. A court explained that the 1824 Act suspended the 1816 Act. Based on this evidence, I conclude the 1816 Act was not in force in 1837. Therefore, the Safety Society was legal, and Joseph Smith and Sidney Rigdon should not have been convicted.

5. Failure

The remaining issue for discussion is why the Safety Society failed. There are two primary criticisms made against Joseph Smith that come directly from the failure. The first is the charge that the failure proves Joseph Smith wasn't a prophet. This assertion takes two directions:

1. Joseph Smith prophesied it would succeed, and it didn't.
2. It wouldn't have failed if Joseph Smith was a true prophet.

The first assertion is false. Joseph Smith never made any such prophecy. If there is such a revelation in favour of the Safety Society, no one's ever seen it except for one man who claimed he heard it once somewhere – Warren Parrish, an apostate. There are a number of reasons why his claim isn't credible, most of which will be discussed later on. On February 22, 1838, the *Painesville Republican* published a letter from Warren Parrish, in which he wrote:

I have listened to him with feelings of no ordinary kind, when he declared that the audible voice of God, instructed him to establish a Banking-Anti Banking institution, which like Aaron's rod should swallow up all other Banks (the Bank of Monroe excepted,) and grow and flourish and spread from the rivers to the end of the earth, and survive when all others should be laid in ruins.

This claim is rubbish. Firstly, Parrish was obviously a liar. In the same letter, Parrish claimed he had heard Joseph Smith say "... that man has no more agency than a wheelbarrow, and consequently is not accountable, and in the final end of all things no such principle will exist as sin." Anyone familiar with Joseph Smith's teachings knows this claim is incredible. Joseph Smith's preaching is filled with emphasis on the doctrine of repentance and man's responsibility to use his agency to do good.

Secondly, this claim is inconsistent with Parrish's previous claims. When Parrish apostatized, Joseph Smith also accused him of some serious misdeeds (to be explained below). Parrish was violently opposed to Joseph Smith and the Church. After his apostasy, Parrish was called as a witness for the prosecution in the attempted murder trial, Grandison Newell vs. Joseph Smith. When Parrish was "... asked by the lawyers, "Do you know of anything in the character or conduct of Mr. Smith which is unworthy of his profession as a man of God?" the answer was, "I do not."¹⁰ If Parrish were really as disillusioned as his letter to the *Painesville Republican* suggests, he would have used this opportunity to deface Joseph Smith to the utmost. Instead, he confirmed Joseph Smith as a man of outstanding character.

The revelatory experience that Parrish was likely referring to was recorded by Wilford Woodruff in his journal, on January 6, 1837.

I also heard President Joseph Smith Jr. declare in the presence of F. Williams, D. Whitmer, S. Smith, W. Parrish & others in the Deposit Office that he had received that morning the Word of the Lord upon the subject of the Kirtland Safety Society. He was alone in a room by himself & he had not only the voice of the spirit upon the subject but even an audible voice. He did not tell us at

¹⁰ *Elders' Journal* 1/4 (August 1838): 58

that time what the LORD said upon the subject but remarked that if we would give heed to the commandments the Lord had given this morning all would be well. (Jessee, 1971-1972)

Joseph Smith made reference to this revelation again, in a Church conference on September 3, 1837. He remarked how he "... had always said that unless the institution was conducted on righteous principles it would not stand" (see Roberts, 1930). That prophecy came true when the Safety Society failed two months later, in November (Roberts, 1930).

The second assertion is suggestive of a misunderstanding of prophets. Firstly, the Safety Society wasn't based on revelation. There was no direction from the Lord to establish it. Joseph Smith did not start it in his capacity as a prophet. The Safety Society was therefore like any other business establishment in Kirtland, and quite capable of failure. Secondly, Latter-day Saints do not believe their leaders are infallible. Given the Safety Society was not directed by God, and that Joseph Smith was subject to mortal weaknesses and failings, there was always a chance the Safety Society would not succeed. Failure, however, would have no bearing on his calling as prophet. Furthermore, as will be established, the failure had nothing to do with Joseph Smith or Sidney Rigdon. The Safety Society failed because of the poor use of agency of others.

The second criticism is that the Safety Society failed because Joseph Smith printed exorbitant amounts of bank notes, far in excess of what the Safety Society could reasonably support. This claim is also false. We do not know how much was printed in notes. Hill et. al. (1976), however, used the serial numbers on surviving notes with statistical techniques to estimate the amount. By their estimation, about \$100,000 (face value) of notes was printed while Joseph Smith was with the Safety Society. That number alone does not tell us whether the amount was unreasonable. What matters is the reserve ratio. The Safety Society had a reserve of hard money of about \$21,000 (Sampson & Wimmer, 1972). This means the Safety Society had a reserve ratio of 21%.

For comparison, we can use the largest bank in Canada, the Royal Bank of Canada. At the end of 2008, it had a reserve ratio of 3%. It should be noted that this is during a time of severe economic uncertainty, which the Royal Bank has weathered *very* well. That the Royal Bank functions that well with a reserve ratio that low is suggestive that the Safety Society's reserve

ratio of 21% is reasonable. Furthermore, the Safety Society's notes traded at a sizeable discount. By the time the full \$100,000 was put in circulation, their market value would have been about \$15,000. This means that in real terms the reserve ratio was 140%. I conclude that Joseph Smith and Sidney Rigdon managed the printing of bank notes well, and this did not contribute to the Safety Society's failure.

Now that the criticisms have been answered and discarded, there must be discussion of other possible causes of failure. One common conclusion is the Safety Society failed because of the 1837 banking panic and depression. While this likely hastened the failure, it cannot be the direct cause. The banking panic began in May, in the eastern states. It reached Ohio some time after May (Partridge, 1971-1972). The Safety Society's troubles began in January, months before the banking panic. Although the Safety Society likely would have failed in the banking panic regardless of other circumstances (as did a great many of banks), the banking panic is not the direct cause of the Safety Society's failure.

Another common explanation is the Safety Society's lack of a charter. With no charter, people and businesses had no confidence in the Society's bank notes and would not circulate them. This conclusion can also be discarded. Firstly, the notes did circulate, much better than would be expected. Secondly, there were many other institutions in Ohio, contemporary to the Safety Society, that were operating successfully without a charter. Why should this factor be mortal to the Safety Society and not to the other banks? I therefore argue that this cannot be the cause, either.

I argue there were two causes of failure. The first was a bank run. Soon after the Safety Society began operation, antagonists of the Church collected as many of its bank notes as they could and attempted to redeem them for specie (Backman, 1983). The Safety Society couldn't do it. To have done so would have depleted its reserves and destroyed its viability. It therefore had to stop redemption of notes for specie. This should not be attributed to mismanagement by Joseph Smith and Sidney Rigdon. Banks in smaller communities such as Kirtland had a weakness – their assets were illiquid. Their loans were long-term and their debts, bank notes, were short-term. When

attempts were made to redeem the notes, the average state bank couldn't turn its assets into cash fast enough to meet demand (Kroos, 1955).

The refusal to redeem notes severely sapped confidence in the notes. Bank notes derived their value from the ability to turn them into specie. Bank notes will circulate only so long as people are confident in their continued circulation. Without the ability to redeem them, there would be significant doubt that others would accept them as money. Safety Society bank notes quickly began circulating at significant discounts.

Warren Parrish was the second cause of the Safety Society's failure. Parrish was a teller, secretary, and cashier of the Safety Society. He had been part of Zion's Camp, and was a member of the first quorum of the seventy (Smith, 1960). Joseph Smith noticed that money went missing when only Parrish had access to it (Roberts, 1930). He was confident that Parrish was keeping it in a certain trunk. Joseph Smith sought a warrant to search the trunk, but by the time the warrant was granted, Parrish had moved the trunk to an unknown location. We do not know whether the money was in the trunk or not. Heber C. Kimball recorded, however, that Parrish later admitted to embezzling \$20,000 (see Sampson & Wimmer, 1972). This would have been disastrous for the Safety Society. With \$20,000 in stolen notes, Parrish could theoretically have drained all but \$1000 of the Safety Society's reserves – all its liquid assets. There would have been no more Safety Society.

This is not exaggeration. One need only consider the recent financial crisis, in which financial giants such as Lehman Bros., AIG, and Goldman Sachs had a large portion of their liquid assets go sour. Had the government not injected millions of dollars into the financial system, the American banking sector likely would have collapsed, just as the Safety Society did.

Embezzlement was not the only indiscretion by Warren Parrish. As recorded by George A. Smith (see Sampson & Wimmer, 1972):

Warren Parrish was the teller of the bank, and a number of other men who apostatized were officers. They took out of its vault, unknown to the President or cashier, a hundred thousand dollars, and sent their agents around among the

brethren to purchase their farms, wagons, cattle, horses and every thing they could get hold of. The brethren would gather up this money and put it into the bank, and those traitors would steal it and send it out to buy again, and they continued to do so until the plot was discovered and payment stopped.

Joseph Smith warned that if the Safety Society was not conducted on the basis of righteous principles it would not stand. Given the dishonest and fraudulent behaviour of Warren Parrish and others, it could not have survived.

Warren Parrish apostatized. He was a member of the group that, during Sunday Service in the temple, rose up with pistols and bowie knives and attempted to drive the Saints from the temple to claim it for themselves.

6. Conclusion

This paper has examined a large number of issues related to the Kirtland Safety Society. It has attempted to answer all criticisms that have been or will be made against Joseph Smith and the Church regarding the Safety Society. In particular, it has answered the charges that the Safety Society's failure proves Joseph Smith wasn't a prophet, that Joseph Smith intended to use the Safety Society to defraud the public, that Joseph Smith knowingly broke the law, and that its failure was due to Joseph Smith.

In answering these criticisms, this analysis has established the following. The Safety Society's failure supports Joseph Smith's claim as a prophet. His only prophecy regarding the Safety Society was that it would fail if not conducted on righteous principles. Its failure was, in fact, a direct result of fraud and dishonesty on the part of Warren Parrish and other officers. I have also established that Kirtland's economy needed a bank. There was a shortage of money and a shortage of funds for business expansion. These problems were seriously detrimental for Kirtland's prosperity. The Safety Society was also feasible. There was demand for a bank's services, and the economy could support one. The risk of the venture was acceptable. It was common for those starting a bank to have little knowledge of how to run a bank. The Safety Society's assets were sufficient. Joseph Smith had honest motives for establishing a bank. He

and the Church needed a bank for transforming their illiquid assets into money for the payment of debts. This was an honest and legal endeavour. The claim that he presented boxes of debris as boxes of specie is not credible. Joseph Smith did intend to make money with the Safety Society, but not through dishonest means. He lost money due to his efforts to prevent the Safety Society from failing. The failure was not due to mismanagement or the reckless printing of notes by Joseph Smith and Sidney Rigdon. Failure was due to a coordinated bank run by Church antagonists and fraud by Warren Parrish.

Finally, the Safety Society was legal. The act under which Joseph Smith and Sidney Rigdon were prosecuted and convicted was not in force in 1837. The court made an error. Had the case been able to proceed to appeal, an honest judge would have overturned the conviction. At last, the Safety Society in no way fits the description of a wildcat bank.

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