ANALYSIS OF THE BANKING AND CURRENCY SYSTEM OF THE UNITED STATES pdf

1: A Timeline of United States Currency - The Daily Reckoning

An Analysis of the Banking and Currency System of the United States Indicating the Cause of Periodic Panics and Suggesting a Remedy by Charles Wesley Disbrow.

By only a small margin, Congress agreed to charter the Second Bank of the U. In Andrew Jackson was elected president. Jackson was a notorious foe of the central bank and vowed to destroy it. Banks began issuing their own money notes that could be redeemed in gold or coins, and offered demand deposits to enhance commerce. This caused a big jump in the volume of check transactions. Abraham Lincoln signed what was originally known as the National Currency Act, which for the first time in American history established the federal dollar as the sole currency of the United States. Having everyone on the same currency provided for nationally chartered banks, whose circulating notes had to be backed by U. There was an amendment to the act, which required taxation on state bank notes but not national bank notes, which effectively created a uniform currency for the nation. Even though they were being taxed on their notes, state banks continued to flourish in light of the increasing popularity of demand deposits, which, as we told you, took hold during the Free Banking Era. Financial Freak Outs While there was a little bit of currency stability for our rapidly growing country, thanks to the National Banking Act of , bank runs and financial panics were far from a thing of the past, and perpetually plagued the economy. These bank panics were so universal that they made their way into mainstream popular culture. In , a bank panic triggered the worst depression the United States had ever seen. The economy only stabilized after hot-shot financial mogul J. The Broadway melodrama The War of Wealth was inspired by the bank panic of An Abysmal Year Saying that was a very bad year for the stock market could be the understatement of the century. What started as a bout of speculation on Wall Street ended in utter failure, triggering a particularly severe banking panic. Morgan was called upon to save the American people and avert disaster. We mentioned that, by this time, most Americans were fed up with the banking system jerking them and their savings around. Everyone agreed that the current system desperately needed some kind of reform, but the structure of that reform deeply divided American citizens between conservatives and progressives. The one thing they could agree on was that a central banking authority was needed to ensure a healthy banking system and provide for an elastic currency. A Decentralized Central Bank An immediate response to the panic of was the Aldrich-Vreeland Act of , which would provide for emergency currency issue during crises. Lead by Senator Nelson Aldrich, the commission developed a banker-controlled plan. Progressives like William Jennings Bryan strongly opposed; they wanted a central bank under public control. Alas, the election of Democrat Woodrow Wilson in effectively killed the Republican Aldrich plan, but the stage was set for a decentralized central bank to emerge. Creating the Federal Reserve Act Woodrow Wilson was a far cry from a finance and banking expert, so he wisely sought out expert advice from Virginia Representative and soon-to-be chairman of the House Committee on Banking and Finance, Carter Glass, and H. Parker Willis, a former professor of economics at Washington and Lee University. Carter Glass left and Rep. Steagall, the co-sponsors of the Glass-Steagall Act. The Glass-Willis proposal was intensely debated and modified from December of to December of Many saw this Act as a classic example of compromiseâ€”a decentralized central bank that worked to balance the two competing interests of private banks and what the American people wanted. It was these three men who had the daunting and unenviable task of building a functioning institution around the brass tacks of the new law before the new central bank could begin operating. However, come November 16, , 12 cities had been chosen as sites for regional Reserve Banks, and they were open for business. The bigger impact in the U. This allowed the United States to indirectly help finance the war and aid the flow of trade goods to Europe. That is until , when the United States officially declared war on Germany and financing our own war effort became priority number one. Strong started to buy up a large amount of government securities in an effort to stem a recession in To a lot of people, this was a clear indication of the influential power of open market operations on the availability of credit in the banking system. It was during the s that the Fed started using open market operations as a tool for monetary policy. The Crash and the Depression All throughout the s, Carter Glass warned the general public that stock market speculation would lead to dire consequences. But did they listen? In October , he had the displeasure of being right when his predictions proved to be spot-on and the stock market crashed. What followed was the worst depression in American history. People were angry with the Fed, and blamed them for failing to diminish the speculative lending that led to the crash in the first place. Others argued that a fundamentally inadequate understanding of economics and monetary policy prevented the Fed from going after policies that could have arguably lessened the depth and effects of the Depression. The Aftermath After the Great Depression, Congress passed the Banking Act of or the Glass-Steagall Act which separated commercial and investment banking, and required government securities to be used as collateral for Federal Reserve notes. This practice proved to have major future impacts when holding companies became a prevalent structure for banks. Along with all the other massive reforms taking place left and right, Roosevelt went ahead and recalled each and every gold and silver certificate, effectively ending gold and other metallic standards. In , The Fed was named the regulator of bank holding companies owning more than one bank with the passing of the Bank Holding Company Act. In the Humphrey-Hawkins Act required that the Fed chairman report to Congress twice a year on monetary policy goals and objectives. The Treasury Accord After the U. This was at the request of the Treasury so the federal government could participate in cheaper debt financing of the war. To maintain the pegged rate, the Fed was forced to give up control of the size of its portfolio as well as the money stock. Conflict between the Treasury and the Fed became obvious when the Treasury directed the Fed to maintain the peg after the start of the Korean War in Truman felt it was his duty to protect patriotic citizens by not lowering the value of the bonds that they had purchased during the war. The Federal Reserve, on the other hand, was focused on containing inflationary pressures in the economy, caused by the growing intensity of the Korean War. The Fed and the Treasury got into an intense debate for control over interest rates and U. They were only able to settle their dispute with an agreement known as the Treasury-Fed Accord. The Fed was no longer obligated to monetize the debt of the Treasury at a fixed rate, and the Accord became essential to the independence of central banking and the Fed pursues monetary policy today. Inflation, Deflation The s were on an inflation skyrocket to the moon as producer and consumer prices rose, oil prices surged, and the federal deficit more than doubled. Preparing for Financial Modernization The Monetary Control Act of marked the beginning of modern banking industry reforms. The Act required the Fed to competitively price its financial services against those of private sector providers, and to establish reserve requirements for all eligible financial institutions. After the Act was passed, interstate banking quickly increased, and banks started to offer interest-paying accounts to attract customers from brokerage firms. Change was chugging along quite steadily, and, in , the Gramm-Leach-Bliley Act was passed, essentially overturning the Glass-Steagall Act of and permitting banks to offer an array of financial services that were previously unavailable, including investment banking and insurance. So what does he do? On October 20, he ordered the Fed to issue a one-sentence statement before the start of trading: When a decade of economic expansion in the 90s came to a close in March , what followed was a short, shallow recession ending in November After the stock market bubble burst in in the early years of the decade, the Fed moved to lower interest rates rapidly. The Fed used monetary policy during this time on several occasions â€" including the Russian default on government securities and the credit crunch of the early 90s â€" in order to keep financial problems from negatively affecting the real economy. The hallmarks of the decade were generally declining inflation and the longest peacetime economic expansion in United States history. The Federal Reserve System is open and operating. The discount window is available to meet liquidity needs. In the following days and weeks, the Fed lowered interest rates and, in order to provide some semblance of stability to the U. In rare form, the Fed actually played a critical role in lessening the impact of the September 11 attacks on the American financial markets. The Fed played the pivotal role in dampening the effects of the September 11 attacks on U. Score one for the Fed! Changes in Discount Window Operation The Federal Reserve changed its discount window operations in in order to have rates at the window set above the prevailing Fed Funds rate, and to provide rationing of loans to banks through interest rates. Our Current Financial Crisis and the Response The American Dream of homeownership was realistically attainable for many more people during the early s, thanks to low mortgage rates and expanded access to credit. This increased demand for housing drove up prices, creating a housing boom that got a boost from increased securitization of mortgagesâ€"a process in which mortgages were bundled together into securities that were traded in financial markets. Securitization of riskier mortgages expanded rapidly, including subprime mortgages made to borrowers with poor credit records. House prices faltered in early and then began their steep tumble downward, head over feet, along with home sales and construction. With house prices falling left and right, some homeowners owed more on their mortgages than their homes were even worth. Starting with subprime and eventually spreading to prime mortgages, more and more homeowners fell behind on their payments. Delinquencies were on the rise, and lenders and investors alike finally got the wake up call that a lot of residential mortgages were not nearly as safe as everyone once believed. The mortgage meltdown surged on, and the magnitude of expected losses rose dramatically and spread across the globe, thanks to millions of U. This made it difficult to determine the value of loans and mortgage-related securities, and institutions became more and more hesitant to lend to each other. Lehman and Washington Mutual Fail The situation reached a fever-pitch crisis point in Fears about the financial health of other firms led to massive disruptions in the wholesale bank lending market, which caused rates on short-term loans to rise sharply relative to the overnight federal funds rate. Then, in the fall of , two large financial institutions failed: Since major financial institutions were extensively intertwined with each other, the failure of one could mean a domino effect of losses through the financial system, threatening many other institutions. Needless to say, everyone completely lost confidence in the financial sector, and the stock prices of financial institutions around the world plummeted. No one wanted anything to do with them. This credit crunch dealt a huge blow to household wealth, and people started cutting back on spending as they wondered what the hell they were going to do about their depleted savings. The snowballing continued as businesses canceled expansion plans and laid off workers, and the economy entered a recession in December In reality, the recession was pretty mild until the fall of hit and financial panic intensified, causing job losses to soar through the roof. This helped lower the cost of borrowing for households and businesses alike on mortgages and other loans. The Fed wanted to stimulate the economy and lower borrowing costs even further, so they turned to some pretty unconventional policy tools. So, what does that mean exactly? Well, these purchases by the Fed have worked to reduce interest rates on mortgages, making home purchases more affordable for everyday Americans. The Constitution only authorized the federal government to issue coins, not paper money.

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2: The Banking System: Federal Reserve System

An Analysis of the Banking and Currency System of the United States: Indicating the Cause of the Periodic Panics and Suggesting a Remedy Paperback - May 25,

Because the involvement of commercial banks in securities underwriting was seen as having contributed to banking instability, the Glass-Steagall Act of forced the separation of commercial and investment banking. It was argued that paying interest on demand deposits introduced unhealthy competition. Recent Responses to New Deal Banking Laws In a sense, contemporary debates on banking policy stem largely from the reforms of the post-Depression era. Although several of the reforms introduced in the wake of the crisis have survived into the twenty-first century, almost all of them have been subject to intense scrutiny in the last two decades. For example, several court decisions, along with the Financial Services Modernization Act Gramm-Leach-Bliley of , have blurred the previously strict separation between different financial service industries particularly, although not limited to commercial and investment banking. Further Reading Bernanke, Ben S. University of Chicago Press, Columbia University Press, Cornell University Press, National Bureau of Economic Research, Models, Facts, and Bank Regulation. The Evolution of a National Market. Journal of Money, Credit and Banking 4 Oxford University Press, Federal Deposit Insurance Corporation. Federal Reserve Board, Monetary Policy and Financial Markets. A Monetary History of the United States, Princeton University Press, Harvard University Press, Evidence from the s. Explaining Banking Stability during the Great Depression. Manias, Panics, and Crashes: A History of Financial Crises. Chelsea House Publishers, Essays on Instability and Finance. Miron , Jeffrey A. The Free Banking Era: Cambridge University Press, History of Crises under the National Banking System. Government Printing Office, Lessons from the Great Depression. The Federal Reserve System: Its Origin and Growth: Reflections and Recollections, 2 volumes. The Regulation and Reform of American Banking, The Twentieth Century, edited by Stanley L. Engerman and Robert E. The Banking Panics of the Great Depression. Banking Panics of the Gilded Age. The First Bank, which was chartered by Congress at the urging of Alexander Hamilton, in , was granted a year charter, which Congress allowed to expire in The Second Bank was chartered just five years after the expiration of the first, but Andrew Jackson vetoed the charter renewal in and the bank ceased to operate with a national charter when its year charter expired in The US remained without a central bank until the founding of the Federal Reserve in Even then, the Fed was not founded as one central bank, but as a collection of twelve regional reserve banks. American suspicion of concentrated financial power has not been limited to central banking: Hugh Rockoff suggested the following to me: It has even been claimed that by setting up a national system, banks in the South were undermined â€" as a war measure. According to monetarists Friedman and Schwartz and Cagan , the monetary contraction associated with bank failures magnifies real economic downturns. Bernanke argues that bank failures raise the cost of credit intermediation and therefore have an effect on the real economy through non-monetary channels. An alternative view, articulated by Sprague , Fisher , Temin , Minsky , and Kindleberger , maintains that bank failures and monetary contraction are primarily a consequence, rather than a cause, of sluggishness in the real economy which originates in non-monetary sources. See Grossman for a summary of this literature. This severely limited their ability to compete with state banks in the trust business. These restrictions included a limit on the amount that could be loaned to one borrower as well as limitations on real estate lending. See Grossman on the European banking crisis of The best source on the gold standard in the interwar years is Eichengreen Net Encyclopedia, edited by Robert Whaples.

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3: History of banking in the United States - Wikipedia

*An Analysis of the Banking and Currency System of the United States: Indicating the Cause of the Periodic Panics and Suggesting a Remedy [Chas W. b. Disbrow] on www.enganchecubano.com *FREE* shipping on qualifying offers. This work has been selected by scholars as being culturally important, and is part of the knowledge base of civilization as we know it.*

Banking Structure The structure and regulation of banking systems varies widely across countries-just as it may across states within the U. In , almost three out of every four banks was chartered and regulated at both the state and federal level. Even though these restrictions were removed in the s as part of the process of authorizing and implementing interstate banking, at year-end there were still more than 8, insured commercial banks and about 1, insured savings institutions in operation in the U. For example, the Bank for International Settlements banking industry concentration ratio a measure of the cumulative percentage share of deposits or assets as a share of total industry deposits or assets for the five largest banks in the U. Concentration ratios for Canada The Institute of International Bankers lists several activities that may be permissible for banking organizations across countries. In those five powers included: In the United States, following passage of the Gramm-Leach-Bliley Act , banks -- through financial holding companies -- are now permitted to offer securities products with restrictions on how these are offered and insurance products for nonbank subsidiaries of financial holding companies. Investments in and by Industrial Firms Finally, U. Those challenges include financial market innovation, competition from fast growing nonbank financial institutions, and from foreign banking firms. Regulatory reforms have played an important role in shaping the U. Interest rates have been deregulated. Interstate banking reforms allowed bank holding companies to expand across state lines and set up nearly nationwide operations. Consolidation, in part driven by interstate banking, has cut the number of commercial banks almost by half. Overall importance Banks also play a larger role in the financial systems in many other countries than they do in the U. Likewise, the robust growth of U. Summary of Deposits data reported by the Federal Deposit Insurance Corporation FDIC for June 30, indicate that 2, of 8, commercial banks had a national charter and would be regulated by the Office of the Comptroller of the Currency. The remaining 6, banks are chartered at the state level. The Federal Reserve regulates the state-chartered banks that are members of the Federal Reserve System. The remaining 5, banks are state chartered and are regulated by their respective states and the FDIC. Federal Deposit Insurance Corporation. Department of Finance, Canada. Institute of International Bankers. Pages Furlong, Fred.

ANALYSIS OF THE BANKING AND CURRENCY SYSTEM OF THE UNITED STATES pdf

4: USD - US Dollar rates, news, and tools

An analysis of the banking and currency system of the United States: indicating the cause of the periodic panics and suggesting a remedy Item Preview.

The Federal Reserve System came into being in , after the passage of the Federal Reserve Act and largely in response to the bank panic of Since the formation of the Fed, Congress has passed numerous additional laws adding or altering the powers and responsibilities of the Fed, including: While arguably initially created to enhance the stability of the banking system and the economy, the Federal Reserve serves many different simultaneous functions. The Fed is the means by which the United States conducts monetary policy, as well as a regulator of banks, and a service provider to the financial system and government of the United States. Although the Fed is supposed to be an independent body, and its decisions are not ratified by the President or Congress, there is often a large degree of consultation and cooperation between the bodies. To learn more, see our tutorial on The Federal Reserve. The committee includes a seven-member board of governors and five reserve bank presidents. While four of these five seats rotate among reserve presidents in one-year terms, the president of the New York Federal Reserve Bank has a permanent seat on the committee. The eight annual meetings of the FOMC are closed to the public, but minutes and vote records are made available after the meetings. Federal Reserve Banks There are 12 regional Federal Reserve banks that assist in controlling the money supply and executing Fed policy. Louis and San Francisco. Perhaps not surprisingly, the New York Federal Reserve bank is the largest of the 12, in terms of assets. The Federal Reserve banks act as depositories for federal money and act as payment agents for government transactions. These banks play a role in distributing currency to commercial U. Fed Operations The Fed can alter the money supply through open market operations, that is, buying or selling government securities. When the Fed wishes to increase the money supply, it goes into the market and buys bonds from banks; those banks can then lend out that cash. On the flip side, the Fed can sell bonds to these banks and drain money from the market. Second, the Fed can change the reserve requirements for banks. As previously mentioned, the money supply is tied directly to the percent of deposits that banks hold as reserves. If the reserve rate is increased, the money supply decreases, and vice versa. Banks do not always loan out the maximum amount that they are allowed to, and alterations to the reserve requirement can create instability in the banking sector, to say nothing of taking some time to go into effect. Consequently, this is not an especially commonly used method by the Federal Reserve. Lastly, the Federal Reserve can impact the money supply through interest rates. The Fed does not directly determine what an individual borrower pays for a mortgage or new car loan, but interest rates, by and large, flow from whatever the Fed charges. Consequently, if the Fed raises rates, those rates typically work down through all levels of banking and ultimately result in higher lending rates, and less lending activity. The Fed is also a lender of last resort within the banking system, a regulator and a data gathering and analysis operation. Controversies About the Fed System The validity and utility of the Federal Bank is certainly not universally accepted. There has always been a debate about the constitutionality of a national bank, and the extent to which the federal government plans or controls the economy through that bank. Contrary to the experience of bank panics every decade in the s, throughout most of which the U. Likewise, while some believe that the Fed is too willing to accommodate political administrations and allows asset bubbles to inflate and continue, others believe the Fed interferes too much in the economy of the United States. Central Banks Around the World Despite the controversy around the role, or even the existence, of the Federal Reserve System, most developed countries in the world now have functional central banks. As is the case with the U. Federal Reserve, most central banks have responsibility for executing monetary policy and overseeing the banking system. There are certainly differences from country to country in how the central banks operate and the extent to which they are independent of, or beholden to, the ruling administration. One additional notable difference is that some central banks explicitly target a certain inflation rate and base their policy decisions on that target. While some argue that this approach sacrifices economic growth for stability, it does lend predictability to the interest rate outlooks.

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5: Banking in the United States - Wikipedia

An analysis of the banking and currency system of the United States: indicating the cause of the periodic panics and suggesting a remedy / By Chas. W. (Charles Wesley) Disbrow and United States Fidelity and Guaranty.

New Nation[edit] In the first half of the 19th century, many of the smaller commercial banks within New England were easily chartered as laws allowed to do so primarily due to open franchise laws. The rise of commercial banking saw an increase in opportunities for entrepreneurs to borrow capital used to grow an enterprise. The small private banking sector saw a great deal of insider lending. Many of these banks actually spurred early investment and helped spur many later projects. Despite what some may consider discriminatory practices with insider lending, these banks actually were very sound and failures remained uncommon, further encouraging the financial evolution in the United States. Early attempts to create a national bank[edit] In , an act of the Congress of the Confederation established the Bank of North America in Philadelphia, where it superseded the state-chartered Bank of Pennsylvania founded in to help fund the war. The Bank of North America was granted a monopoly on the issue of bills of credit as currency at the national level. Robert Morris , the first Superintendent of Finance appointed under the Articles of Confederation, proposed the Bank of North America as a commercial bank that would act as the sole fiscal and monetary agent for the government. He has accordingly been called "the father of the system of credit, and paper circulation, in the United States. In the last decade of the eighteenth century the United States had just three banks but many different currencies in circulation: English, Spanish, French, Portuguese coinage, scrip issued by states, and localities. The values of these currencies were approximated and fluctuations in exchange rates were published. While values of various currencies did fluctuate geographically, this was irrelevant in a society dominated by local trades. Ron Michener of UVA discusses the colonial monetary situation in depth [2] Supporters of the bank argued that if the nation were to grow and to prosper, it needed a universally accepted standard coinage and this would best be provided by a United States Mint , aided and supported by a national bank and an excise tax. Opponents of the bank argued that government monopolization of money was a corrupt exercise that would impoverish the people. First Bank of the United States[edit] Main article: The bank, which was jointly owned by the federal government and private stockholders, was a nationwide commercial bank which served as the bank for the federal government and operated as a regular commercial bank acting in competition with state banks. Subsequently, the credit and borrowing status of the Treasury was at its lowest level ever. Partisan politics came heavily into play in the debate over the renewal of the charter. Viewed through the lens of party elite discourse, Schlesinger saw inter-party conflict as a clash between wealthy Whigs and working class Democrats. During September , President Jackson issued an executive order that ended the deposit of government funds into the Bank of the United States. While it is true that 6 out of the 7 initial depositories were controlled by Jacksonian Democrats , the later depositories, such as the ones in North Carolina , South Carolina , and Michigan , were run by managers who opposed Jacksonian politics. It is probably a misnomer to label all the state chartered repositories "pet banks". The following year, New York enacted similar legislation with the Free Banking Act, and other states soon followed. These banks could issue bank notes against specie gold and silver coins and the states regulated the reserve requirements , interest rates for loans and deposits , the necessary capital ratio etc. Free banking spread rapidly to other states, and from to all banking business was done by state-chartered institutions. Bank notes were issued against little or no security, and credit was overexpanded; depressions brought waves of bank failures. In particular, the multiplicity of state bank notes caused great confusion and loss. However, after several years of experience, with the exception of a few exogenous shocks, different states developed more functional and stable banking industries. National Bank Act To correct the problems of the "Free Banking" era, Congress passed the National Banking Acts of and , which created the United States National Banking System and provided for a system of banks to be chartered by the federal government. The National Bank Act encouraged development of a national currency backed by bank holdings of U. It established the Office of the Comptroller of the Currency as part of the United States Department of the Treasury , authorizing it to examine and regulate nationally chartered banks. This tax also gave rise to another response by state banksâ€"the widespread adoption of the demand deposit account, also known as a checking account. By the s, deposit accounts had changed the primary source of revenue for many banks. The result of these events is what is known as the "dual banking system. At first this new national banking system grew very fast at the expense of state banks, but state banks quickly recuperated as the checking sector began to expand. Additionally, capital requirements for state banks were reduced, which aided their resurgence. Jay Cooke launched the first mass securities selling operation in U. Because of this need for capital, many banks began to arise by the late 19th Century. By , New England became one of the most heavily banked areas in the world. In contrast, the dramatic growth of the United States created capital requirements that far outstripped the limited capital resources of American banks. Investment banking in the United States emerged to serve the expansion of railroads, mining companies, and heavy industry. Unlike commercial banks, investment banks were not authorized to issue notes or accept deposits. Instead, they served as brokers or intermediaries, bringing together investors with capital and the firms that needed that capital. Bimetallism and Gold standard Bimetallism became a center of political conflict toward the end of the nineteenth century. To finance the Civil War, the U. In , the government passed the Fourth Coinage Act and soon resumption to specie payments began without the free and unlimited coinage of silver. This put the U. This angered the proponents of monetary silver, known as the silverites. The "silverites" argued that using silver would inflate the money supply and mean more cash for everyone, which they equated with prosperity. The gold advocates countered that silver would permanently depress the economy, but that sound money produced by a gold standard would restore prosperity. The Republican Party nominated William McKinley on a platform supporting the gold standard which was favored by financial interests on the East Coast. A faction of Republicans from silver mining regions in the West known as the Silver Republicans endorsed Bryan. However, his presidential campaign was ultimately unsuccessful; this can be partially attributed to the discovery of the cyanide process by which gold could be extracted from low-grade ore. This increased the world gold supply and caused the inflation that free coinage of silver was supposed to bring. The McKinley campaign was effective at persuading voters that poor economic progress and unemployment would be exacerbated by adoption of the Bryan platform. There was no legal requirement to separate the operations of commercial and investment banks; as a result deposits from the commercial banking side of the business constituted an in-house supply of capital that could be used to fund the underwriting business of the investment banking side. Pujo Committee In , the Pujo Committee unanimously determined that a small cabal of financiers had gained consolidated control of numerous industries through the abuse of the public trust in the United States. The committee issued a scathing report on the banking trade, and found that the officers of J. The report revealed that no less than eighteen different major financial corporations were under control of a cartel led by J. The report revealed that a handful of men held manipulative control of the New York Stock Exchange and attempted to evade interstate trade laws. Schiff , Felix M. Warburg , Frank E. Federal Reserve System The Panic of was headed off by a private conglomerate, who set themselves up as "lenders of last resort" to banks in trouble. The legislation provided for a system that included a number of regional Federal Reserve Banks and a seven-member governing board. All national banks were required to join the system and other banks could join. Congress created Federal Reserve notes to provide the nation with an elastic supply of currency. The notes were to be issued to Federal Reserve Banks for subsequent transmittal to banking institutions in accordance with the needs of the public. The Federal Reserve Act of established the present day Federal Reserve System and brought all banks in the United States under the authority of the Federal Reserve a quasi-governmental entity , creating the twelve regional Federal Reserve Banks which are supervised by the Federal Reserve Board. Credit unions in the United States Credit unions originated in Europe in the midth century. The first credit union in the United States was established in in New Hampshire. At the time, banks were unwilling to lend to many poor laborers, who then turned to corrupt moneylenders and loan sharks. With the help of the Credit Union National Extension Bureau and an army of volunteers, states began passing credit union legislation in the s. Credit unions were formed based on a bond of association , often beginning with a small group of employees. Despite opposition from the banking industry, the Federal Credit Union Act was signed into law in as part of the New Deal , allowing the creation of federally chartered credit unions in the United States. The Act sought to give national banks competitive equality with state-chartered banks by letting national banks branch to the extent permitted by state law. The McFadden Act specifically prohibited interstate branching by allowing each national bank to branch only within the state in which it is situated. Savings and loan associations[edit] Main article: Savings and loan association The savings and loan association became a strong force in the early 20th century through assisting people with home ownership, through mortgage lending, and further assisting their members with basic saving and investing outlets, typically through passbook savings accounts and term certificates of deposit. The earliest mortgages were not offered by banks, but by insurance companies, and they differed greatly from the mortgage or home loan that is familiar today. Most early mortgages were short term with some kind of balloon payment at the end of the term, or they were interest-only loans which did not pay anything toward the principal of the loan with each payment. As such, many people were either perpetually in debt in a continuous cycle of refinancing their home purchase, or they lost their home through foreclosure when they were unable to make the balloon payment at the end of the term of that loan. It established the Federal Home Loan Bank and associated Federal Home Loan Bank Board to assist other banks in providing funding to offer long term, amortized loans for home purchases. The idea was to get banks involved in lending, not insurance companies, and to provide realistic loans which people could repay and gain full ownership of their homes. Savings and loan associations sprang up all across the United States because there was low-cost funding available through the Federal Home Loan Bank for the purposes of mortgage lending. New Deal-era reforms[edit] Further information: New Deal During the s, the U. The incoming Roosevelt administration and the incoming Congress took immediate steps to pass legislation to respond to the Great Depression. Roosevelt entered office with enormous political capital. Americans of all political persuasions were demanding immediate action, and Roosevelt responded with a remarkable series of new programs in the "first hundred days" of the administration, in which he met with Congress for days. During those days of lawmaking, Congress granted every request Roosevelt asked, and passed a few programs such as the FDIC to insure bank accounts that he opposed. With strident language Roosevelt took credit for dethroning the bankers he alleged had caused the debacle. On March 4, , in his first inaugural address , he proclaimed: Practices of the unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men. The money changers have fled from their high seats in the temple of our civilization. The act was passed and signed into law the same day. It provided for a system of reopening sound banks under Treasury supervision, with federal loans available if needed. Three-quarters of the banks in the Federal Reserve System reopened within the next three days. Billions of dollars in hoarded currency and gold flowed back into them within a month, thus stabilizing the banking system.

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6: US Banking History, Civil War to World War II

An Analysis of the Banking and Currency System of the United States by Charles Wesley Disbrow, Chas W Disbrow, United States Fidelity & Guaranty, United States Fidelity and Guaranty Company Publication date

Most of us need a mortgage , or some form of credit , to make such a large purchase. In fact, many people use credit in the form of credit cards to pay for everyday items. Currency, particularly the use of coins, grew out of taxation. In the early days of ancient empires, a tax of one healthy pig per year might be reasonable, but as empires expanded, this type of payment became less desirable. Additionally, empires began to need a way to pay for foreign goods and services, with something that could be exchanged more easily. Coins of varying sizes and metals served in the place of fragile, impermanent paper bills. To read more about the origins of money, see What Is Money? Flipping a Coin These coins, however, needed to be kept in a safe place. Numerous people, like priests or temple workers whom one hoped were both devout and honest, always occupied the temples, adding a sense of security. There are records from Greece, Rome, Egypt and Ancient Babylon that suggest temples loaned money out, in addition to keeping it safe. Coins could be hoarded more easily than other commodities, such as pound pigs, so there emerged a class of wealthy merchants that took to lending these coins, with interest , to people in need. Temples generally handled large loans, as well as loans to various sovereigns, and these new money lenders took up the rest. The First Bank The Romans, great builders and administrators in their own right, took banking out of the temples and formalized it within distinct buildings. Julius Caesar, in one of the edicts changing Roman law after his takeover, gives the first example of allowing bankers to confiscate land in lieu of loan payments. Small-time moneylenders that competed with the church were often denounced for usury. Visa Royal Eventually, the various monarchs that reigned over Europe noted the strengths of banking institutions. This easy finance led kings into unnecessary extravagances, costly wars, and an arms race with neighboring kingdoms that would often lead to crushing debt. The trend of turning a blind eye to the creditworthiness of big customers, continues to haunt banks up into this day and age. Adam Smith and Modern Banking Banking was already well established in the British Empire when Adam Smith came along in with his " invisible hand " theory. This free market capitalism and competitive banking found fertile ground in the New World, where the United States of America was getting ready to emerge. To learn more, read Economics Basics. The average life for an American bank was five years, after which most bank notes from the defaulted banks became worthless. These state-chartered banks could, after all, only issue bank notes against gold and silver coins they had in reserve. Compounding these risks was the cyclical cash crunch in America. Alexander Hamilton, the secretary of the Treasury , established a national bank that would accept member bank notes at par , thus floating banks through difficult times. This national bank, after a few stops, starts, cancellations and resurrections, created a uniform national currency and set up a system by which national banks backed their notes by purchasing Treasury securities , thus creating a liquid market. Through the imposition of taxes on the relatively lawless state banks , the national banks pushed out the competition. The damage had been done already, however, as average Americans had already grown to distrust banks and bankers in general. Merchant Banks Most of the economic duties that would have been handled by the national banking system, in addition to regular banking business like loans and corporate finance , fell into the hands of large merchant banks , because the national banking system was so sporadic. During this period of unrest that lasted until the s, these merchant banks parlayed their international connections into both political and financial power. Originally, they relied heavily on commissions from foreign bond sales from Europe, with a small backflow of American bonds trading in Europe. This allowed them to build up their capital. At that time, a bank was under no legal obligation to disclose its capital reserve amount, an indication of its ability to survive large, above-average loan losses. While upstart banks came and went, these family-held merchant banks had long histories of successful transactions. As large industry emerged and created the need for corporate finance, the amounts of capital required could not be provided by any one bank, and so initial public offerings IPOs and bond offerings to the public became the only way to raise the needed capital. The public in the U. By the late s, many banks demanded a position on the boards of the companies seeking capital, and if the management proved lacking, they ran the companies themselves. Morgan and Monopoly J. Morgan and Company emerged at the head of the merchant banks during the late s. It was connected directly to London, then the financial center of the world, and had considerable political clout in the United States. To find out more about this subject, read Antitrust Defined. Although the dawn of the s had well-established merchant banks, it was difficult for the average American to get loans from them. Racism was also widespread and, even though the Jewish and Anglo-American bankers had to work together on large issues, their customers were split along clear class and race lines. These banks left consumer loans to the lesser banks that were still failing at an alarming rate. The Panic of The collapse in shares of a copper trust set off a panic that had people rushing to pull their money out of banks and investments, which caused shares to plummet. Without the Federal Reserve Bank to take action to calm people down, the task fell to J. Morgan to stop the panic, by using his considerable clout to gather all the major players on Wall Street to maneuver the credit and capital they controlled, just as the Fed would do today. The End of an Era Ironically, this show of supreme power in saving the U. The fact that it took J. Morgan, a banker who was disliked by much of America for being one of the robber barons with Carnegie and Rockefeller, to do the job, prompted the government to form the Federal Reserve Bank, commonly referred to today as the Fed, in Although the merchant banks influenced the structure of the Fed, they were also pushed into the background by it. To learn about robber barons and other unseemly financial entities, see Handcuffs and Smoking Guns: The Criminal Elements of Wall Street. When World War I broke out, America became a global lender and replaced London as the center of the financial world by the end of the war. Unfortunately, a Republican administration put some unconventional handcuffs on the banking sector. The government insisted that all debtor nations must pay back their war loans, which traditionally were forgiven, especially in the case of allies, before any American institution would extend them further credit. This slowed down world trade and caused many countries to become hostile toward American goods. When the stock market crashed on Black Tuesday in , the already sluggish world economy was knocked out. A clear line was drawn between being a bank and being an investor. In , banks were no longer allowed to speculate with deposits and the FDIC regulations were enacted, to convince the public it was safe to come back. No one was fooled and the depression continued. WWII, and the industriousness it generated, lifted the U. For the banks and the Federal Reserve, the war required financial maneuvers using billions of dollars. This massive financing operation created companies with huge credit needs that, in turn, spurred banks into mergers to meet the new needs. These huge banks spanned global markets. More importantly, domestic banking in the United States had finally settled to the point where, with the advent of deposit insurance and mortgages, an individual would have reasonable access to credit. The Bottom Line Banks have come a long way from the temples of the ancient world, but their basic business practices have not changed. Banks issue credit to people who need it, but they demand interest on top of the repayment of the loan. 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