History of The U.S. Federal Banking System

Isabel Wise and Matt Gilbaugh

Question

- Does anyone know what the first commercial bank on the U.S. was?

Bank of Pennsylvania

- First commercial bank in the U.S.
- Founded in 1780
- Founded in order to cover the debts incurred as a result of the Revolutionary War
- Stockholders and directors were politically, financially, and socially prominent men

A Liſt of the Stockholders

IN THE

BANK of PENNSYLVANIA.

A.

JOHN ALEXANDER
Caleb Attmore
Charnleſs Allen
James Aſh
William Armſtrong
Thomas Allibone,
George Aſton
Thomas Armat
Alexander Addiſon
Robert A[illegible]ſly

B

Joſhua Brackett
Samuel Blodget, jun.
John Baker
Clement Biddle
Felix Brunot
Bohl Bohlen
Charles Biddle
William Ball
John Brown
William Bell, jun.
James Boylan
John Barclay
Budd and Pryor
Philip S. Bunting
James Burnſide
Robert S. Bickley
Thomas Briſtoll
Cornelius Barnes
Samuel Bayard
John Baker
Boller and Jorden
Andrew Bayard
Samuel Betton
George De Benneville
Edward Burd
Thomas Say Bartram
Moſes Bartram
James Boyd
Jacob Barge
Charles Bunall
Joſeph Ball
Anthony Butler
John Blakey
C. Baring, jun.
Jacob C. Baker
Joſeph Budd
George Bickham & Co.
William M. Biddle
Peter Blight
Thomas Billington

C.

William Craig
Robert Campbell
Jacob Clark
John Craig
William Craig
John Chaloner
James Crawford
George Claypoole
Thomas P. Cope
John Clein
John Clark
Mary Caſtard
Frances and Ha. Cliſten
John Capp
Joſeph Cowperthwait
John Carr
James Corniſh
James Craig, *Carpenter*
Cornelius Comegys
David H. Cunyngham
Miles F. Cluſey
Matthew Clarkſon
James Craig, ſenior.

D

Joſeph Donaldſon
William Davidſon
John Donaldſon
Edward Dunant
Ann Dunkin
John Doyle
Nathan Dorſey
James Duncan
Monſieur Deglos
Andrew Douglaſs
Abraham Dubois
Edward D[illegible], jun.
John Dickins
John Dorſey
Jacob Duche
William [illegible]
John Dunkin
Philip Dick
Rob. H. Dunkin
Jacob Dowing

E.

Griffith Evans
Griffith & Geo. Evans
Samuel Emery
George Emlen
Hugh Ely
James Ewing
William Ewing
Jonathan Elmer.
James Ewing
John Ewing

F

John Flack
Joſeph Fry
John Fry, jun.
Alexander Foſter
William F[illegible]
Samuel M. Fox
Nathaniel Falconer
Samuel Fiſher
William Findley
Edward Fox
John Fromberger
Nalbro & John Frazier
Samuel Fulton
Chriſtian Febiger
Iſaac Fitzrandolph
Samuel W. Fiſher.

G

Peter S. Glentworth
Adam Guier
The German Society
Joſeph Govett
John Gernon
Monſieur Gerard
Robert Gilchriſt
Margery Ged
Conrad Gerhard
John Grandom

H

Reverend John Hurt
Frederick Heiſz
William B. Hockley
Henry Hutchins
Reuben Hains, jun.
John Haſleine, ſen.
Ebenezer Hazard
Joſeph Huddell
Joſeph Huddell, jun.
George Harriſon
Benjamin Holland
Hugh Henry
Frederick Heiſz
James Hutchinſon
Samuel Hodgdon
Godfrey Haga
Holmes & Rainey
Mary Hood
Robert Henderſon
Samuel Howell
Rachel Hunt
Hugh Holmes

I

Inſurance Co. No. America
Jackſon & Evans
Samuel Jackſon
Samuel Jones
Matthew Irwin
Jared Ingerſoll
Francis Ingraham
David Jackſon
Francis Johnſon
John M. Jones

K

Andrew Kennedy, jun.
William Kidd
Robert Kid
John Keble
Adam Kuhn
William Knox
Knox & Henderſon
Michael Kepple

L

John Li[illegible]bert
John Lowry
Matthew Lawler
William Lane
Peter Laſley
Thomas Leaming, jun.
John Liſle, jun. & Co.
Frances Lardner
Hannah Lardner
Jacob Lawerſwyler
David Lynn
William Lane.
Nathaniel Lewis
Iſaac Lloyd

M

Monſieur Mangault
Abraham Markoe
Samuel Maſſey
James M'Crea
Magnus Miller
Morgans & Douglaſs
Frances Murray
John & Wm. Montgomery
John M'Culloh
James & Wm. Miller
Thomas M'Euen
B. M'Clenachan & P. Moore
William Moulder, jun.
Samuel M'Lane
John Montgomery
John Morgan
Henry Miller
Richard Marlay
Benjamin Morgan
Henry Montfort
John M'Cree
Elizabeth M[illegible]g
Thomas L. Moore
B. M'Clenachan
Jonathan Mifflin
George Meade
William Mackinzie
James & Adam Mendenhall
Patrick Moore

N

John Nicholſon
William and Jno. Newbold
Jno. Nicholſon and Co. Ex'rs.
~~of Barnabas Binney,~~
Philip [illegible]

Ephraim Oldden
Thomas Orr
John Oldden

P

George Pennock
Richard and James Potter
Thomas Paine
Andrew Philler
Charles Pettit
Thomas Paſchall
Matthew Parker
Andrew Porter & Co.
Pragers and Co.
Andrew Pettit
Richard Patterſon
Thomas Parke
Charles Gottl. Paleſke
Thomas Prichett
Iſaac Pearſon
James Paul

R

Thomas Ruſton
Charles Riſk
Joſeph Richardſon
Philip Reilly
Reed & Forde
Robert Ralſton
Henry & Patrick Rice
John Roſs
Mary T. Roberts
James Read
Jacob Reed *of New-York*
Robert Rainey
Cropley Roſe

S

John Swanwick
Henry Shleſman
Walter Stewart
Lawrence Sickel
Sweetman & Rudolph
Stephen Sicard
Jonas Simonds
Margaret Stedman
Andrew Summers, jun.
Philip Sickel
Joſeph Spencer
Joſeph Sharpleſs
Jonathan D. Sergeant
Helen Summers
William San[illegible]en
Jacob Stein
Abraham Smith
William Sheaff
Morris Shipley
John Simmonds
Woodrop & Joſeph Sims
Smith and Ridgway
Matthew Sadler
John Sparhawk
John Clement Stocket
Jonathan Smith
Samuel Jo. Smith
James Smith jun.
Henry Sparks
Jh. Strawbridge

T

John Topliff
Thomas Topliff
Henry Toland
Anthony Taylor
William Topliff
Peter Thomſon
Ebenezer Tucker, Eſq.
Margaret Thomas
Ralph Thurman
Joſeph Thomas

V

John Vaughan

W

Caſpar Wiſtar
John Weaver
Philip Wager
Jonathan Williams, jun.
John Weſt
Charles White
Peter Wikoff
Henry Weiſenback
Jonathan Warner
Mark Wilcox
Robert Wharton
John Wilcocks
Alexander Wilcocks
Kearney Wharton
John Wright
Iſaac Wikoff
Solomon White

Y

James Yard
Charles Young
John Yates.

Printed by E. OSWALD.


10
FEDERAL RESERVE NOTE
10
BL 00002040 A
L12
THE UNITED STATES OF AMERICA
BL 00002040 A
10
TEN DOLLARS

Alexander Hamilton

- Noted as a founding father of the U.S. banking system
- Supported the colonies’ fight for independence from Britain
- Served as an aide to the colonies’ lead general, George Washington
- As president, George Washington named him the first Secretary of Treasury

Financial Issues after the Revolutionary War

- War left the United States in heavy debt
- Money was essentially worthless
- Hamilton researched central banking systems in other countries, specifically Great Britain
- Analyzed how Great Britain banking system supported a country at war

Question

- Does anyone know what the first bank of the United States was called?

Creation of The First Bank of the US

- Founded by Alexander Hamilton in 1791
- Opened in Philadelphia with a 20 year charter
- Began with capitalization of $10 million
- Government owned 20% of the stock and private investors owned the remaining 80%
- Became the largest financial institution in the country

Functions of the First Bank

- Accepted deposits from the public
- Made loans to private businesses and the government
- Circulated notes which became an important form of currency
- Collected tax revenues
- Made loans to and paid the bills of the government
- Unlike central banks, it did not officially control the monetary policy or state banks
- International Trade improved with new currency

Scrip Bubble of 1791

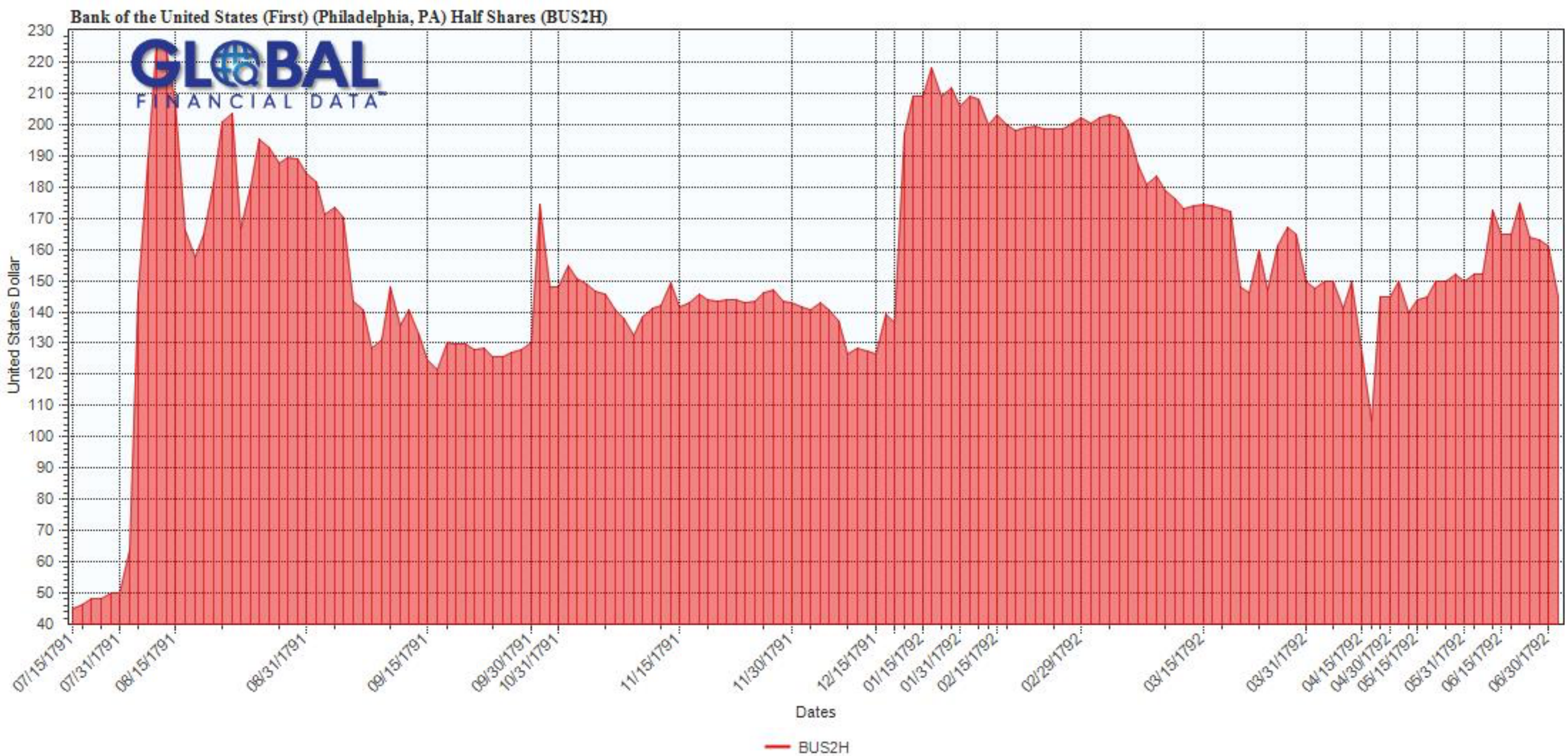
- What is a bank scrip?

Scrip Bubble of 1791

- What is a bank scrip?
- Bank scrips represented the right to purchase stock in the First Bank and were initially sold for $25 in 1791
- To complete ownership, investors had to later pay $100 bi-annually in 1792 and $75 in 1793
- One quarter of payment had to be in the form of gold, but the remaining three-quarters could be in the form of bonds
- Because ¾ of the payment could be made using bonds, the price of bonds increased as investors' demand for bonds increased

Scrip Bubble of 1791

- Began with the bubble of bank scrips in July 1791
- One quarter of payment had to be in the form of gold, but the remaining three-quarters could be in the form of bonds
- Bonds increase in price
- The desire for scrips increased their price, raising the price dramatically
- Prices eventually crashed by mid-September and stabilized


Bank of the United States (First) (Philadelphia, PA) Half Shares (BUS2H)
GLOBAL FINANCIAL DATA
United States Dollar
Dates
BUS2H

Panic of 1792

- “The Six Percent Club”
- Bank share prices went on a roller coaster, increasing and decreasing from October to March of 1792
- George Clinton and his followers withdrew large amounts from the First Bank in March 1792
- Resulted in a credit shortage

Panic of 1792

- Six percent club fail to make payments on their loans
- Without these bankers to purchase shares of the First Bank, the price of the stock declines
- April 1792: Defaulting of the six percent club and the price of the First Bank stock collapsing produces the panic
- Response: bank's tighten credit, reduce cash reserves, bank's decline renewal of loans

Closing of the First Bank

- Charter expired in 1811
- In 1811, Congress vetoed the renewal by one vote
- There was a second vote, in which it was also vetoed
- Therefore, First Bank of the United States closed in 1811

War of 1812

Economic Consequences of the War of 1812

- Impeded trade, caused many prices to skyrocket
- Custom duties on imports dropped due to reduced trading, decrease government revenue
- Inflation
- Severe debt

The Second Bank of the U.S.

- President James Madison signed a bill establishing the Second Bank of the U.S. in 1816
- Opened in Philadelphia in January 1817
- 20 year charter
- $35 Million in capital
- 20% Government, 80% Private Investors
- 25 Branches
- Functioned similarly to the First Bank

Financial Panic of 1819

- Precursors…
- Imports and Exports after the War of 1812
- Bank expansion
  - Physically
  - Loans
- Land Expansion
- Reduction in exports

Financial Panic of 1819

- Contractionary Policy
- Consequences
  - Foreclosures
  - Mass debt
  - Wage ratings declined
  - Unemployment
- Responses: land debt relief, specie reserve increase, note circulation decrease

The End of the Second Bank

- Request to renew the charter of the Second Bank was sent to Congress in January 1832
- This bill passed both the House and Senate
- President Jackson eventually vetoed the renewal
- Economic Consequences:
  - BUS bank notes withdrawn, land transferred

Financial Panic of 1837

- Economic Boom:
  - Increase in business corporations
  - Increase in exports and imports
  - Canals, roads, railroads
  - Land speculation
  - Credit expansion
  - Banks expansion

Financial Panic of 1837

- Economic Boom:
  - Increase in business corporations
  - Increase in exports and imports
  - Canals, roads, railroads
  - **Land speculation**
  - **Credit expansion**
  - Banks expansion

Financial Panic of 1837

- Specie Circular of 1836
- Specie Shortage
- 1836-1837: Cotton Prices Fall
- May 1837: NY banks refuse to trade specie for notes
- British exports to the US decrease by 60%
- Panic ensues…
  - Businesses failed
  - Bank runs occur
  - Unemployment rises
  - Farmers lose land
  - Paper fortunes wiped away
  - Behaviorally, people severely panicked and snowballed the collapsing economy

The National Bank Act

- 1863: Abraham Lincoln proposed a new national bank system
- 1864: The National Bank Act is approved by Congress
  - Develop a national bank system
  - Create national currency
  - Establish a secondary market for Treasury securities

Prelude to the Federal Reserve Act

- Usually linked to the panic of 1907
  - “Bankers’ Panic” or “Knickerbocker Crisis”
  - New York Stock Exchange fell 50% YOY
  - Bank runs and lack of liquidity
- The need for a central banking system
- Jacob Schiff Chamber of Commerce speech

Aldrich-Vreeland Act

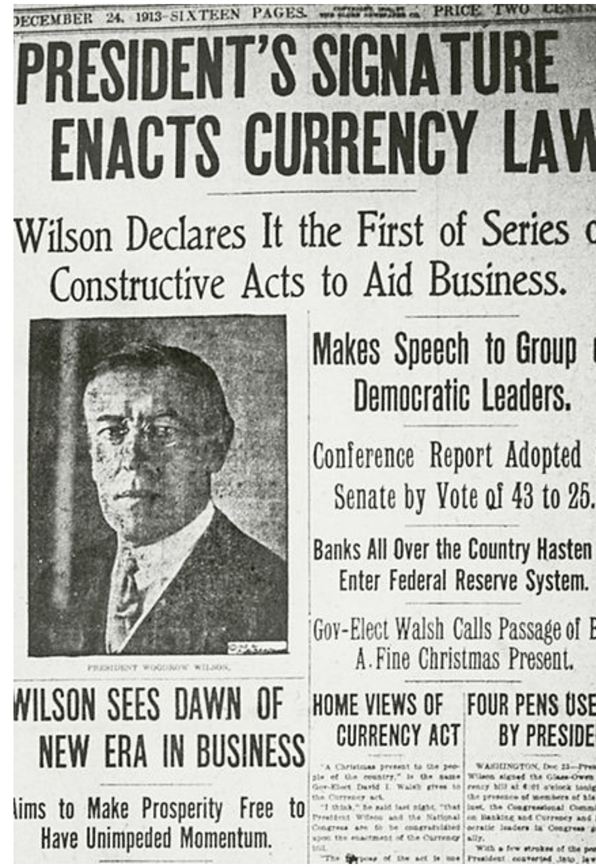
- Led by Senator Nelson Aldrich after the panic
- Provided emergency currency during crises
- Formed the National Monetary Commission
- Conference at Jekyll Island Club
- Final report published on January 11, 1911
- Recommendation for National Reserve Bank

Glass-Willis Proposal

- Establish regional Federal Reserve banks
- Create a national, elastic currency
- Reserve the right to rediscount paper money
- Institute supervision over the banking system
- Improve the national payment system
- Criticism

Federal Reserve Act

- Introduced in the House on August 29th, 1913 and passed on September 18th (287-85)
- Passed the Senate on December 18th, 1913 (54-34)
- Signed into law by President Woodrow Wilson on December 23rd, 1913



DECEMBER 24, 1913–SIXTEEN PAGES. PRICE TWO CENTS.

PRESIDENT'S SIGNATURE ENACTS CURRENCY LAW

Wilson Declares It the First of Series of Constructive Acts to Aid Business.

Makes Speech to Group of Democratic Leaders.

Conference Report Adopted in Senate by Vote of 43 to 25.

Banks All Over the Country Hasten to Enter Federal Reserve System.

Gov-Elect Walsh Calls Passage of Bill A Fine Christmas Present.

PRESIDENT WOODROW WILSON.

WILSON SEES DAWN OF NEW ERA IN BUSINESS

Aims to Make Prosperity Free to Have Unimpeded Momentum.

HOME VIEWS OF CURRENCY ACT

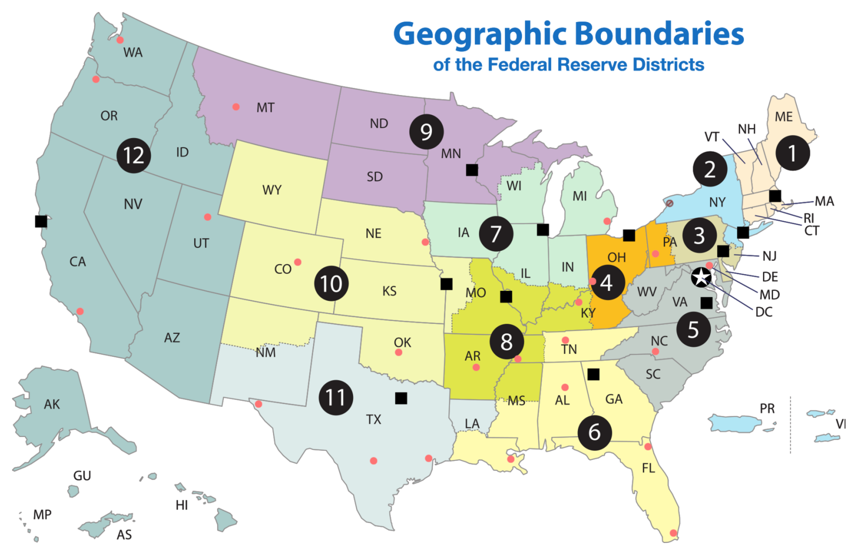
FOUR PENS USED BY PRESIDENT

Building the Fed

- Reserve Bank Organization Committee:
  - Secretary of the Treasury: William G. McAdoo
  - Secretary of Agriculture: David F. Houston
  - Controller of the Currency: John S. Williams
- Designated a max of 12 Regional Fed Banks
- Divided the nation into districts
- Required participation from all chartered commercial banks

Structure of the Central Bank

- Each had its own branches, directors, and boundaries
- Federal Reserve Board
- Regional Reserve Bank locations:
  - Boston
  - New York
  - Philadelphia
  - Cleveland
  - Richmond
  - Atlanta
  - Chicago
  - St. Louis
  - Minneapolis
  - Kansas City
  - Dallas
  - San Francisco



Great Depression

- Banking Panics of 1930-1931
- Stock market crash on October 29, 1929
- Commercial bank crisis
  - "Floating" checks created false reserves
  - Immobility in bank reserves
- ~8,000 Fed members, ~16,000 non-members
- Bank of Tennessee collapse on November 7th
- Ensuing bank failures and runs

Federal Reserve Reaction

- Response varied throughout each district
  - Sixth District in Atlanta
  - Eight District in St. Louis
  - Crisis in Chicago
- Deflation and cash hoarding
- Banking Holiday of 1933
- Emergency Banking Act of 1933

Banking Act of 1933

- “Glass-Steagall Act”
  – Sen. Cart Glass and Rep. Henry Steagall
- Signed into law on June 16, 1933
- Main Provisions:
  1. Creation of Federal Deposit Insurance Corporation
  2. Creation of the Federal Open Market Committee
  3. Outlaw and regulation of interests payments
  4. Regulated “speculation” of bank credit

Banking Act of 1935

- Signed into law on August 19, 1935
- Title I:
  - FDIC amendments
- Title II:
  - Amendments to “Board of Governors” and FOMC
  - Loans to member banks
- Title III:
  - Technical amendments

Humphrey-Hawkins Act of 1978

- Full Employment and Balanced Growth Act
- Establishment of Federal Reserve policy goals
  - Dual Mandate
  - Unemployment & Inflation
- Scrutiny of the Fed and Chairman Volcker
- The period of ”Great Moderation”

Recession of 1981-82

- Federal Reserve interest rate hike
- High inflation and unemployment
- Failure of S&L association in ’80s
- Paul Volcker and the Fed policy
- Persisting threat of increasing inflation

Stock Market Crash of 1987

- Causes and catalysts
  - Rapid growth of economy caused asset bubble
  - Government reported trade deficit
  - Financial derivatives
- Global financial panic on "Black Monday"
  - Sharp 22% decrease in the DJIA
- Federal Reserve Response
  - Chairman Alan Greenspan
  - Source of liquidity and support

2007-09 Financial Crisis

- Subprime mortgage and housing crisis
- Effects on the financial sector
- Federal Bailouts
- Bear Stearns acquired by JPMorgan in 2008
- Lehman Brothers bankruptcy
- Bank of America acquired Merrill Lynch

Fed Response to “Great Recession”

- Fed Chairman Ben Bernanke
- “Too Big To Fail”
- Fed’s support of specific institutions
  - AIG, Citigroup, Bank of America
- Primary Dealer Credit Facility
- Dodd-Frank signed into effect on July 21, 2010
  - Stability of the US financial system
  - Increased transparency of derivatives
  - Financial Stability Oversight Council

Modern Duties of the Fed

- Conduct the nation’s monetary policy
  - Influencing monetary and credit conditions
  - Dual Mandate
- Supervise and regulate banking institutions
- Maintain the stability of the financial system
- Provide financial services and play role in operating the nation’s payments system

Fed Board of Governors

1. Janet Yellen (Chair)
2. Stanley Fischer (Vice-Chair)
3. Daniel Tarullo
4. Jerome H. Powell
5. Lael Brainard
6. *Vacant*
7. *Vacant*

The Fed Today

- Federal Funds Target Rate: 0.25% - 0.50%
- Next FOMC Meeting on November 1-2, 2016
  - Last increase: 25 basis points in December of 2015
- Potential rate hike?

Bibliography

Bernanke, Ben. "The First 100 Years of the Federal Reserve: The Policy Record, Lessons Learned, and Prospects for the Future." Address at a conference 10 July 2013, sponsored by the National Bureau of Economic Research, Cambridge, MA.

Davis, Andrew MacFarland. *Supplement to The Origin of the National Bank System.* Washington: Government Printing Office, 1911.

Federal Reserve Board. *The Federal Reserve System: Purposes & Functions*. Washington: Federal Reserve System, 2005.

Federal Reserve Bank of Philadelphia. "The First Bank of the United States: A Chapter in the History of Central Banking." June 2009. Accessed on September 22, 2016. https://www.philadelphiafed.org/-/media/publications/economic-education/first-bank.pdf?la=en .

Federal Reserve Bank of Philadelphia. "The Second Bank of the United States: A Chapter in the History of Central Banking." December 2010. Accessed on September 22, 2016. https://www.philadelphiafed.org/-/media/publications/economic-education/second-bank.pdf?la=en .

Gordon, John Steele. "A Short Banking History of the United States." *The Wall Street Journal*. October 10, 2008. Accessed on September 22, 2016. http://www.wsj.com/articles/SB122360636585322023 .

Harvard Business School. "1837: The Hard Times." *Harvard Business School Historical Collections*. Accessed on October 2, 2016. http://www.library.hbs.edu/hc/crises/1837.html.

History.com Staff. "War of 1812." 2009. Accessed on September 22, 2016. http://www.history.com/topics/war-of-1812 .

Holland, Brynn. *Woman to be Featured on the Newly Redesigned $10 Bill, Treasury Announces.* July 15, 2015. Accessed on September 22, 2016. http://www.history.com/news/woman-to-be-featured-on-newly-redesigned-10-bill-treasury-announces .

Bibliography Continued

Johnson, Roger. *Historical Beginnings… The Federal Reserve.* Boston: Pubic and Community Affairs Department, 2010.

Magness, Phil. *Hamilton*. Accessed on September 22, 2016. http://philmagness.com/wp-content/uploads/2015/06/Hamilton.jpg .

Office of the Comptroller of the Currency. "National Banks and the Dual Banking System." *Comptroller of the Currency Administrator of National Banks*. September 2003. Accessed on September 22, 2016. https://www.occ.gov/publications/publications-by-type/other-publications-reports/national-banks-and-the-dual-banking-system.pdf .

Rothbard, Murray N. *The Panic of 1819: Reactions and Policies.* Auburn, Alabama: Ludwig Von Mises Institute, 2007.

Smith, Robert F. "Bank of North America." *The Encyclopedia of Greater Philadelphia*. Accessed on September 22, 2016. http://philadelphiaencyclopedia.org/archive/bank-of-north-america/ .

Sperling, John. *Great Depressions: 1837-1844, 1893-1898, 1929-1939*. United States of America: Scott, Foresman and Company, 1966.

Sylla, Richard. "The US Banking System: Origin, Development, and Regulation." *The Gilder Lehman Institute of American History*. Accessed on September 22, 2016. https://www.gilderlehrman.org/history-by-era/economics/essays/us-banking-system-origin-development-and-regulation .

Symons, Edward L. "The United States Banking System." *Brooklyn Journal of International Law, Volume XIX:I* (1993): 1-46.

Taylor, Bryan. "The Panic of 1792." Accessed on September 30, 2016. https://www.globalfinancialdata.com/gfdblog/?p=3462.

Teitelman, S. Robert. "Bank of Pennsylvania, South Second Street." Accessed on September 22, 2016. http://www.ushistory.org/birch/plates/plate27.htm .

Wilson, Janet. "The Bank of North America and Pennsylvania Politics: 1781-1787." *The Pennsylvania Magazine of History and Biography, Vol. 66 No. 1*(Jan. 1942): 3-28.