

# CONTENTS

INTRODUCTION . . . . .	3
General characteristics of the period. — Relativity of its banking theories and practices.	

## PART I

### THE UTILITY OF BANKS AS A SOURCE OF MEDIA OF PAYMENT

I. THE FUNCTIONS OF BANKING . . . . .	11
Tendency to make banking synonymous with note issue. — Banking operations classified as deposit, discount and issue. — Is note issue essential? — Banks considered as agencies in the distribution of loanable funds. — Banks as clearing houses for the cancellation of debts and credits. — Summary.	
II. EARLY MINOR ARGUMENTS CONCERNING THE MERITS OF BANKS . . . . .	19
The desirability of banks a moot question. — Minor advantages ascribed to banks. — Arguments of their early critics.	
III. BANKS INCREASE THE COUNTRY'S CAPITAL . . . . .	26
Inflationist notions in the colonies. — Their revival with the appearance of modern commercial banks. — Their general refutation after the first few decades. — The doctrine that bank-note inflation lowers the interest rate. — Douglass's doctrine of appreciation and interest.	
IV. BANKS PROVIDE AN INEXPENSIVE SUBSTITUTE FOR METALLIC CURRENCY . . . . .	39
Smith's statement of the doctrine. — Minor corrections at the hands of American writers. — Critics of this alleged benefit of banking. — Conclusion.	
V. BANKS DRIVE SPECIE OUT OF THE COUNTRY . . . . .	48
Colonial treatment of the doctrine. — Its influence at the end of the eighteenth century. — The views of later writers.	
VI. BANKS CAUSE PRICE FLUCTUATIONS . . . . .	55
Introductory. — The charge that banks cause price fluctuations. — The doctrine that convertibility prevents overissue. — Criticism of this thesis. — Theory that the manner in which notes are placed in circulation prevents overissue. — And that the amount of notes in circulation is a <i>result</i> of conditions of trade. — A just adjudication of the dispute. — Colwell's well-considered views. — Summary.	
VII. BANKS PROVIDE AN ELASTIC CURRENCY . . . . .	70
The elasticity of bank currency, except in its mischievous aspects, generally ignored. — But a few writers did give attention to it.	

## PART II

THE UTILITY OF BANKS AS AGENCIES IN THE  
DISTRIBUTION OF LOANABLE FUNDS

- VIII. BANKS SERVE AS INTERMEDIARIES BETWEEN BORROWERS  
AND LENDERS . . . . . 79  
The thesis that banks are mere intermediaries in their lending operations  
the prevailing one. — Their alleged benefits as such. — Basis of the  
dogma that banks cannot lend more than they receive from depositors  
and shareholders. — The error into which the quantity theorists fell here.  
— Some inklings of a deeper insight. — The persistence of this issue  
even to the present day.
- IX. BANKS DIRECT CAPITAL INTO UNDESIRABLE CHANNELS . . . 92  
Banks of no assistance to farmers. — Their loans encourage speculation  
primarily. — Possibilities of discrimination in making loans.
- X. SUMMARY OF VIEWS ON THE NATURE AND UTILITY OF BANKS. . . 98  
The dual rôle of commercial banking. — The utility of banks as source  
of a form of currency. — The utility of banks as distributors of loanable  
funds.

## PART III

## BANK NOTES AND BANK DEPOSITS

- XI. THE NATURE OF BANK DEPOSITS . . . . . 109  
Early recognition that deposits constitute part of the currency. — Fail-  
ure generally to realize that deposits may be created by the banks. —  
A few instances in which this was understood. — Conclusion.
- XII. PRINCIPLES OF NOTE ISSUE — CONVERTIBILITY . . . . . 125  
The need of convertibility little understood in the colonies. — Converti-  
bility was generally assumed in the later period. — Belated land-bank  
projects. — Other advocates of an inconvertible currency. — The bank-  
ing principle as basis for such a proposal. — Stephen Colwell's notable  
statement of the thesis.
- XIII. PRINCIPLES OF NOTE ISSUE (*continued*). . . . . 139  
The currency principle. — The question of small notes. — Bond-  
secured issue. — The safety-fund system.
- XIV. PRINCIPLES OF NOTE ISSUE (*continued*). . . . . 152  
Legal reserve requirements. — Suffolk Bank System. — Taxing banks  
for regulative purposes. — Banking structure.

PART IV

BANKING POLICY AND THE BUSINESS CYCLE

XV. BANKING POLICY . . . . . 171

The importance of short loans. — The relative merits of different types of commercial paper. — The discount rate.

XVI. THEORIES OF THE CAUSES OF CRISES AND CYCLES . . 187

Agnostic theories. — Emphasis placed upon the influence of the credit system. — Attention to the psychology of business men. — Periodicity of commercial crises. — Critics of the theory that banks cause the business cycle. — Theory of the self-generating cycle. — Influence of maladjustments of production.

XVII. SUGGESTIONS FOR MODERATING THE CYCLE . . . . . 208

Loan policy. — Surplus reserves at New York. — Abolition of the payment of interest at New York. — The call-loan evil at New York.

BIBLIOGRAPHY . . . . . 223

The English background. — The colonial background. — The period 1780-1860: (a) Secondary sources, (b) Primary sources. — Periodicals.



BANKING THEORIES IN THE  
UNITED STATES

