

Discussion of
“Towards a More Perfect American Payments
Union: The Civil War as a Political Economic
Watershed” (James/Weiman)

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Main Theme of the Paper

- Authors claim that the National Banking System (NBS):
 - Created a uniform national currency.
 - Did not completely succeed in creating an integrated payments system.
 - However, the NBS made significant inroads in this area.
 - New York City banks played the major role in the payments system through their correspondent relationships.
- Of course, the NBS had other problems:
 - Seasonal fluctuations in interest rates
 - Recurrent banking panics
 - These were the primary focus of reform proposals

Recognition of a Need for a Uniform Currency

“It is, however, essential to every modification of the finances that the benefits of a uniform national currency should be restored to the community.” (James Madison, 1815)

“In referring to the causes which had the most decided influence in calling the United States Bank into existence, the inconveniences resulting to the community from the inequality in the rate of exchange between the different sections of the Union stand eminently prominent.” (Secretary of the Treasury William Crawford, 1817, p. 540)

Prior Attempts at Providing a Uniform Currency

- Suffolk System (1825–1858)
 - Net clearing of New England bank notes
 - Notes of participating banks traded at par

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- Second Bank of the United States (1816–1836)
 - Nicholas Biddle claimed success: “The experiment was interesting and hazardous. It was to try how far the institution could succeed. . . in diffusing over so wide a surface of country a currency of large amount and of uniform value at all places and under all circumstances. [The bank has fulfilled] all the purposes for which it was created. At present these exchanges are generally either at par, or at the utmost one-half of one per cent.” (*Niles Register*, referred to in Catterall, pp. 132–33).
 - Andrew Jackson disagreed: “It must be admitted by all that [the bank] has failed in the great end of establishing a uniform and sound currency.” (State of the Nation Address, 1829)

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Increased Use of Drafts & Checks

- Prior to the Civil War, bank notes were the primary means of making long-distance transactions.
- During the NBS, drafts and checks eventually become the primary method of payment.
 - Use of these instruments required a network of correspondent relationships and large holdings of bankers' balances.

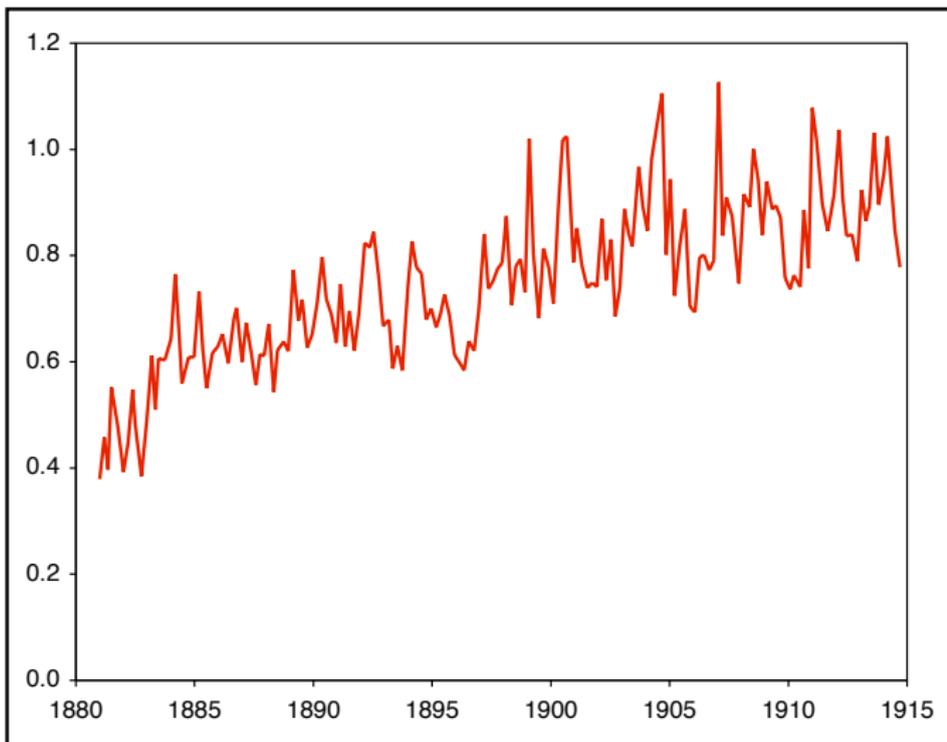
Increased Use of Drafts & Checks

**Table 1. Percent of Transactions
Using Bank Drafts & Checks (percent)**

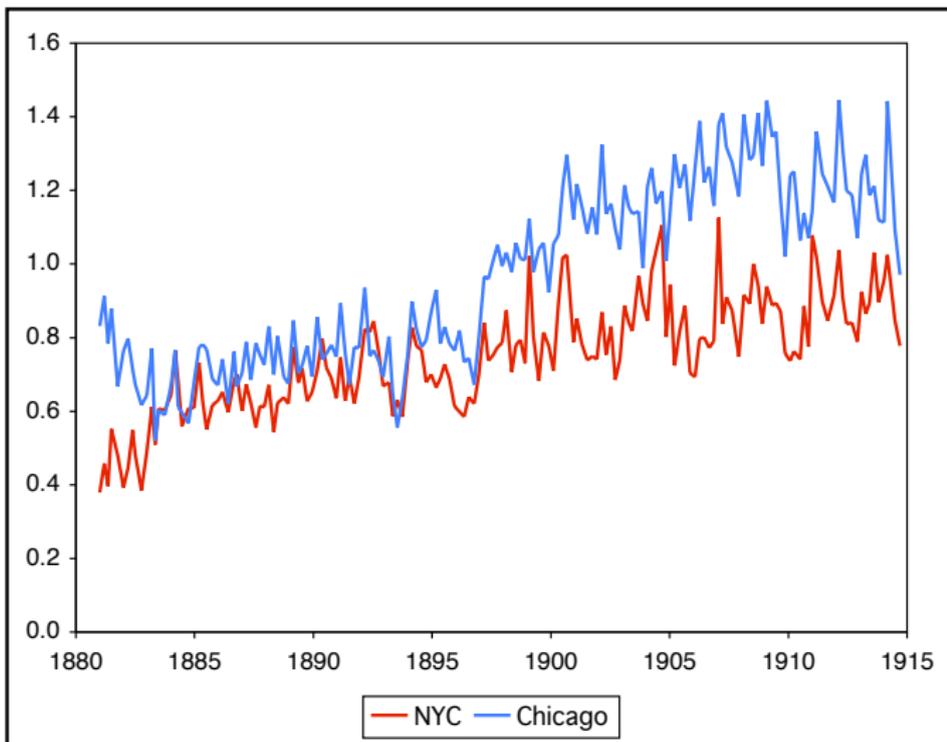
Location	Wholesale		Retail	
	1896	1909	1896	1909
Country	88.7	94.6	63.1	68.8
Other Reserve	93.2	96.7	74.1	75.7
New York	98.2	98.6	79.4	86.5

Source: James and Weiman (2006)

New York City Due To/Individual Deposits



New York City & Chicago Due To/Individual Deposits



Domestic Exchange Rates: Does the Trend Continue?

- Authors note changes in the pattern of domestic exchange rates before (1850s) and after the Civil War (1860s and early 1870s).
 - Premiums and discounts reduced
 - Volatility in premiums and discounts diminishes
- Do further reductions occur later in the period?

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Domestic Exchange Rates: Does the Trend Continue?

- Yes. The standard deviations are reduced another 50% by the beginning of the 1900s

**Table 3. Standard Deviation
of Domestic Exchange Rates (bp)**

City	1850s	1860s	1899–1908
Chicago	51	5	3
New Orleans	52	11	4
San Francisco	NA	NA	7

Sources: For 1850s and 1860s, James and Weiman (2006). For 1899–1908, Kemmerer (1910).

Domestic Exchange Rates: 1899–1908

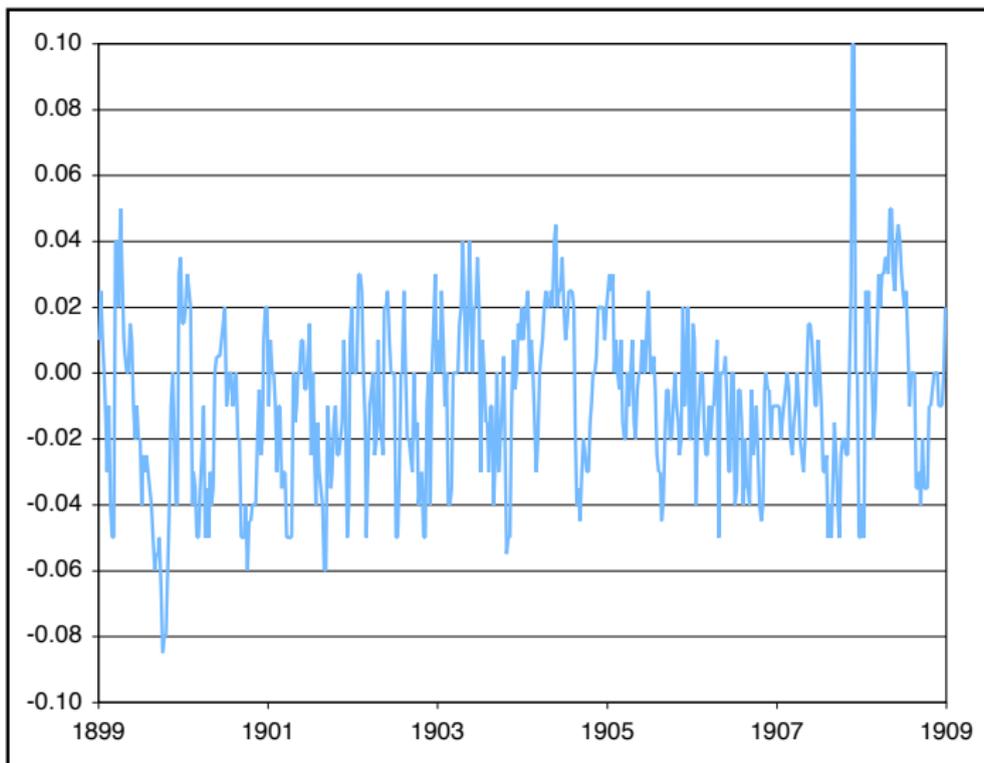
- Ranges of exchange rates are also cut roughly in half.

**Table 4. Ranges of Domestic Exchange Rates
(1899–1908, percent)**

City	Range (%)
Chicago	-0.085 to 0.050
New Orleans	-0.178 to 0.075
San Francisco	-0.130 to 0.500

Source: Kemmerer (1910).

Chicago Domestic Exchange Rate (1899–1909, percent)



Remaining Questions

- Why weren't state banks that converted to national bank status able to attract new correspondent deposits, whereas newly-formed national banks were able to do so?
- How large a role did other reserve cities play in the payments system?