

Econ 113: February 24, 2015

- Postbellum Banking
 - National Bank Acts
 - 1920s Bank Failures
- Changing Business Environment
- Marketing & Distribution

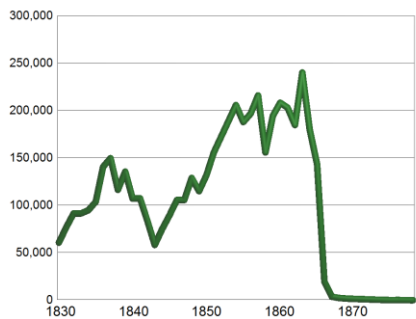
1863 & 1864 National Banking Acts

1. Banks can obtain federal charter ("national banks")
 - But not nationwide banking
2. Only national banks issue national bank notes
 - Which must, by law, circulate at par
3. State bank notes taxed:
 - 2 % June 1864
 - 10 % March 1865

Banking 1920s Bank Failures Changing Business Environment Marketing & Distribution

State Bank Notes, 1830 - 1879

Thousands of dollars



Source: Historical Statistics, Series X437

National bank note (1865)



Banking 1920s Bank Failures Changing Business Environment Marketing & Distribution

National Bank Note, 1900



Banking 1900s Bank Failures Chapter 18 Business Environment

National Bank Note, 1908



Banking 1900s Bank Failures Chapter 18 Business Environment

National Banking Acts, continued

4. Capital Requirements

- \$200,000 if population > 50,000
- \$100,000 if 6,000 - 50,000 population
- \$ 50,000 if population < 6,000
- Over 1/3 capital in U.S. bonds
- Could issue bank notes for 90% of bond face value (limit ends 1875)

Banking 1900s Bank Failures Chapter 18 Business Environment

National Banking Acts, continued

5. reserve requirements

- Reserves
 - Calculated as a % of deposits AND notes outstanding
 - Held as cash in vault *plus* deposits at a national bank in a "redemption city"
- Requirements
 - 25 % for redemption city banks
 - 15 % for country banks

Banking 1900s Bank Failures Chapter 18 Business Environment

Where keep reserves

- Country bank
 - At least 2/5 in vault
 - Less than 3/5 in redemption city national bank
- Redemption city bank
 - At least 1/2 in vault
 - Less than 1/2 in New York City banks
- NYC banks
 - All reserves in vault

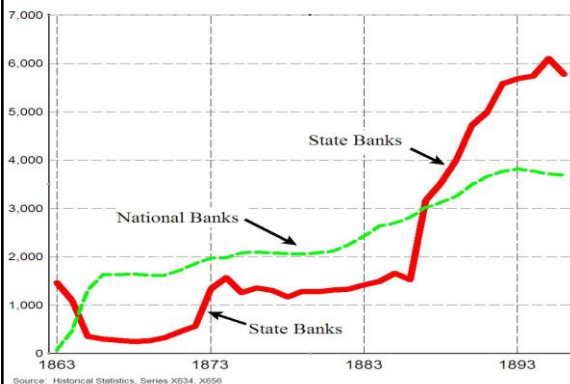
More National, Fewer State Banks

Table 1. Number of Banks, 1863-1913

	# National	# State
1863	66	1,466
1864	1,089	467
1865	1,294	349
1880	2,076	650
1890	3,484	2,250
1900	3,731	5,007
1913	7,467	16,841

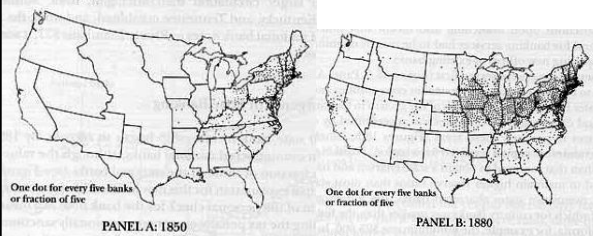
Source: Historical Statistics, Series X634, X656.

Number of Banks, 1863-1896



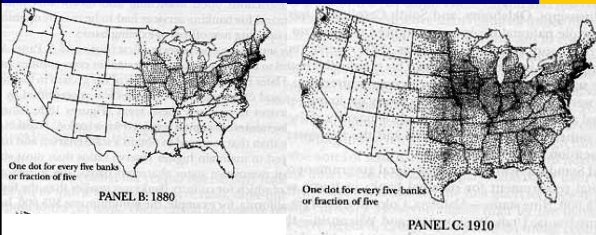
Where were the banks?

Geographic Distribution of Banks



Animated: <http://dsl.richmond.edu/historicalatlas/154/a/>

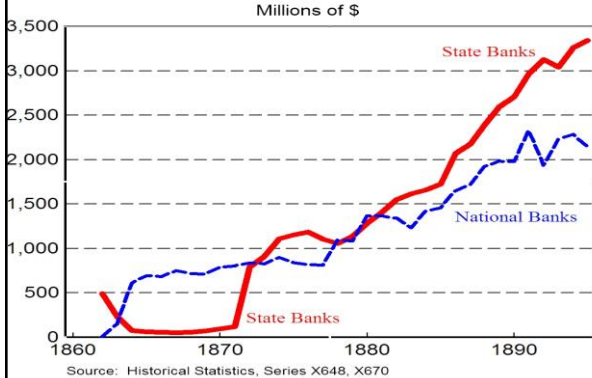
Everywhere, by 1910



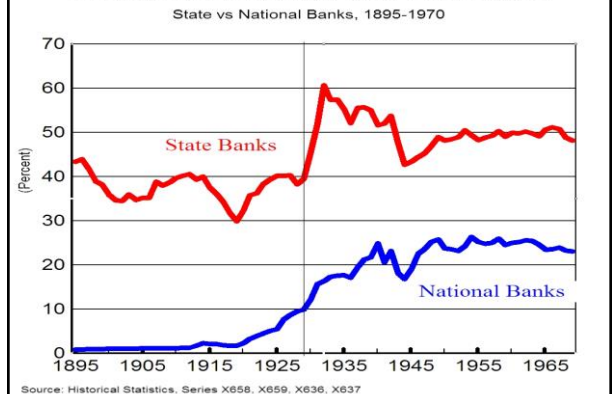
Advantages to state charters

- Lower capital requirements
- Lower reserve requirements
- Less vault cash required
- Looser supervision
- Less lending restrictions
- But
 - can't issue national bank notes
 - can issue deposits

Bank Deposits, 1863 - 1896



Real Estate Loans as % of Total Loans



Threat of bank panics

- Panic in small town can pull down . . .
 - Country banks, and
 - Redemption city banks, and
 - New York City banks

Banking

1900s Bank Failures

Chapman Business Environment

Macroeconomic Environment

Rise of Investment Banking

- Banking laws prohibited inter-state and sometimes even intra-state commercial banking
- But large inter-state commerce required finance
- Result: The beginnings of Wall Street!
 - Goal: Channeling funds from savers to borrowers
 - Challenge: Asymmetric Information

Banking

1900s Bank Failures

Chapman Business Environment

Macroeconomic Environment

Establishment of the Fed

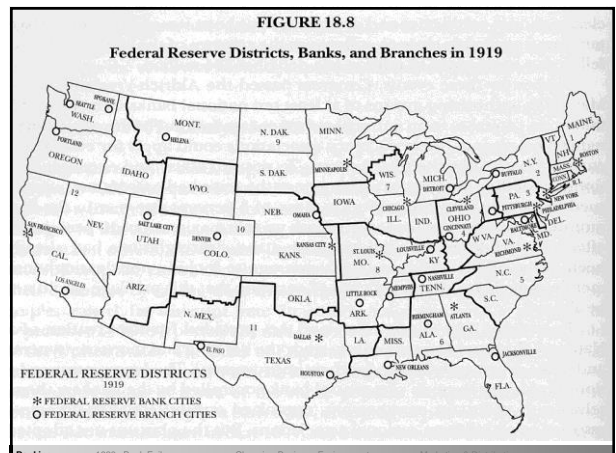
- Periodic Financial Panics
 - 1870s, 1880s, 1890s, 1907
 - 1907 ended when JP Morgan & others provided liquidity to banks
- Federal Reserve Act, 1913
 - Stabilize banking system (avoid panics)
 - Serve as agent for U.S. Treasury
 - Initially 20-year charter (here we go again...) but amended in 1927 to be permanent charter

Banking

1920s Bank Failures

Chapman Business Environment

Macroeconomic Environment

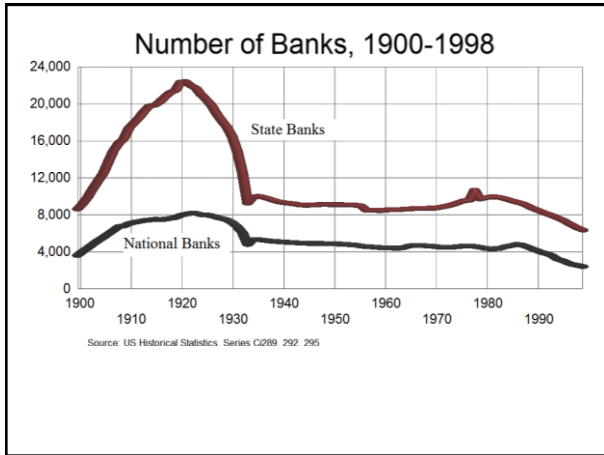


Banking

1900s Bank Failures

Chapman Business Environment

Macroeconomic Environment

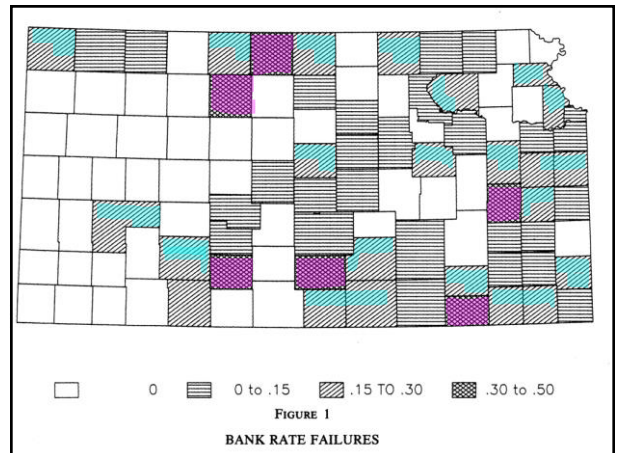


Bank Failures in Kansas in 1920s

- David Wheelock
- Question
 - Did deposit insurance increase bank failures?
- Argument
 - Deposit insurance encourages risk taking by banks (moral hazard), so expect higher failure rates among insured banks
- Counter-argument
 - Insured banks were in areas with high systemic risk due to agricultural distress

Testing the argument

- Test
 - Control for agricultural distress
 - Then ask: Do insured banks fail more?



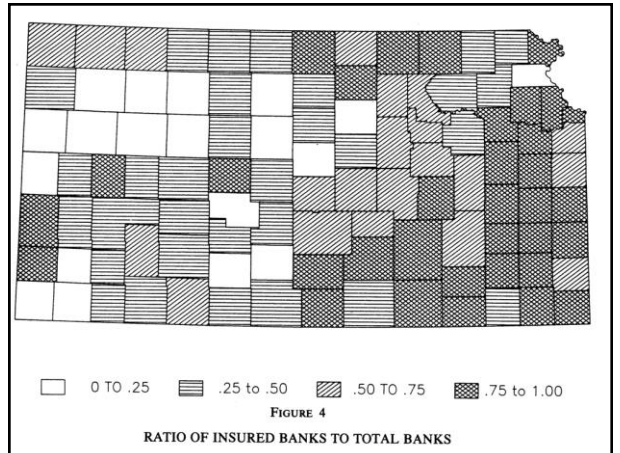
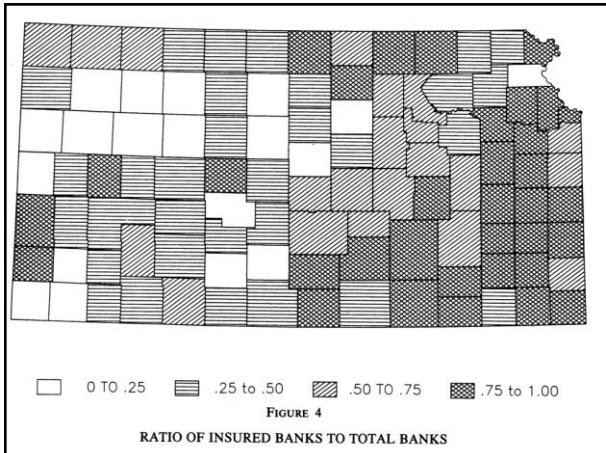
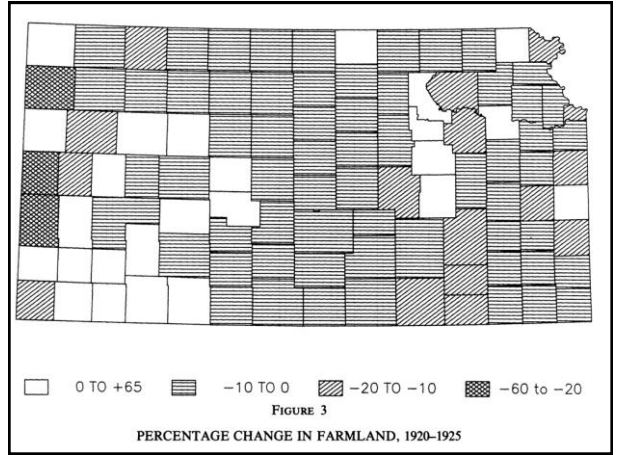
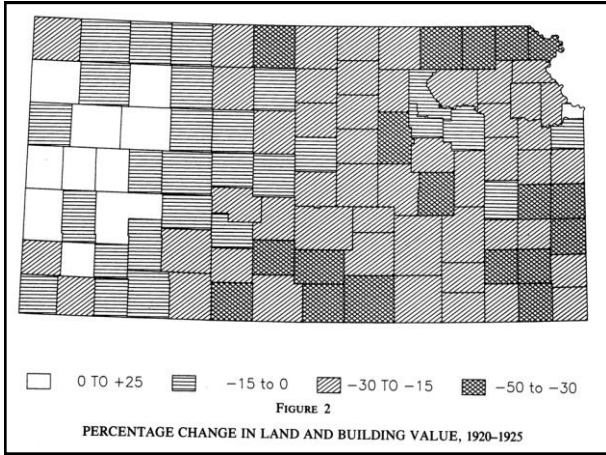


Table 2. Determinants of Failure (from Wheelock's Tables 1 and 2)
(standard errors in parentheses)

	All Banks		Counties with ≥ 5 banks	
	failed	failed or chose to liquidate	failed	failed or chose to liquidate
constant	-0.15 (0.11)	-0.04 (0.08)	-0.19* (0.11)	-0.09 (0.09)
% Δ value per acre of farmland & buildings (Δ VALUE)	-0.35** (0.18)	-0.41*** (0.15)	-0.15 (0.17)	-0.41*** (0.15)
% Δ total farm acreage (Δ LAND)	-0.12 (0.29)	-0.48*** (0.19)	-0.08 (0.35)	0.15 (0.29)
% of state banks with deposit insurance (RATIO)	0.13** (0.07)	-0.01 (0.06)	0.19*** (0.07)	0.11* (0.06)
% Δ county's population, 1920-1930 (Δ POP)	-0.23** (0.13)	-0.01 (0.09)	-0.09 (0.14)	0.00 (0.11)
# banks per person (BANKPOP)	-0.22 (0.61)	0.07 (0.51)	.19 (0.57)	0.22 (0.47)
% of total banks that were national banks (NATIONAL)	0.36** (0.18)	0.46*** (0.14)	0.55*** (0.23)	0.40** (0.19)

Changing Business Environment

- labor force in agriculture decreasing
- increased urban population

Table 3. Percent Population Urban

1860	20 %
1880	28 %
1900	40 %
1910	46 %
1920	51 %
1930	56 %
2010	81 %

Changing Business Environment

- real incomes rising (1875-1900)
 - industrial: 1.7% annually
 - non-farm: 1.5% annually
 - GNP: 3.1% annually
- work hours down
 - leisure time up
- many immigrants trying to assimilate through spending

Changing Business Environment

- big business with high fixed costs
 - mass production
- periodic business cycles
 - 1873-78
 - 1883-86
 - 1893-97

Marketing: Installment Selling

- Installment Selling (more on this next Thursday)
 - Purchase of particular durable good
 - Down payment
 - Regular periodic payments
 - Singer sewing machines, starting 1856
 - Pianos, starting late 19th century
 - Autos, not until 1910s

Banking 1920s Bank Failures Othering Business Environment Marketing & Distribution

Marketing: Advertising

- "Reason-why" advertisements
- Brand Names
 - Not just flour, but Gold Medal flour
- Use of psychology in advertising begins about 1910
 - What psychological needs can the good meet? Advertise those.

Banking 1920s Bank Failures Othering Business Environment Marketing & Distribution

HARPER'S WEEKLY

ADVERTISEMENTS.

Pears'

Don't simply "get a cake of soap." Get *good* soap. Ask for Pears' and you have pure soap. Then bathing will mean more than mere cleanliness; it will be luxury at trifling cost.

Sales increasing since 1789.

Keep Always at a Plier
 Making It Cheaper
 The Phenomenon
 An Easy Case
 A Long Background
 Ethical
 Standstill in Venezuela
 See of a Paradise

© HARPER & BROTHERS

HARPER'S WEEKLY

WHY IS Miller HIGH LIFE The Champagne of Bottle BEER

shipped to the Philippines, Egypt, India, and the ends of civilization? BECAUSE HIGH LIFE satisfies the universal demand for a PERFECT BEER. THE WORLD ASKS FOR IT—that's why we were compelled to increase our capacity to ONE MILLION BARRELS

HENRY C. BOYLER, Distributor, 358 Broadway, Long Island City, N.Y.

MILWAUKEE

PIEDS SOHMER BRANDS

© 2000 HARP WEEK



Psychology & advertising

<ul style="list-style-type: none"> • appetite • love of offspring • health • sex attraction • parental affection 	<ul style="list-style-type: none"> • ambition • pleasure • bodily comfort • possession • approval by others
---	--

Rankings | 1900's Brand Failure | Operating Business Environment | Marketing & Distribution



Distribution Networks

- Dealers
 - Assemble, repair, inform, sell
 - Work for 1 company only
- Franchised Dealers
 - Begins late 1800s
 - Small businessman
 - Pays manufacturer for franchise license
 - "Not big business" but "locally owned"

Rankings | 1900's Brand Failure | Operating Business Environment | Marketing & Distribution

Distribution, continued

- Department Stores
 - With catalogs for rural customers
- Chain Store Movement
 - Grocery chains, beginning 1859 with A&P
 - Growth, especially 1920s & 1930s
 - Fewer services
 - Lower prices