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Book Review

U.S. Credit and Payments, 1800–1935, edited by Ronnie J. Phillips. Brookfield, VT: Pickering and Chatto, 2013. Hardcover: ISBN 978-1-84893-294-4, $495.00, 960 pages.

This six-volume set of annotated primary documents, and early academic literature about U.S. credit and payments from mid-nineteenth century to 1920s, could only have been assembled and edited by Ronnie J. Phillips, professor emeritus at Colorado State University. Phillips's extensive contributions to monetary history and institutional monetary analysis prepared him perfectly for conceiving, organizing, and annotating this collection. He brings to this work a unique, non-dogmatic belief in competition, innovation, and entrepreneurship, married with a hard-boiled skepticism about the recurring, ever-larger taxpayer bailouts of financial institutions in the twentieth and twenty-first centuries. This is a valuable resource for students of the past and for researchers who believe that studying the evolution and performance of financial institutions helps us prepare for future challenges and frames our choices appropriately.

The volumes are divided into two broad categories. Volumes 1-3 treat the evolution of access to credit for the "average person," while volumes 4-6 — the evolution of the payments system. The organization of the collection in this way reflects Phillips's long-standing inquiry into the desirability and consequences of combining the payments and credit functions within individual financial institutions. Phillips provides an introduction to the entire set, an overview of each volume's topic, and an introduction to each document that includes selected references to modern economics and economic history literature. Wherever possible, biographical information on the document's author and genesis is also provided, so that the reader can fully appreciate the historical context and perspective of the author.

Phillips's introduction is a condensed survey of the evolution of U.S. monetary and banking institutions from the colonial period through the creation of the Federal Reserve. The U.S. system was unique, compared with those of contemporary western economies, in several ways: (i) in its reliance on unit banking and prohibitions on interstate (and, in some cases, intrastate) branching that persisted well into the twentieth century; (ii) in its dual and competing state and federal regulators; and (iii) in its rejection of central banking between 1832 and 1913 — a period of price level instability, financial instability, and strong productivity growth.

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Volumes 1-3 assemble contemporary documents relating to building and loan associations (volume 1), provident loan societies (volume 2), and savings banks and Morris Plan financial institutions (volume 3). Taken together, there are twenty-seven documents on these credit institutions established to provide credit to working-class and middle-income households in the era before the consumer credit revolution of the 1920s. These documents range from treatises by academics and professionals that are involved with the financial institutions, to records of the institutions themselves, and reports prepared for legislative bodies. Most of the documentary information is qualitative and institutional, but there is some quantitative data as well.

As Phillips points out, many (but not all) of these early consumer- and home-finance institutions serving working class households were philanthropic in nature and took a variety of non-corporate ownership structures, such as mutual and cooperative banks. They demonstrate, for Phillips, the good that can result from the combination of philanthropy with entrepreneurship and innovation. Philanthropists wanted to rescue the working class from the clutches of the loan sharks, and they did. None of these early credit institutions were in the payments business, neither did their liabilities function as money, or were payable on demand. They tended to proliferate after financial crises, which elevated industrial unemployment and put financial stress on already stretched household budgets. Very few of these institutions survive to the present day. As Phillips insightfully notes, they sowed the seeds of their own destruction. By demonstrating that consumer finance worked as a business model, larger institutions entered the business and their market space shrank.

Volumes 4-6 contain thirty documents relating to the evolution of the U.S. payments system between the mid-nineteenth century and the organization of the Federal Reserve in 1913. The payments system is a foundational infrastructure of a modern economy, yet is often taken for granted. Here it takes center stage in a well-chosen set of readings. Volume 4 deals with a topic near and dear to the reviewer: the "domestic exchanges." This archaic term, well-known to business and political leaders of the nineteenth century, refers to institutions that carried out payments between businesses in different regions of the U.S. economy in the period before the diffusion of personal checks following the Civil War. Banks in Cincinnati, for example, sold drafts drawn on their correspondent banks in New Orleans, to business customers in Cincinnati with obligations to meet in New Orleans. A discount was charged to cover the cost of moving funds between cities, which in non-panic times was well within the "gold points" — the cost of making payment by shipping gold between Cincinnati and New Orleans.

Volume 4 gives the reader access to a wealth of data on domestic and foreign "exchange rates" (the percentage of face value charged for interregional transfer of funds) and on the prices of bank notes issued by state banks and the Bank of the United States in Philadelphia and, secondarily, in New York. Bank notes were payable on demand into gold or silver coin only at the place of issue. The notes of non-local banks sold at a discount from face value, reflecting distance and credit risk. As Phillips notes throughout volumes 4-6, the size of the exchange charges (or bank note discount rates), and the incidence of those charges, were topics of public debate. Were these charges an exorbitant tax on the real economy that needed to be eliminated

through greater centralization of finance and/or a greater role of the federal government? Or were they a reasonable cost of doing business in a nation whose economy was spatially expanding and extending into sparsely populated areas, and a revenue source to small banks serving local communities?

This same debate is picked up in volume 5, which discusses the non-par banking debates of the latter part of the nineteenth century. After the formation of the national banking system, and the elimination of bank notes issued by state banks, checks came into greater use as a means of interregional payment, along with domestic exchange or interbank drafts. Bank note discount rates were eliminated as national bank notes circulated at par and their redemption was guaranteed by the U.S. Treasury. However, country banks charged remittance fees to clear bank notes, drafts, and checks that were issued by or drawn on distant banks. The readings in volume 5 include contemporary treatises that describe the two sides of the non-par banking debate, the role and functioning of clearing houses, and the Federal Reserve's efforts to eliminate non-par banking. A particularly valuable entry is the extract from Stephen Colwell's 1859 book, *The Ways and Means of Payments*, a must-read for anyone who wants to understand the inner workings of the mid-nineteenth century U.S. monetary system.

Volume 6 presents documents related to the evolution of central banking in the US, starting, interestingly, with documents about the national banking system, the formation of which predates the organization of the Federal Reserve. Under the National Banking System, the U.S. government assumed responsibility for the quality of the paper currency (bank notes). By the 1880s, only nationally chartered banks issued currency, and this currency was guaranteed by the Treasury, "backed" by federal government debt, and was ultimately redeemable at the Treasury. In short, this was a federal currency issued by private banks. This led some authors in this volume to call for an outright government currency (e.g., Anon and Kinsella). Others accepted the national bank currency, but questioned the need for the Federal Reserve, pointing to the stabilizing role performed by the Treasury during the National Banking System era (Cleveland). Granted, the Treasury had not prevented the Panic of 1907, but perhaps that could have been addressed simply by adding deposit insurance (as Hull's essay proposes).

In my opinion, the sixth is the strongest volume of an already strong set. The collection in general conveys so well a range of thoughtful debate about the basic organization of the monetary system in the late nineteenth and early twentieth centuries, including the following questions: Who should issue money and benefit from money creation? How can we deal with the problems of moral hazard implicit in a private money system with public backstops? Can market discipline and financial stability coexist in a purely private money system? These are all questions that are with us today, and should be more front and center in public debate.

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