

**Capitalism,
Government,
Money,
and the
Future of
the World**

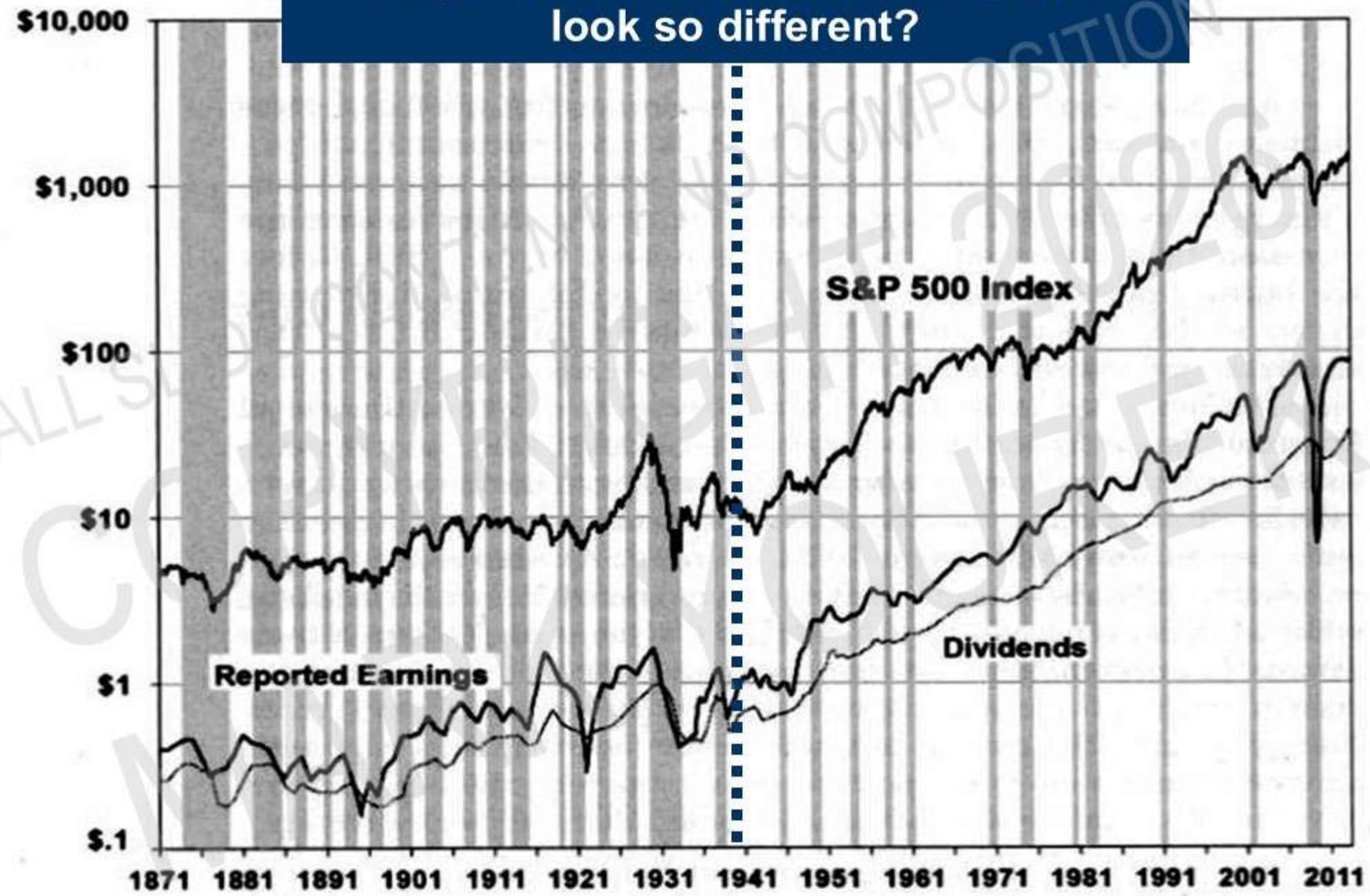
*Finding
and Keeping
the Right Balance
in
Market-Capitalist
Democracies*



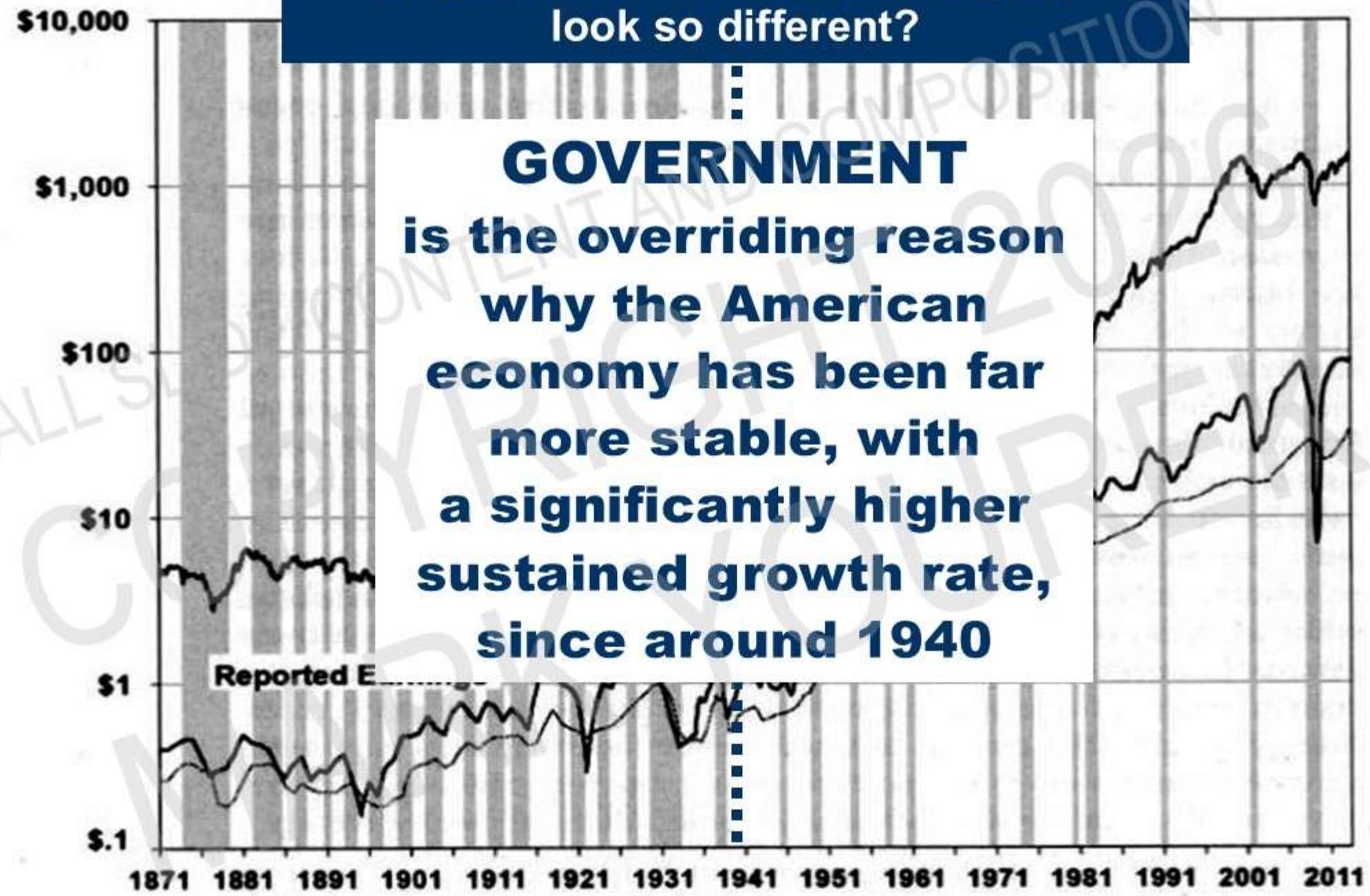


MARVIN

Why do the two sides of this graph look so different?



Why do the two sides of this graph look so different?



GOVERNMENT
is the overriding reason
why the American
economy has been far
more stable, with
a significantly higher
sustained growth rate,
since around 1940

Banks facilitate a large part of the investment and growth within every market-capitalist economy

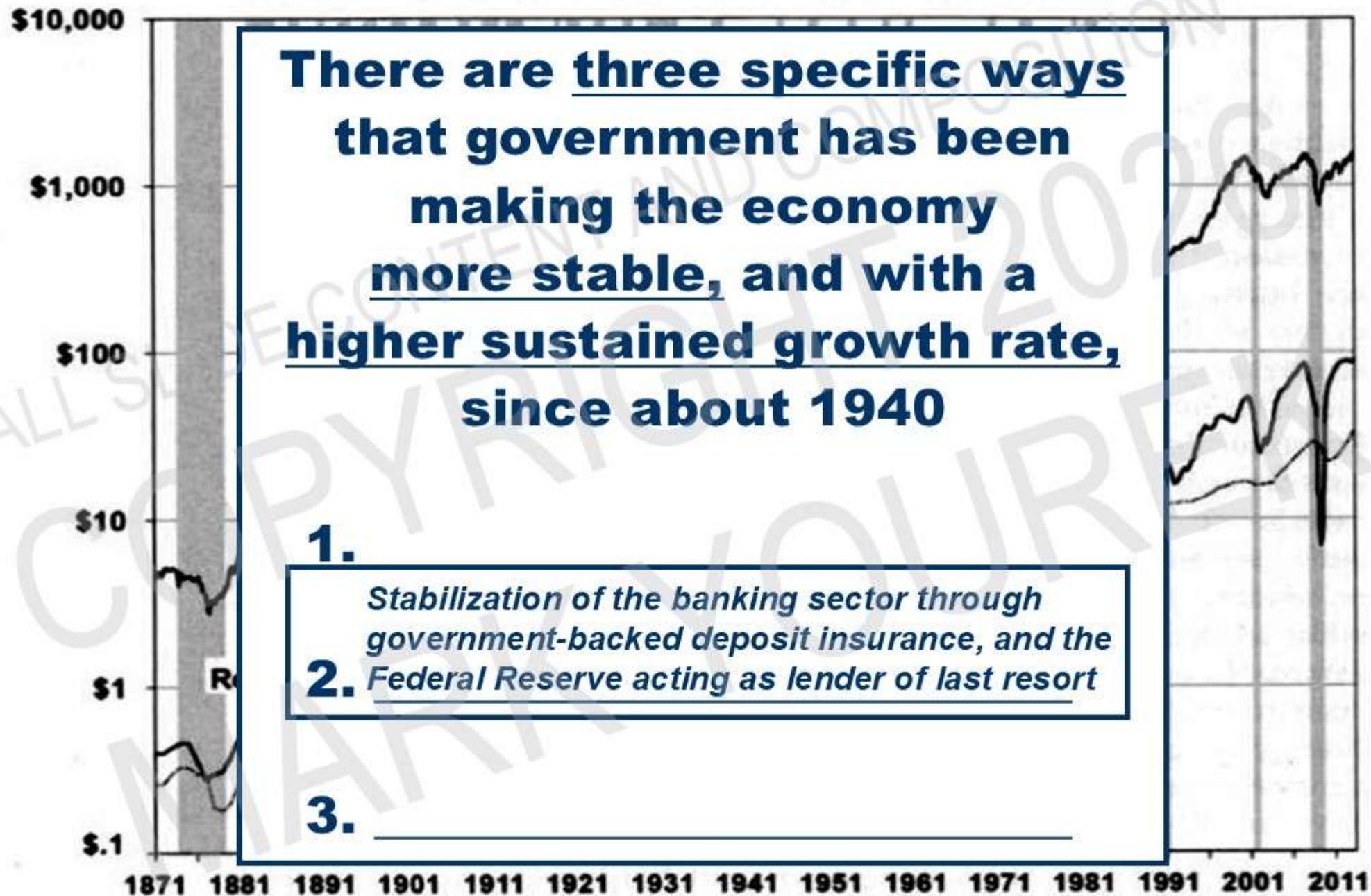
Banks are an **essential foundation of capitalism**

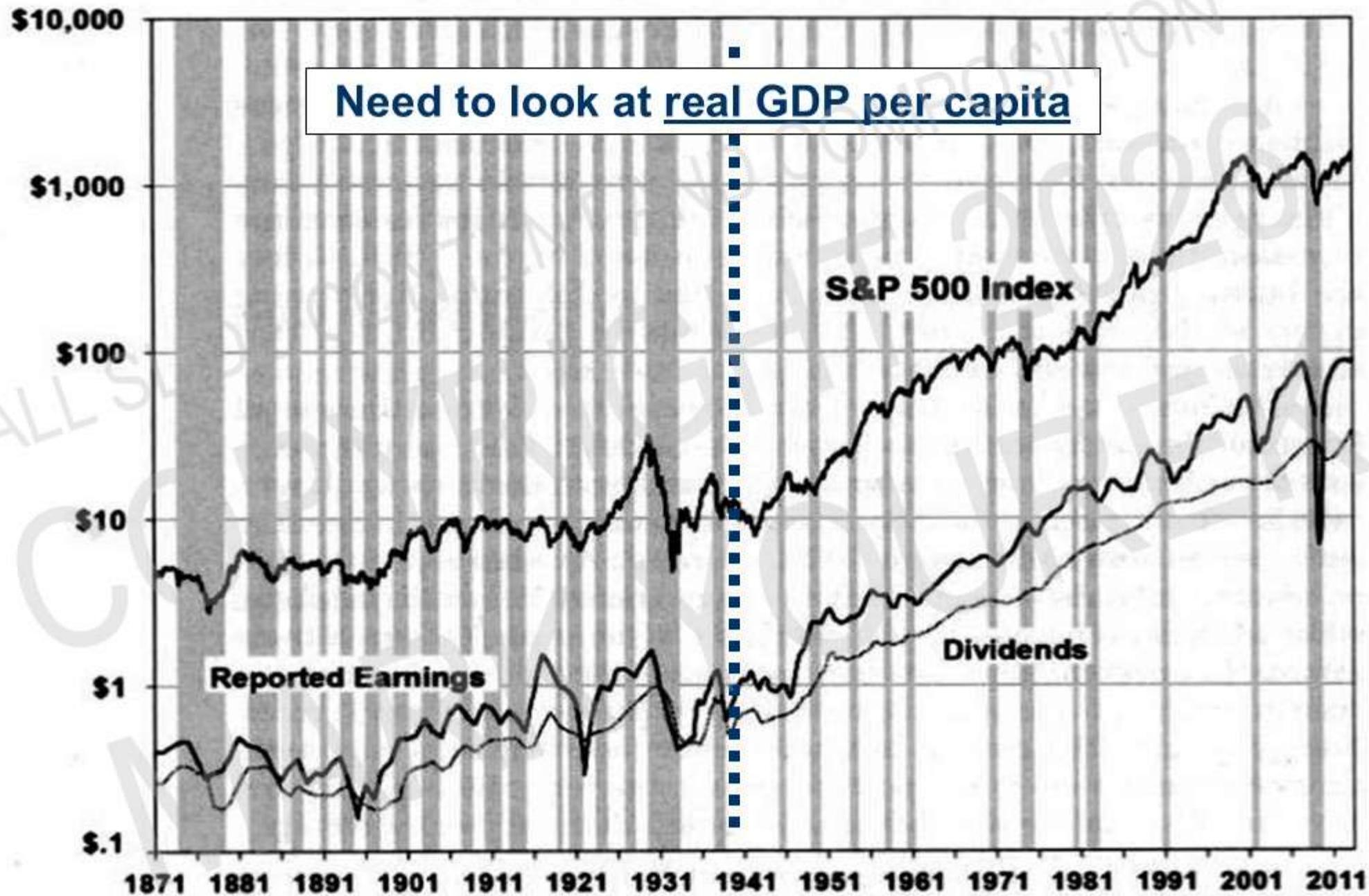
Banks are **inherently, inescapably unstable businesses,**
inherently unstable institutions

For this reason, as well as for several other reasons,
capitalist economies, by their very nature,
at their foundation, are unstable

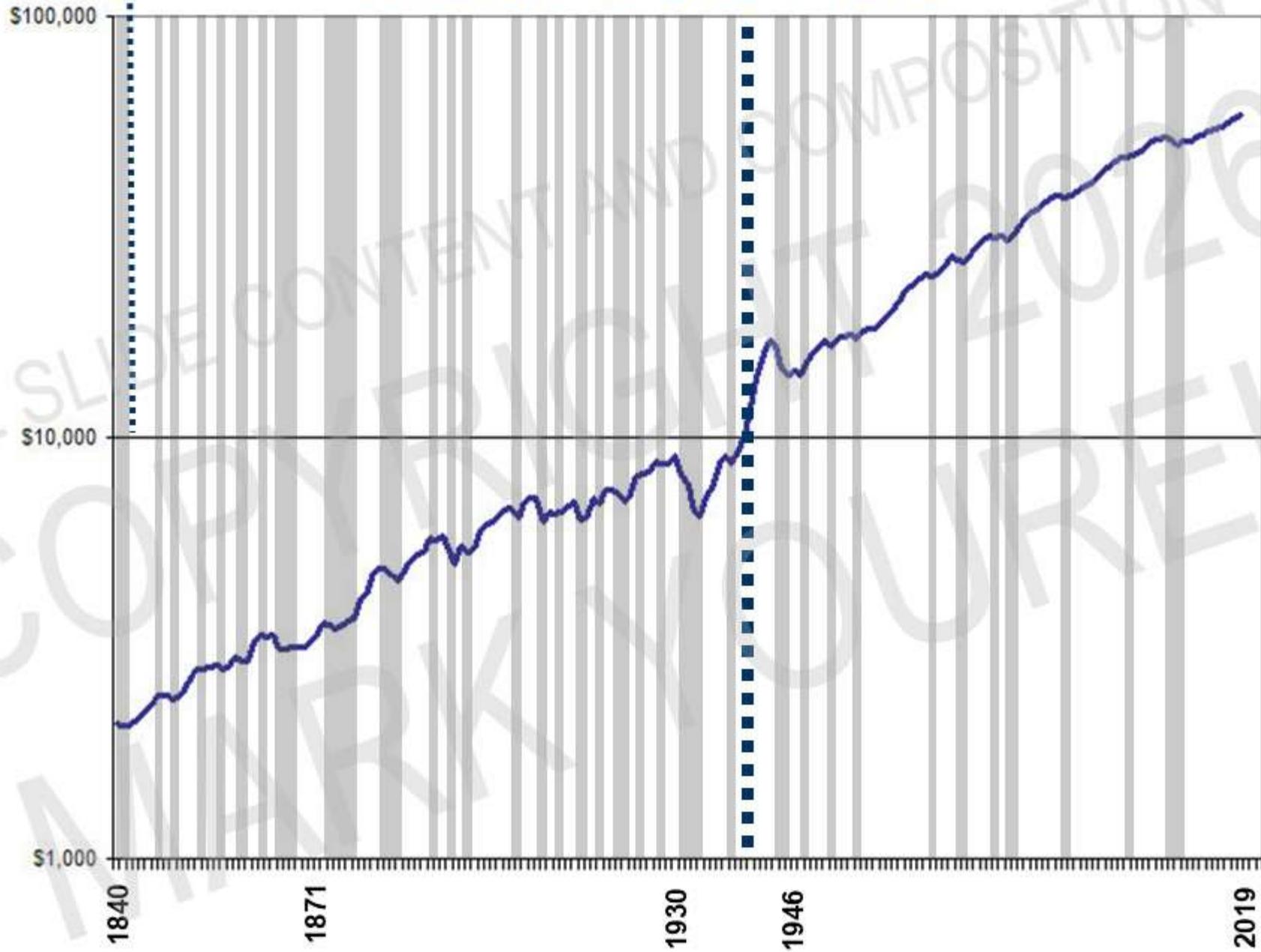
By its nature, capitalism is subject to
recurrent, inevitable crisis –
sudden, unpredictable spasms of collapse,
contraction, and economic destruction

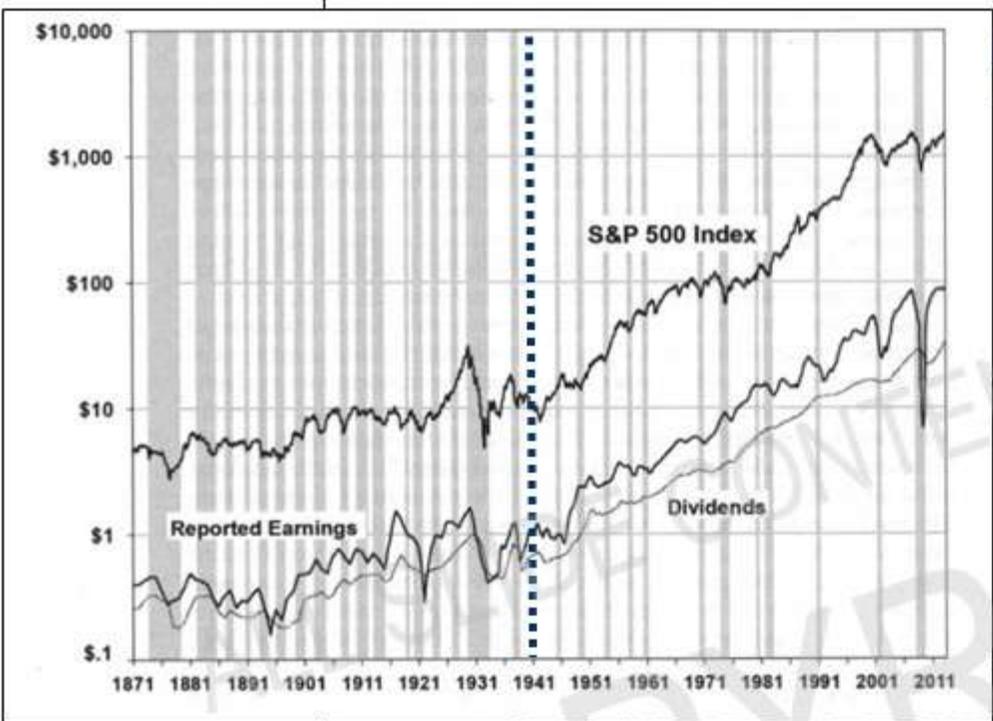
Capitalism is **bipolar** –
always alternating inevitably
between boom and bust



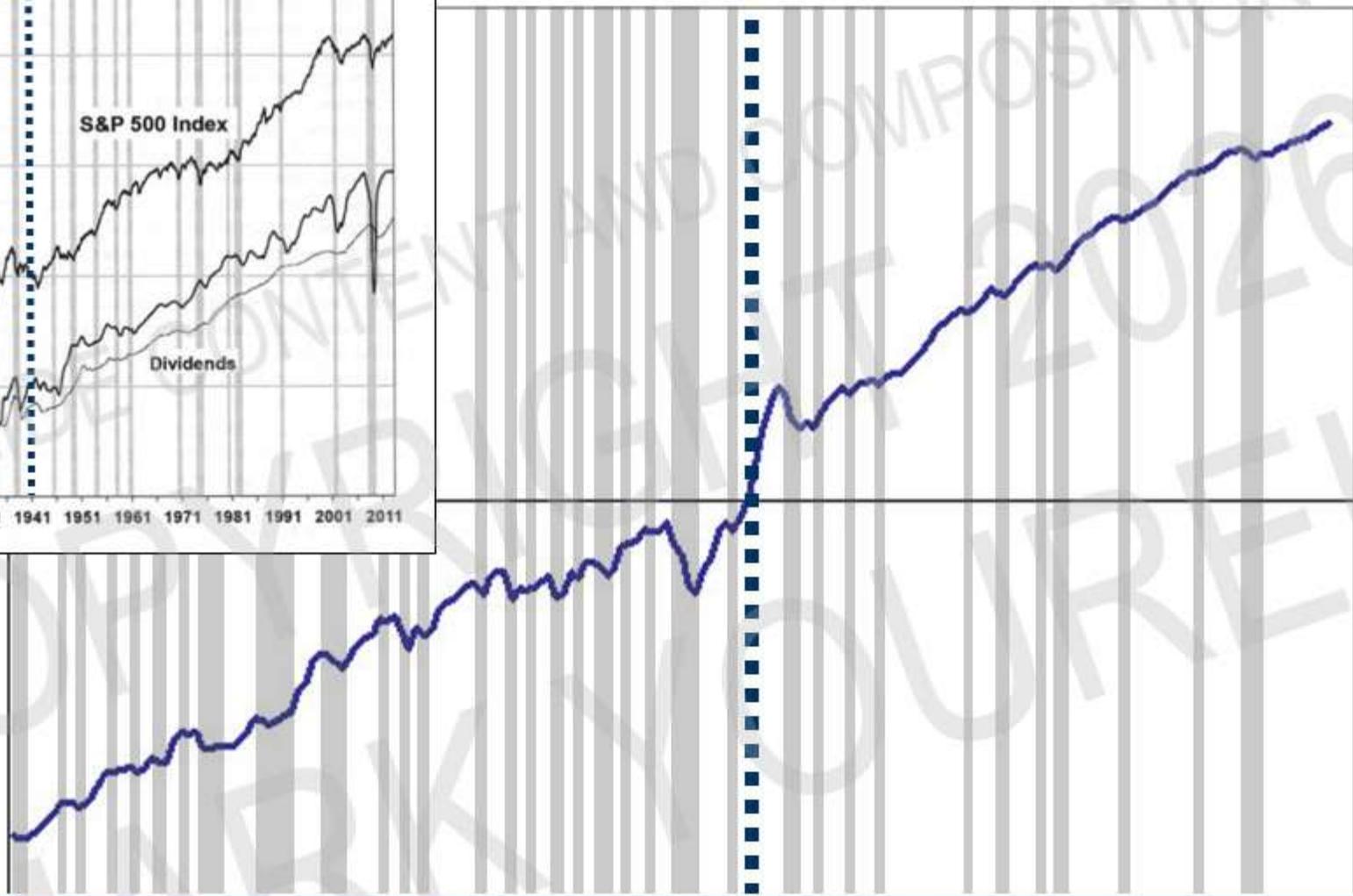


US Real GDP per capita 1840-2019



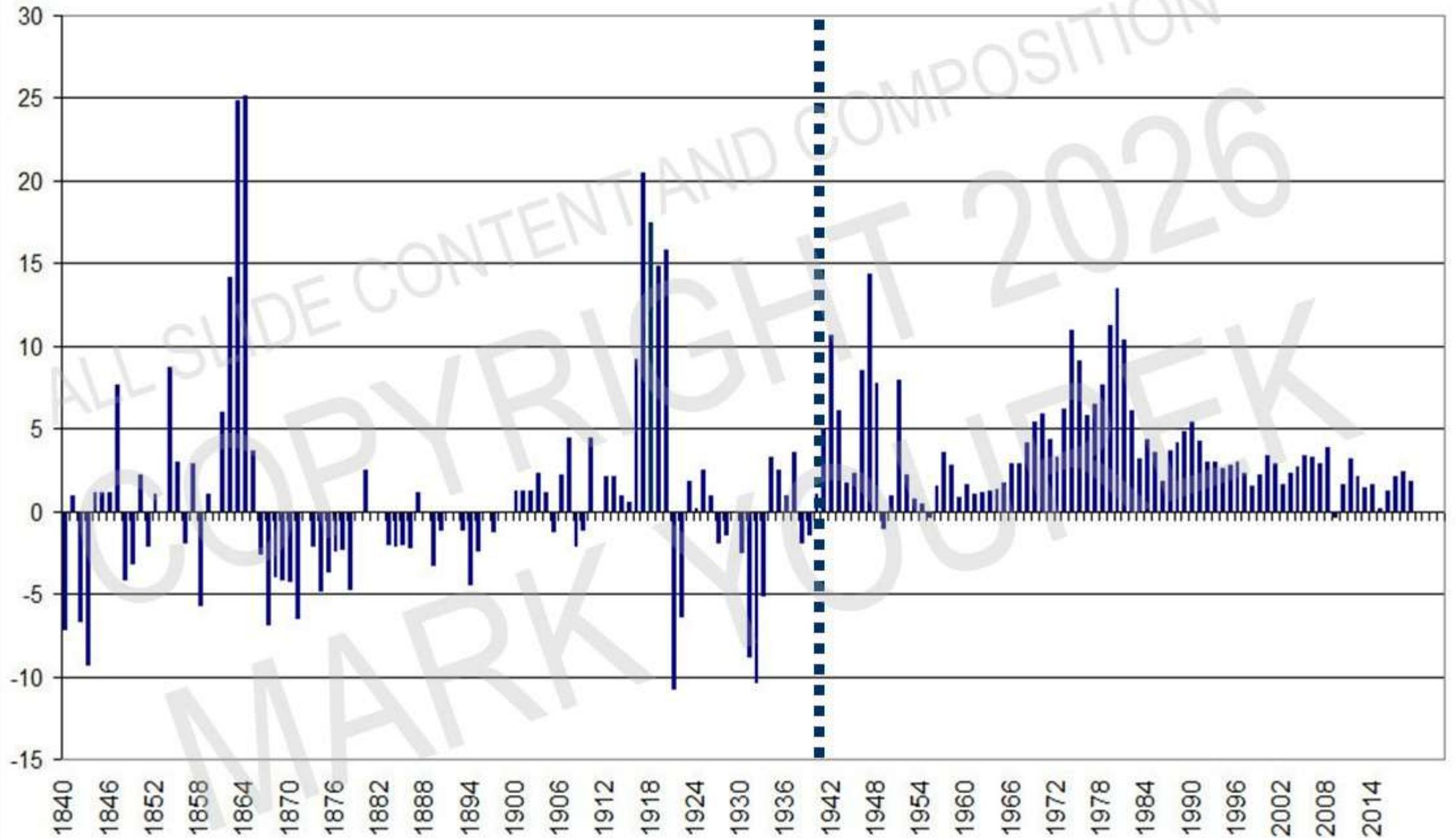


Real GDP per capita 1840-2019

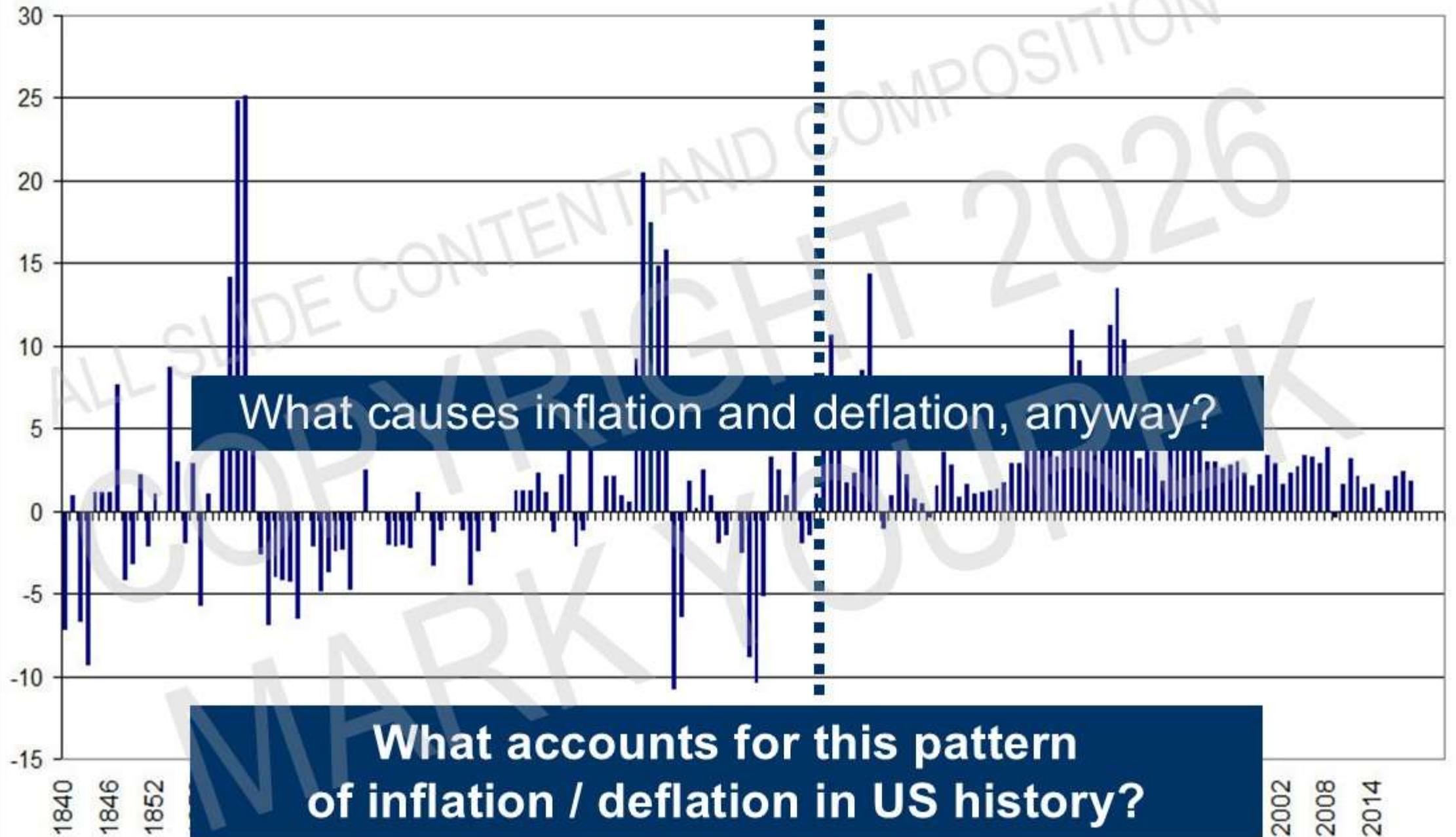


Why is the slope of this line so much straighter than the S&P 500 graph?

US Annual Inflation Rate 1840-2019



US Annual Inflation Rate 1840-2019



Chapter 2



A Brief Look at the Economic History of the United States

The 19th Century

A few things about the world of the past,
that are very different from the world we live in now:

- For a long time, the United States had no national currency, and no central bank
- The Federal government minted gold and silver coins, which were considered valuable based entirely on the metals they contained
- In picking something for use as money, dependable scarcity is a very useful characteristic



A few things about the world of the past,
that are very different from the world we live in now:

- For a
 - The B
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What is 'money'?

a medium of exchange

a denominated unit of account

~~a storehouse of value over time~~



A few things about the world of the past,
that are very different from the world we live in now:

- Gold and silver coins minted by foreign governments (Spain) also circulated as money in the US, also based on the value of the metals they contained
- These coins constituted the stock of 'base money,' *aka* hard money or 'specie'



A few things about the world of the past,
that are very different from the world we live in now:

- The amount of specie present in the US economy fluctuated, depending on international trade and economic events, and also on mining
- Banks accepted hard currency as deposits, and issued '*bank notes*' against these deposits, and as loans. These bank notes circulated in the economy as another form of money



Banks effectively **CREATE MONEY** through *loaning it out*,

The total quantity of 'base money' in circulation **fluctuated**, depending on *international trade*, and on *mining*

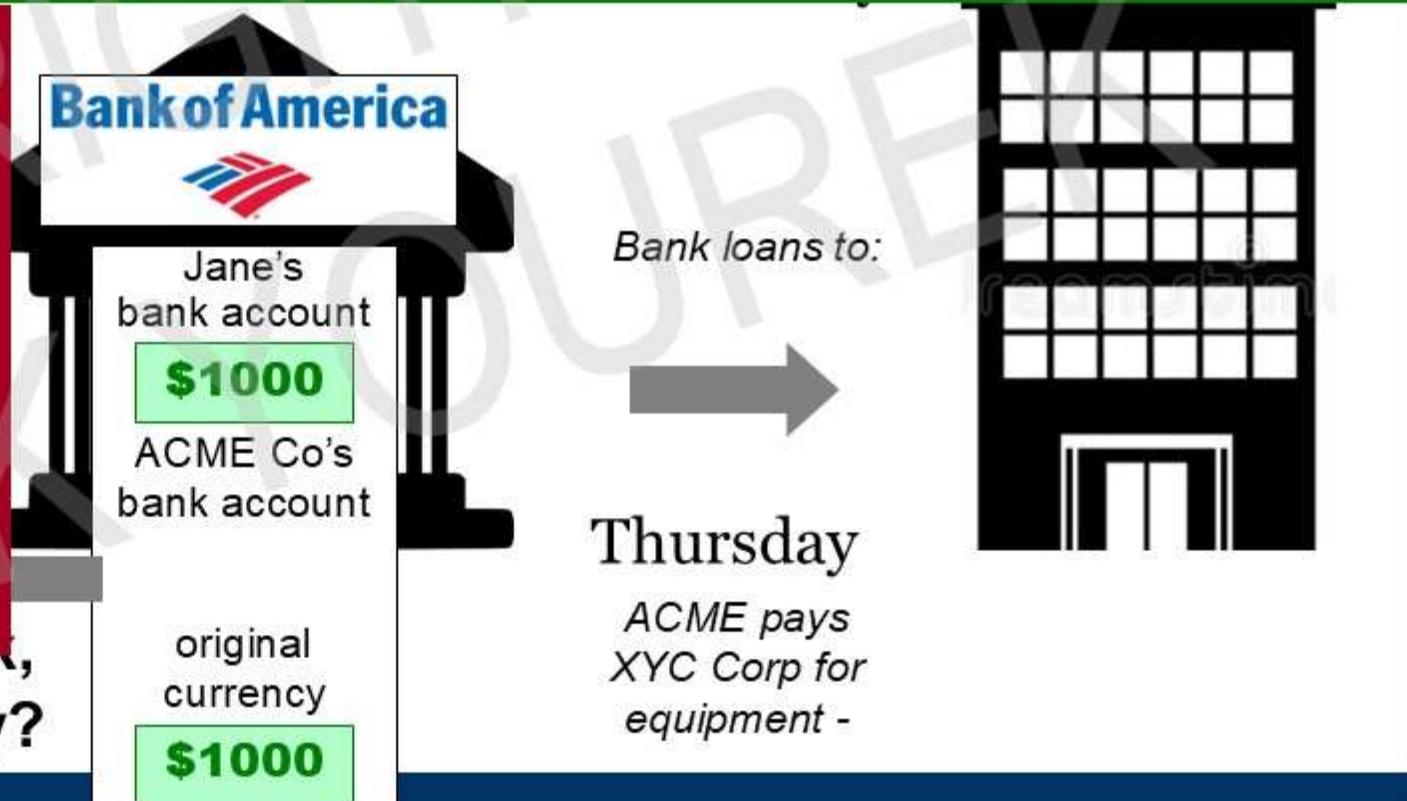
GOLD AND SILVER = SPECIE = 'BASE MONEY'

The total quantity of 'paper money' in circulation **fluctuated**, depending on *how much lending banks were doing*

BANK NOTES = 'PAPER MONEY'

BANKS, operating in the *private-sector economy*, have an immense ongoing impact on the total money supply – both increasing it, as well as shrinking it at times – depending on their lending activities

By the end of the week, where is Jane's money?



One theory of how paper money originated comes out of the early practice of safekeeping your gold and silver by entrusting it to a local goldsmith, who would lock it in his safe and give you a receipt for your 'deposit'

Soon, people realized that it would facilitate commerce to have the goldsmith issue **interchangeable receipts** or 'notes', for standardized amounts, to represent the 'hard money' he was holding

You might then leave your gold and silver locked up with the goldsmith, and just hand over goldsmith receipts that totaled the right amount, to pay local merchants for your purchases, on an ongoing basis

Goldsmiths then soon noticed that this arrangement might offer opportunities for them to expand into a new side business...

of **lending money, for profit**: of becoming **bankers**

How early banks worked John Kenneth Galbraith



There was an opportunity, involving bank notes.

That was to give a borrower not hard currency, but a note redeemable in the hard currency that had been placed in the bank.

How early banks worked John Kenneth Galbraith



With this note the borrower could pay merchants in town; the recipient of such a note might, instead of going to the bank for cash, use it for his own payments, and so on *ad infinitum*.

Meanwhile back at the bank, the borrower would be paying interest on the original loan.

How early banks worked John Kenneth Galbraith



One day, perhaps, a given note might be returned and redeemed for hard cash. Or it might not be. There was a chance that the note would continue its passage from hand to hand and to yet further hands, and never be returned for collection.

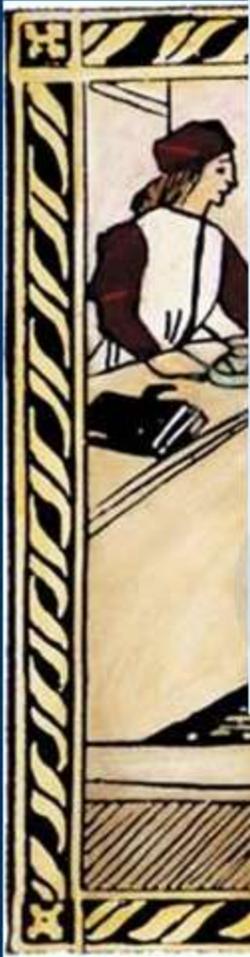
How early banks worked

John Kenneth Galbraith

The key questions that quickly arose, were:
Should bankers limit themselves, in their issuance of bank notes, only up to exactly the amount of gold and silver they actually have on deposit?

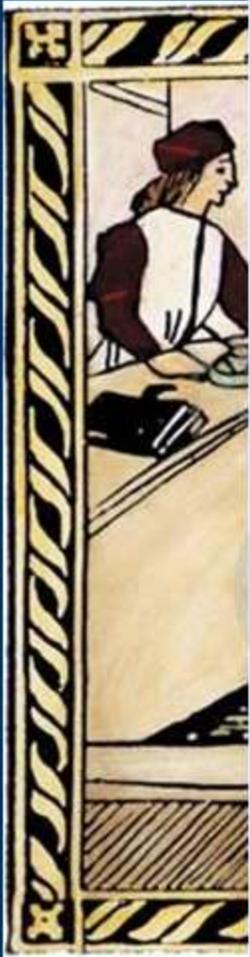
(in that case, lending out the money, and paying interest to depositors, would both be impossible – i.e., banking would be impossible)

for collection.



How early banks worked

John Kenneth Galbraith



The key questions that quickly arose, were:

To the extent that bankers will need to issue quantities of notes *beyond* the amounts of hard money they are holding, *how much beyond*, should they go, in issuing bank notes?

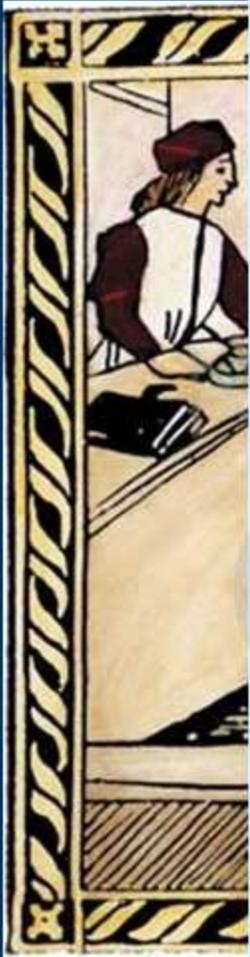
What considerations need to be weighed, here?

How would any defined limit on the issuance of bank notes be enforced?

Who should be deciding these questions?

How early banks worked

John Kenneth Galbraith



The key questions that quickly arose, were:

THE MORE NOTES YOU CAN ISSUE, RELATIVE TO THE HARD MONEY YOU ARE HOLDING, **THE MORE PROFITABLE YOU CAN BE,** OFF THE INTEREST YOU WILL BE COLLECTING

THE MORE NOTES YOU CAN ISSUE, RELATIVE TO THE HARD MONEY YOU ARE HOLDING, **THE MORE FRAGILE AND UNSTABLE THE BUSINESS WILL BE:** *i.e.*, THE MORE SUSCEPTIBLE TO A **BANK RUN**

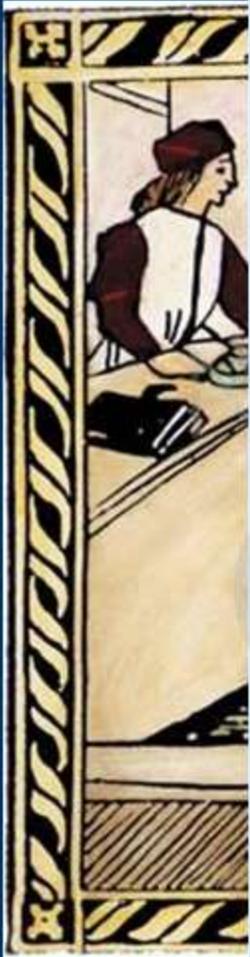
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From the beginning of the American Republic, there was a great deal of debate and skepticism about this practice of banks issuing notes in quantities well beyond the amounts of hard money they were actually holding

1836-1862 – The Era of Free Banking

- Federal government mints gold and silver coins as 'base money'; foreign base money also circulates
- No government-issued paper money – banks issue banknotes against base money on deposit



1836-1862 – The Era of Free Banking

- Federal government mints gold and silver coins as 'base money'; foreign base money also circulates



1836-1862 – The Era of Free Banking

- Bank lending conducted on a note basis – issuance of banknotes is a widely debated issue
- Economy functions mostly on a cash basis, using mainly bank notes; employees paid and purchases and debts paid in cash



1836-1862 – The Era of Free Banking

- No federal government involvement in banking: widely varying state regulations, including a few states banning banks entirely
- Mining and international trade cause ongoing changes to the money supply, but the biggest factor causing inflation and deflation in this era was **the rate at which banks were issuing notes/making loans**



1836-1862 – The Era of Free Banking

- This period represents the last pendulum-swing towards reducing federal government involvement in banking, after two episodes of greater involvement: First (1791-1811) and Second (1816-1836) Bank of the United States



1836-1862 – The Era of Free Banking

- Decentralized / localized banking industry: seen as responsive to local economy and conditions – but very messy
 - Thousands of different kinds of bank notes were in circulation at any given time
 - Every day, merchants had to navigate this wildly complicated landscape, which frequently turned *payment method* into yet another negotiation



THE COURT CALENDAR

DAILY POLICE AND BANK NOTE REPORTER.

LIST OF CLOSED, BROKEN, AND FRAUDULENT BANKS.

NMAEI	Mechanicank, Paterson
Agricultural Bank, Brewer	Monmouth Bk of N.J. Freehold
Bk. of Portland, Portland	Morris Canal & Banking Co.
Commercial Bank, Bangor	Jersey City
Bath Bank	N. J. Manufac. & Banking Co.
Castine Bank	Hoboken
Citizens Bank, Augusta	N. J. Protection & Lombard
Damariscotta Bank, Noblebor'	Bank, Jersey City
Frankfort Bank	State Bank, Trenton
Georgia Lumber Co. Portland	Salem & Phila. Manufac. Co.
Globe Bank, Bangor	Salem
Hallowell and Augusta Bank,	Washington Banking Co. Hack-
Hallowell	ensack
Kennebec Bank, Hallowell	Farm. & Mechs' Bank, New
Kennebunk Bank	Brunswick

Wiscasset Bank	Farm. & Mech. saving institu-
NEW HAMPSHIRE.	tion, Phil.
Claremont Bank, Claremont	Farm. & Mech. Bk. Greencastle
Grafton Bank, Haverhill	Farm. & Mech. Bk. Pittsburgh
Hillsboro' Bank	Franklin Savings Bk. Phila.
New Hampshire, Union Bank,	Girard Bank, Phila.
Portsmouth	Girard Loan Co. Phila.
N. Hampshire Bk. Portsmouth	Harmony Institute
Wolfborough Bank	Huntington Bank
VERMONT.	Juniata Bank, of Penn., Lewis-
Agricultural Bank, Troy	town
Bank of Windsor	Lancaster Loan Co.
Bennington Bank	Lumberman's Bank, Warren
Commercial Bank, Poultry	Manual Labor Bank, Phila.
Essex Bank, Guildhall	Marietta & Susquehanna Tra-

NEW COUNTERFEITS.

MARINER'S BANK, Wiscasset, Me.—2's.
2's altered from some broken Michigan Bank—well done.

CRANSTON BANK, Cranston, R. I.—10's.

ATTLEBOROUGH BANK, Attleborough, Mass.—5's.
5's—vignette, cattle—railroad cars.

BANK OF UTICA, Utica, N. Y.—10's—10's, letter A; W. B. Well's, pres. H. Huntington cash.—vignette, an Indian, deer in the distance.

TOMPKINS COUNTY BANK, Ithaca, N. Y.—2's—The officers' names are filled up with blue ink, and are good imitations—engraving rather heavy, the appearance of the bill calculated to deceive.

WHALING BK, New London, Conn.—10's—spurious, vignette, figure of Mercury—in the distance a ship under full sail. On right end full-length female figure; on left denomination of note. Harris and Sealy, engravers, N. Y.

ORANGE BANK, Orange, N. J.—5's—spurious; vignette, Mercury reclining, sailor at his side. New England Company, Boston, engravers. Unlike the true bills.

MIDDLESEX CO. BANK, Middletown Conn., 2's and 3's,—letter A,

Same denominations—**BANK OF DELAWARE**, Wilmington.

Same denominations—**KENSINGTON BANK**, Philadelphia.

Same denominations—**BURLINGTON CO. BANK**, Medford, N. J.

Look out for Counterfeit 5's on the Orange Co. Bank, N. Y., and 50's on the Bank of Bristol, R. I., altered from 1's.

BANK OF SMYRNA, 5's, spurious—vignette, railroad cars, Harris & Seely, engravers, New York.

TRENTON BANKING CO., Trenton, N. J., 10's—At the top of the bill Minerva is sitting, and a ship in full sail; right end Minerva is standing; the English coat of arms at the bottom. Dated October 21, 1845, payable to J. Cook. Engraved by Harris & Seely, N. Y.

MONTGOMERY CO. BANK, Johnstown, N. Y., 3's.

FALL RIVER BANK, Fall River, Mass., 3's altered from broken Citizens' Bank, Augusta, Me. Filling up well done.

Sharon Ann Murphy,
*Other People's Money:
How Banking Worked
in the Early American
Republic, 2017*

The economic impact of banking Galbraith



From an original deposit of hard currency, loans could be made. New notes, or deposits usable as money, would result. The supply of goods being unchanged, prices would tend to go up, and money would be worth less.

The economic impact of banking

Galbraith

From previous lecture:

Banks effectively **CREATE MONEY** through *loaning it out*, which lets it be in *multiple places at the same time*



The economic impact of banking Galbraith



Were the banks avaricious, competitive, or both, or borrowers suitably euphoric, the expansion of loans, and in consequence of deposits and notes, could be great.

So could be the increase in prices. From the standpoint of the public, this increase in prices, and decrease in the value of money, was a flaw.

The economic impact of banking Galbraith

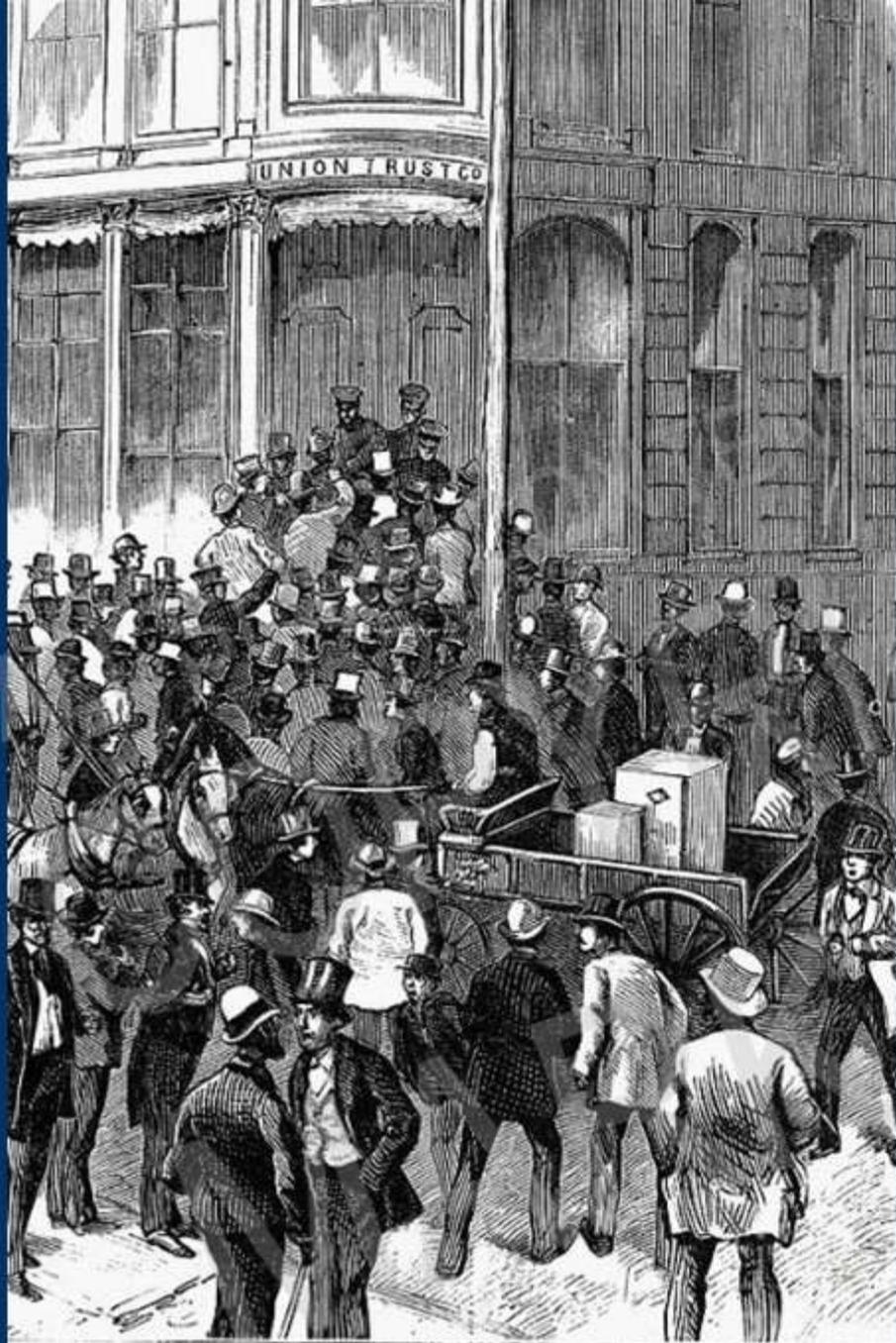


For the banks, there was also a serpent. This was the possibility that depositors and noteholders might, more or less simultaneously, come for their hard money.

The economic impact of banking Galbraith



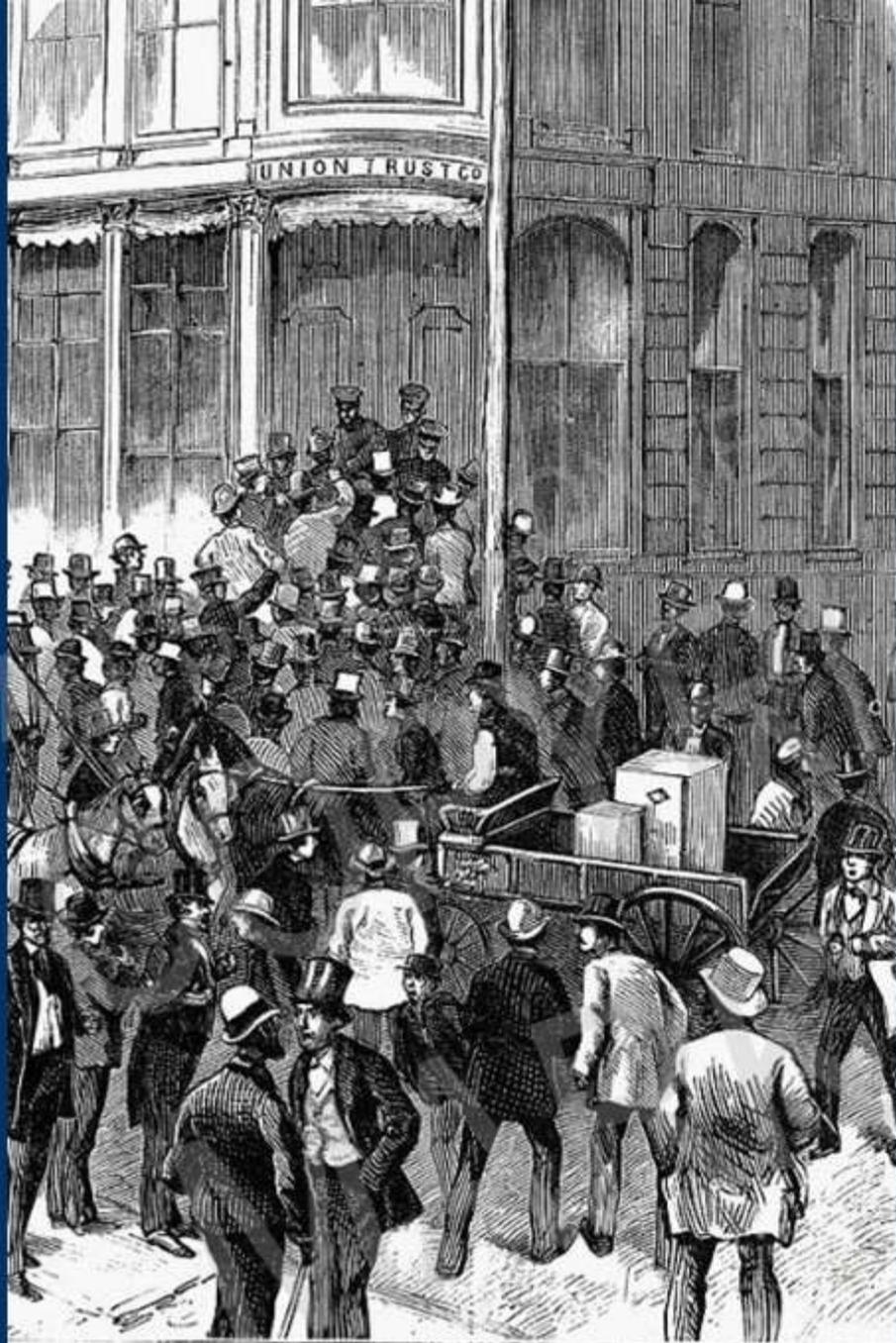
The marvel of banks in relation to money was suspended on this one silken thread: the hope that depositors and noteholders would come in decently small numbers for their hard currency.



RUN ON THE UNION TRUST COMPANY.

If all came at once,
the bank could not pay.

And when the thought
spread that the bank
could not pay, then, often
in much haste, all came.

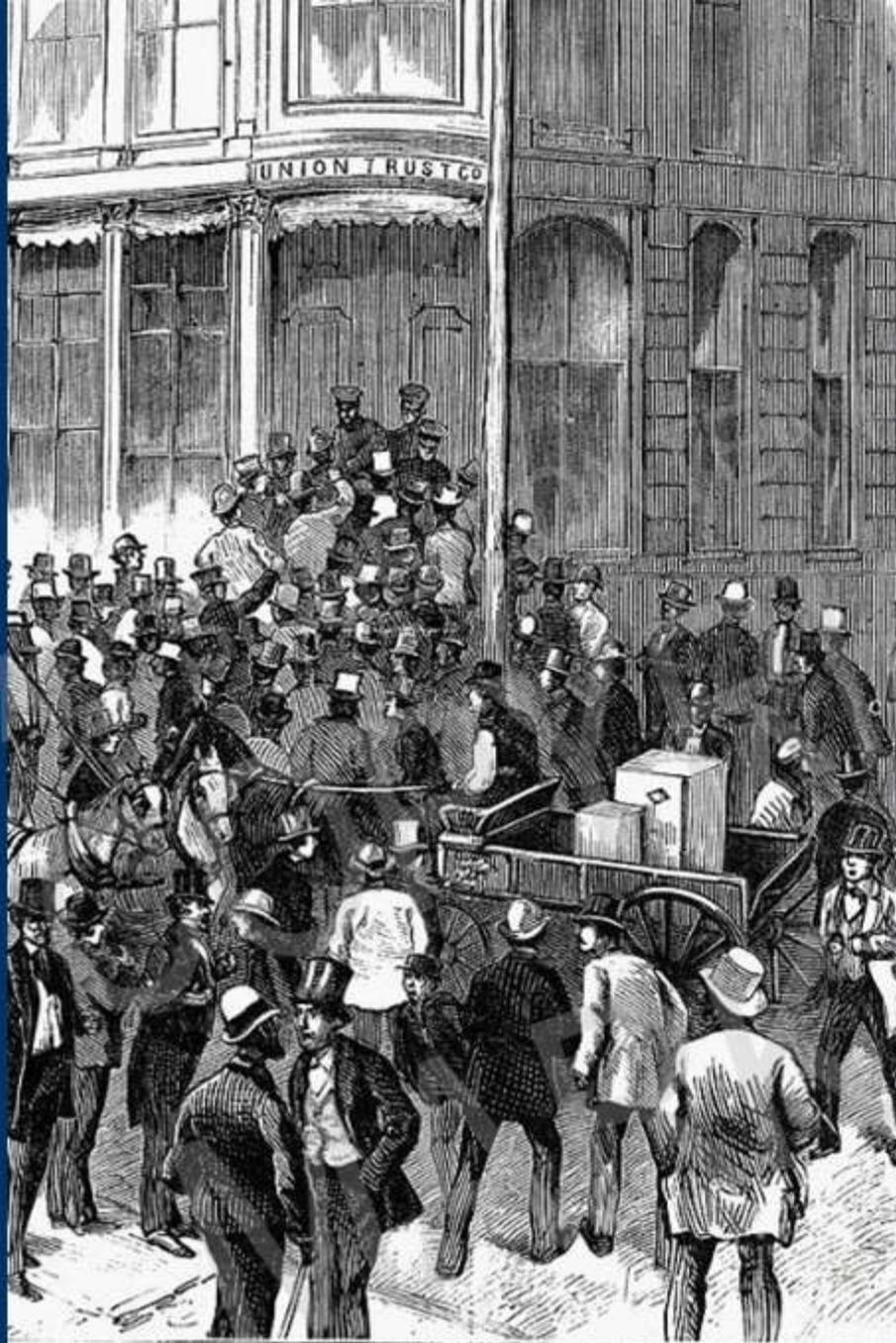


RUN ON THE UNION TRUST COMPANY.

This was the panic or depression, the natural counterpart of the earlier euphoria.

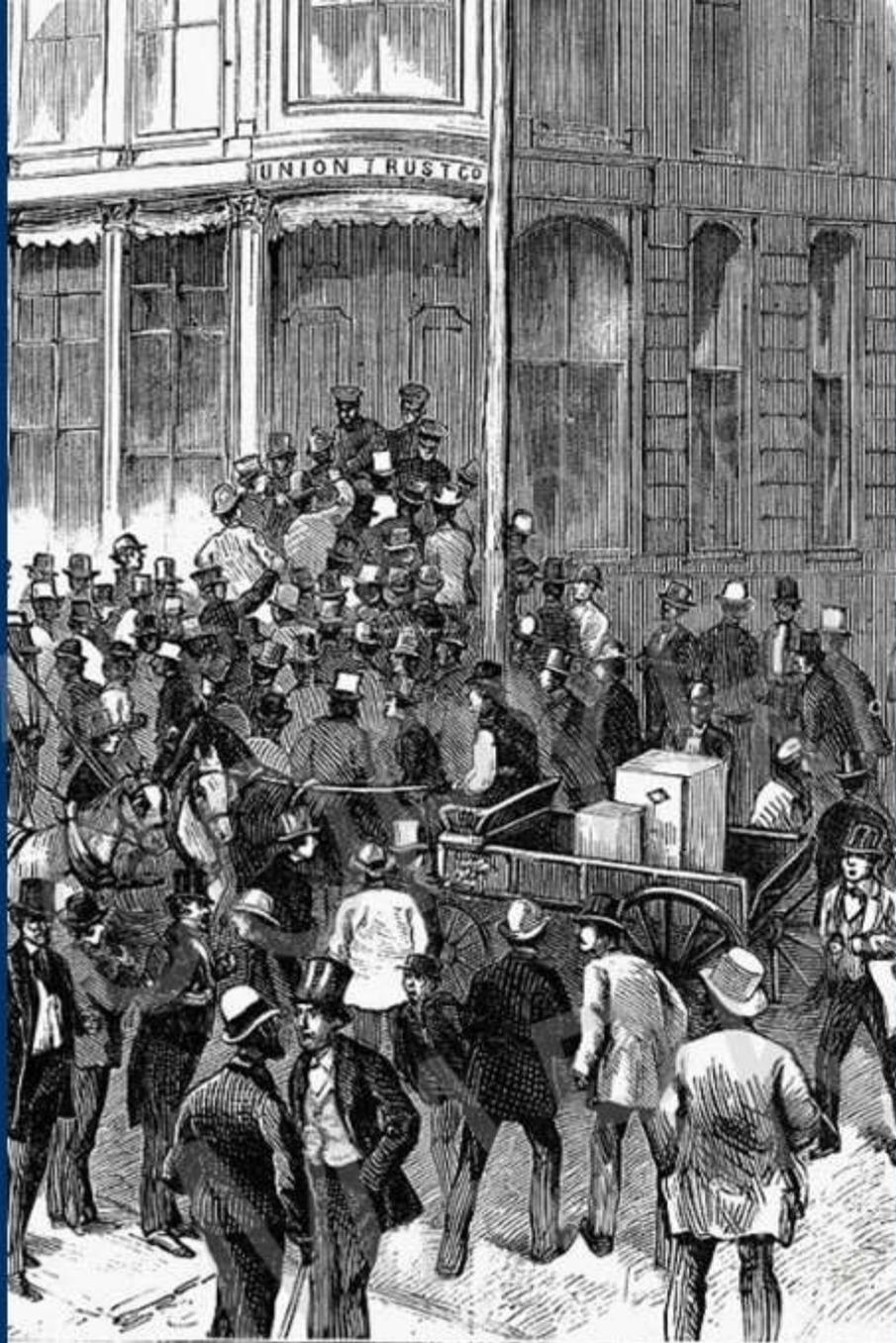
[Following a panic,] there being [suddenly] less money [in circulation, and therefore less money] to buy things, prices would fall.

The fall might be fast and ruinous to those with goods to sell or debt payments to make.



RUN ON THE UNION TRUST COMPANY.

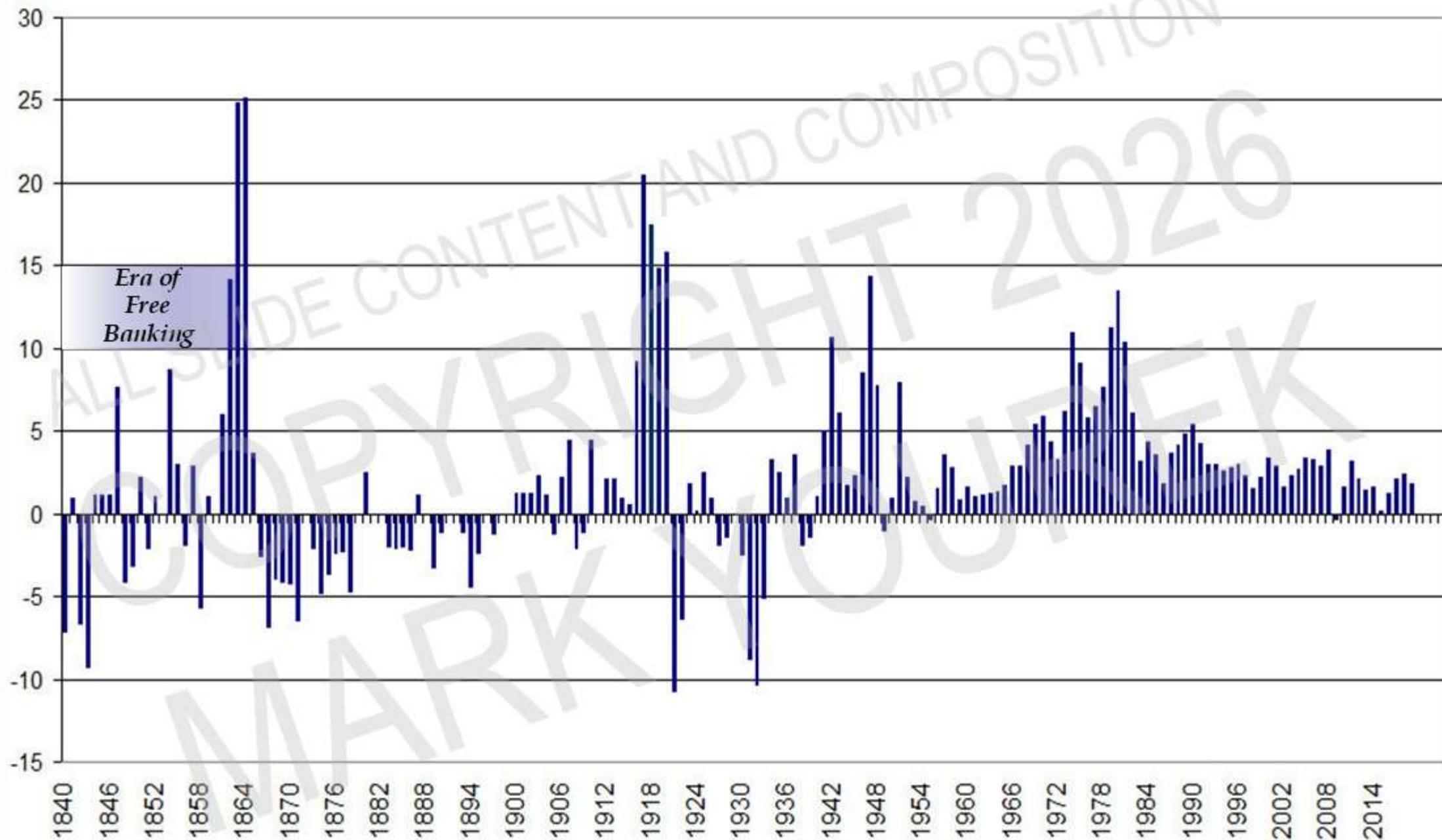
As banking developed from the 1600s onwards, so did cycle after cycle of euphoria and panic.

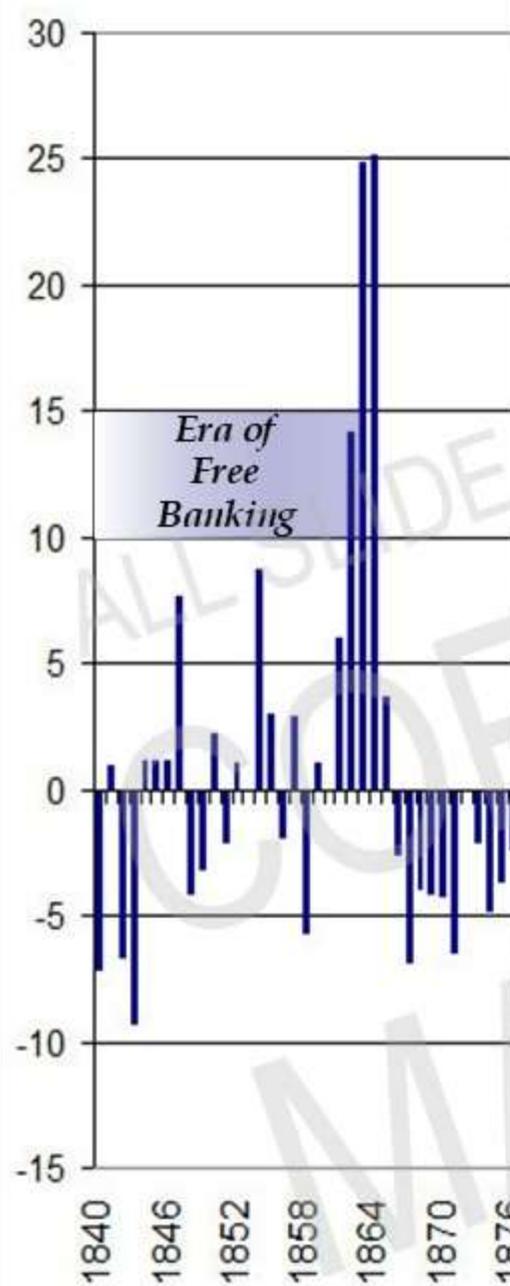


RUN ON THE UNION TRUST COMPANY.

The length of these cycles came to align roughly with the time it took people to forget the last disaster: for the financial geniuses of one generation to die off in disrepute, and be replaced by new craftsmen, who, the gullible could believe had, this time but truly, the Midas touch.

US Annual Inflation Rate 1840-2019





FOR
CALIFORNIA!
 DIRECT

EXTRAORDINARY INDUCEMENTS!!
THIRTY-FIVE DAYS TO THE GOLD REGIONS!

The "California Steam Navigation Co."
 Will dispatch their first vessel from New-York, the NEW and SPLENDID
STEAMSHIP!
 NICARAGUA
 DAVID JERROLD, Master, positively
On FRIDAY, MARCH 23d, 1849,
 Via the River St. Juan and Lake Nicaragua, across the Isthmus of Colon.

Capt. BRONSON, of the U. S. Topographical Engineers.

200 JACK ASSES!

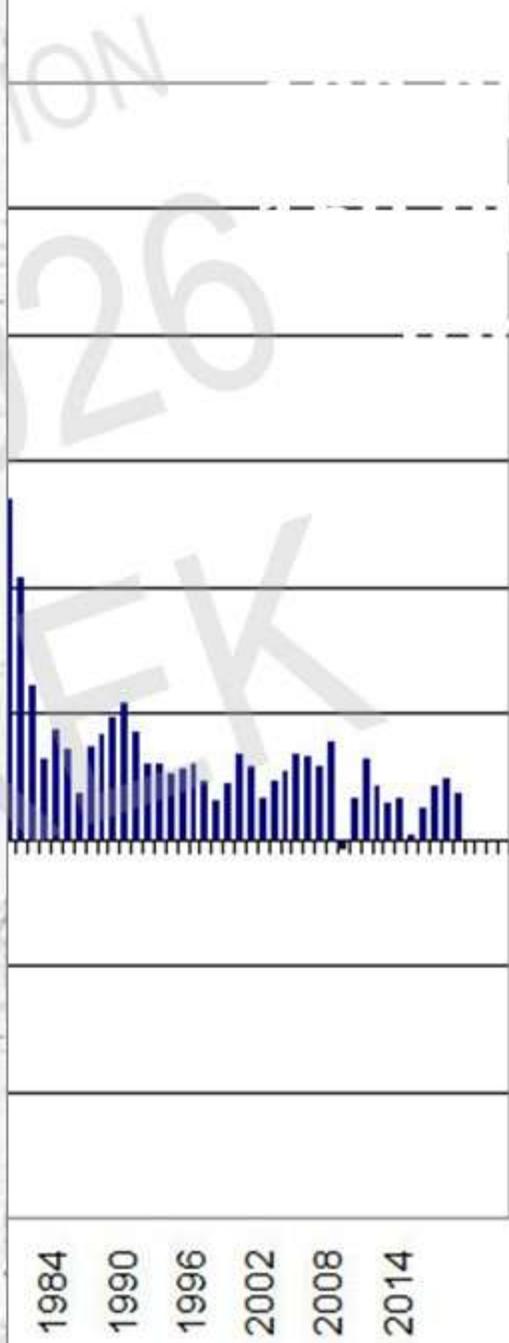
(Small, illegible text describing the offer of 200 jack asses for the journey.)

The Quickest, Safest and Cheapest!!

Price of Passage Through Ninety Dollars!

To be paid in SPECIE, Dimes and half Dimes, taken only.

For further particulars apply on board, at the foot of South Street, N. Y. or to the undersigned Agents for the Company. Applications by mail, to meet attention, must be post paid, addressed to the Company's Agents.
HOBSON, BROTHERS & Co., 127 Wall Street, (opposite the Bullhead)

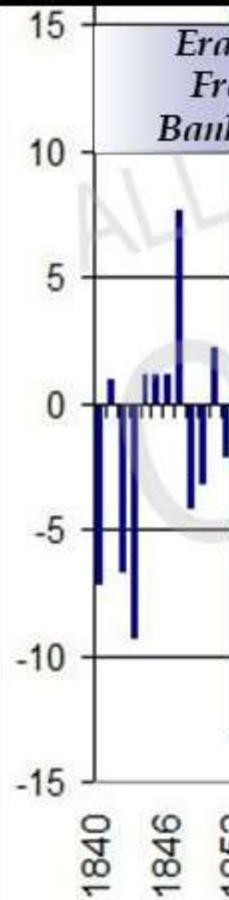




Estimated total amount of gold in the world in the 19th Century: **100,000 - 150,000 tons**

Estimated total amount of gold found / stolen during the Spanish conquests: **150 tons**

Estimated total amount of gold found in California: **180 tons**



Price of Passage Through Ninety Dollars!
 To be paid in SPECIE, Dimes and half Dimes, taken only.
 For further particulars apply on board, at the foot of South Street, E. H. or to the undersigned Agents for the Company. Applications by mail, to meet attention, must be post paid, addressed to the Company's Agents.
 HOBSON, BROTHERS & Co., 127 Wall Street, (opposite the Bullhead.)

- 1984
- 1990
- 1996
- 2002
- 2008
- 2014

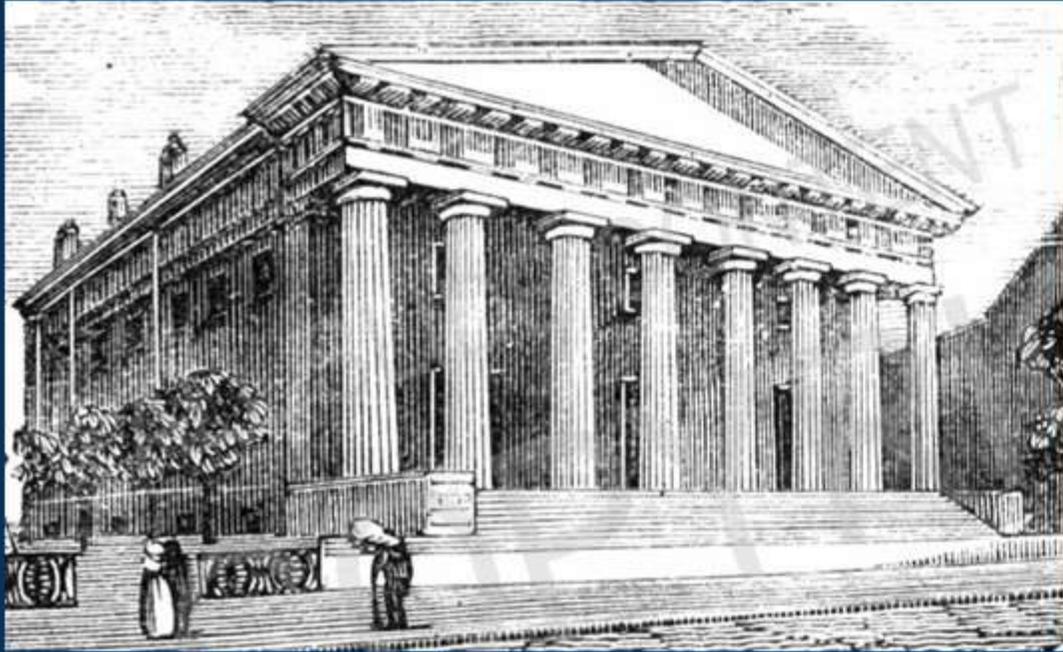
1836-1862: The Era of Free Banking

Galbraith

In the years after the end of the Second Bank of the United States there existed, in effect, a dual monetary system.

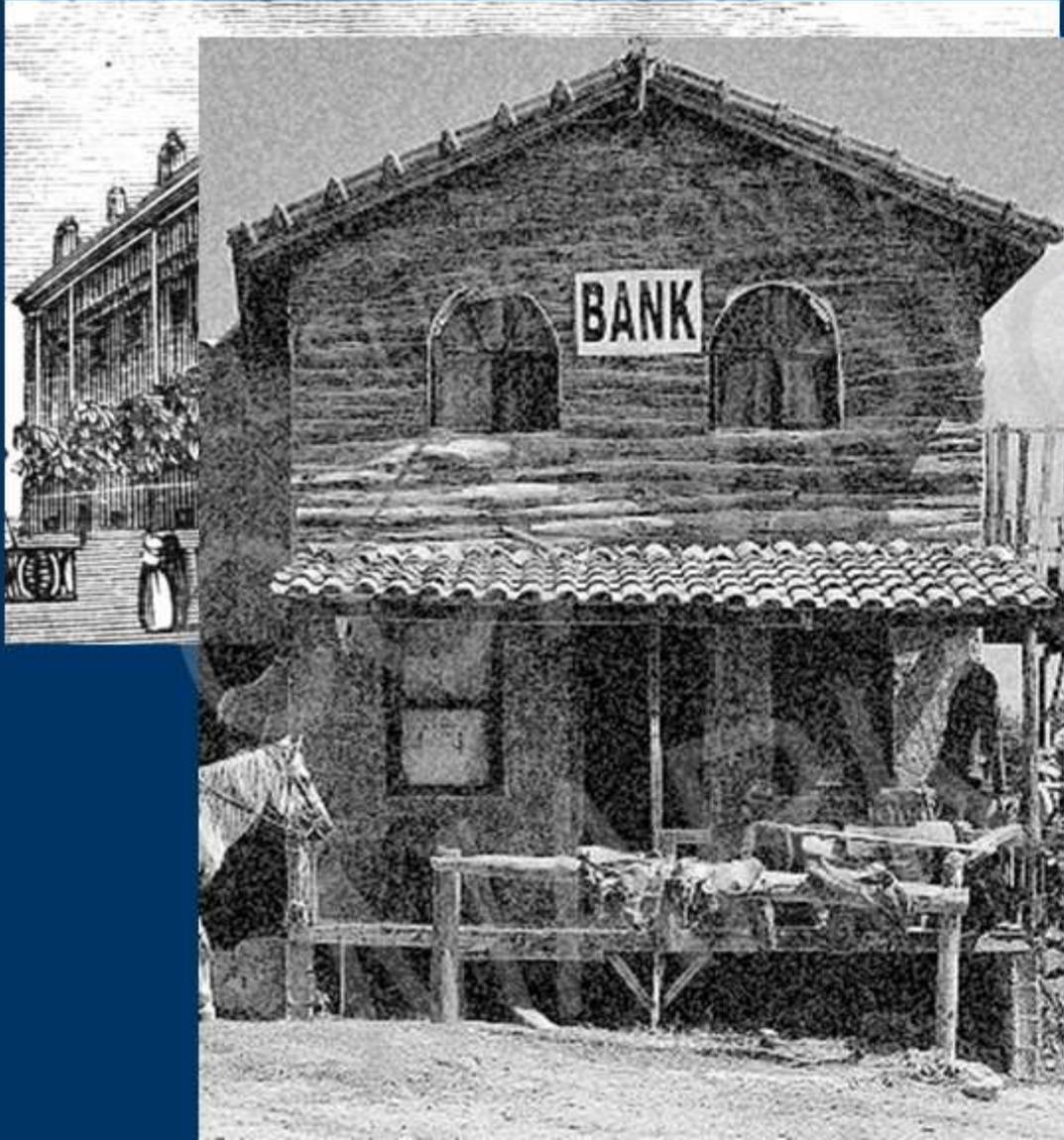
Each of the parts fitted the needs or predilections of the part of the country it served.

1836-1862: The Era of Free Banking Galbraith



For the growing Eastern financial and trading community, there were increasingly reliable banks – banks with a firm disposition to redeem their notes and deposits in hard money when asked.

1836-1862: The Era of Free Banking Galbraith

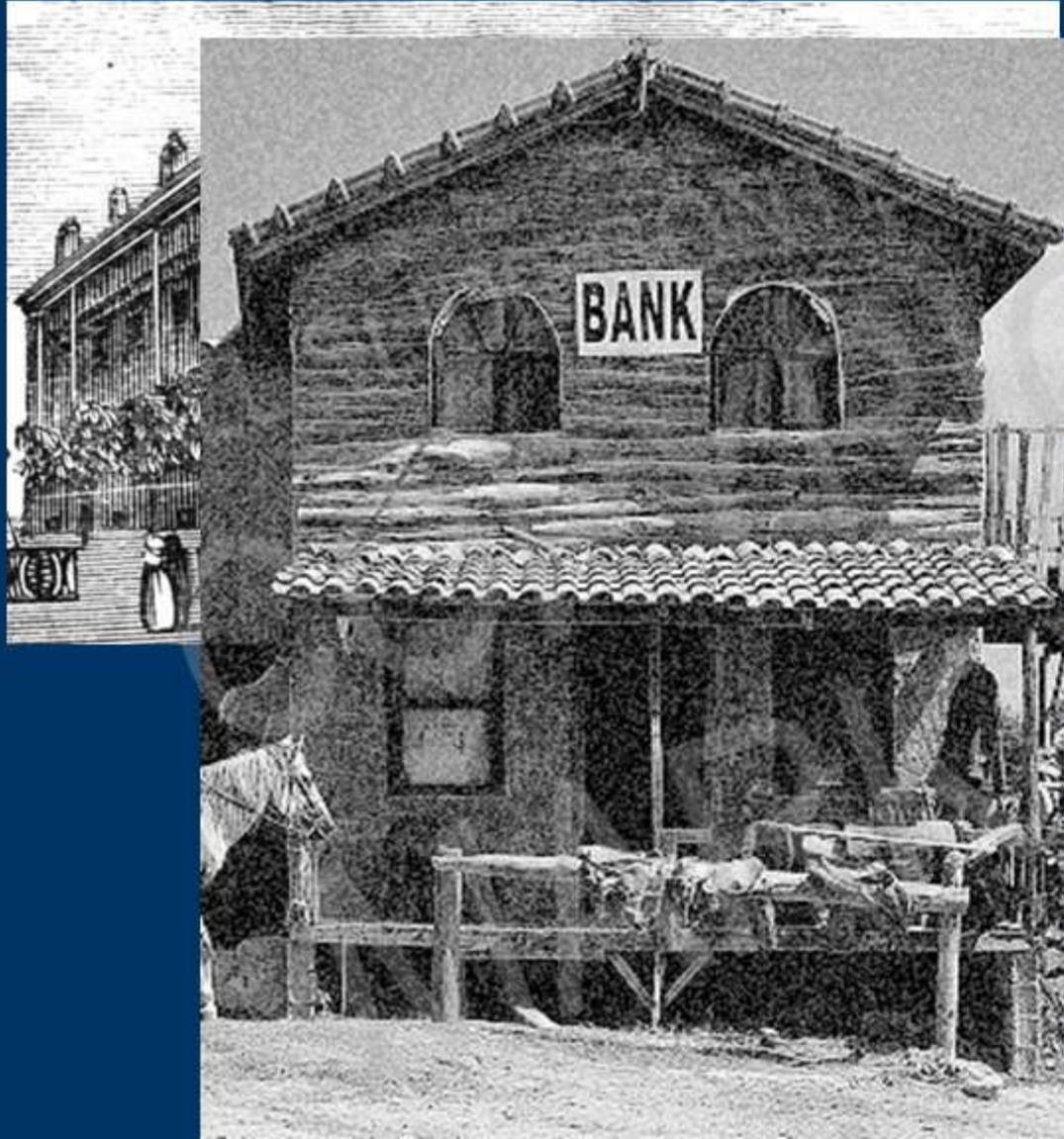


For the new parts of the country as they opened up, there was the right to create banks at will, and therewith the notes and deposits that resulted from their loans.

No central bank tested the ability of these banks to redeem their notes.

1836-1862: The Era of Free Banking

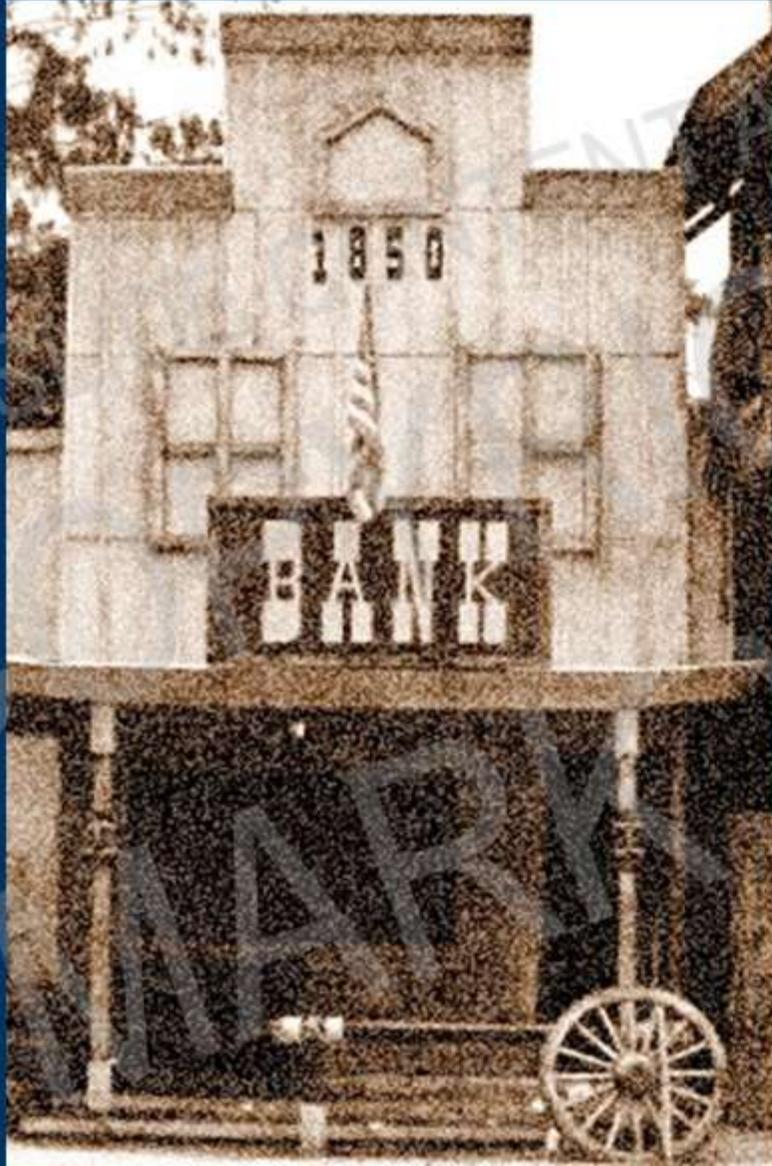
Galbraith



By action of the state legislatures, there were rules as to the hard-money reserves to be held against notes and deposits.

In most states, these were enforced with a light and gracious hand; in others, with considerable firmness, usually after a saddening experience with no enforcement at all.

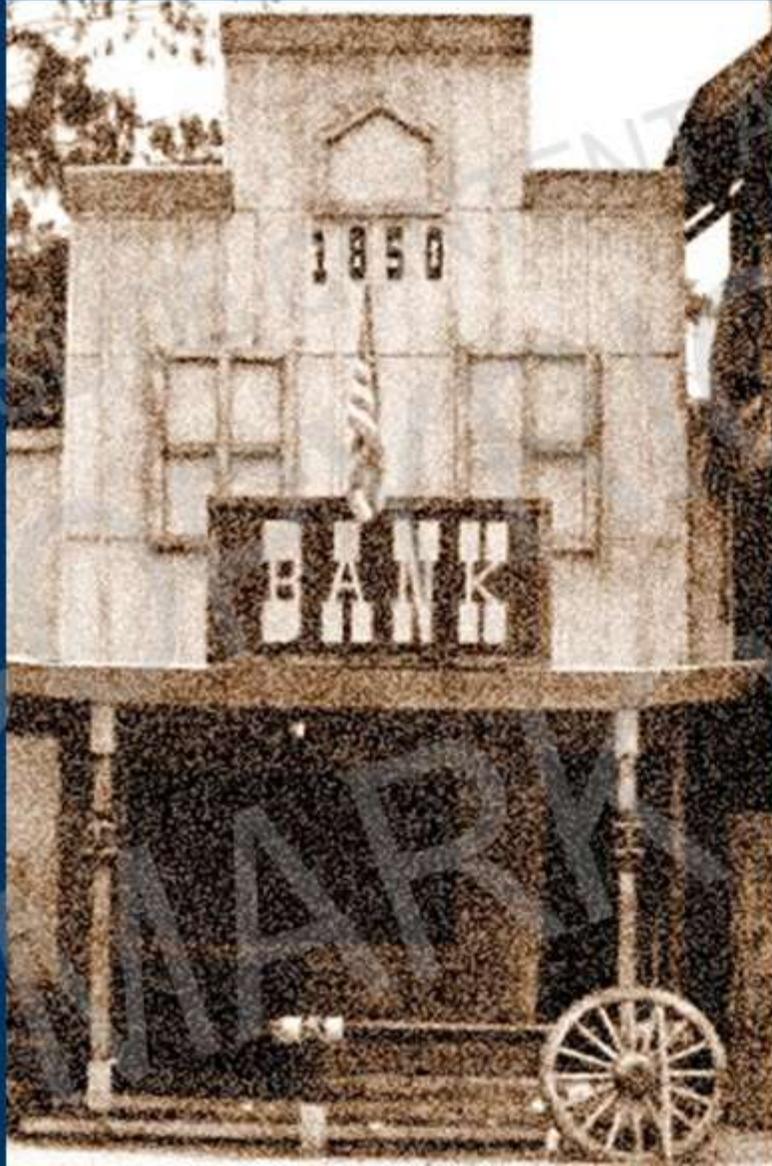
1836-1862: The Era of Free Banking Galbraith



Frequently, failure to abide by regulations was discovered only after a bank failure had made the question academic.

In these years in the then-conservative Commonwealth of Massachusetts, a bank with a note circulation of \$500,000 was discovered after its demise to be holding a specie reserve of \$86.48. A modest backing.

1836-1862: The Era of Free Banking Galbraith



The annals of Michigan banking in the 1830s are especially engaging: the law required a 30 percent reserve of gold and silver against notes in circulation – a very solid foundation.

And commissioners were put in circulation to inspect the banks and enforce the requirement.

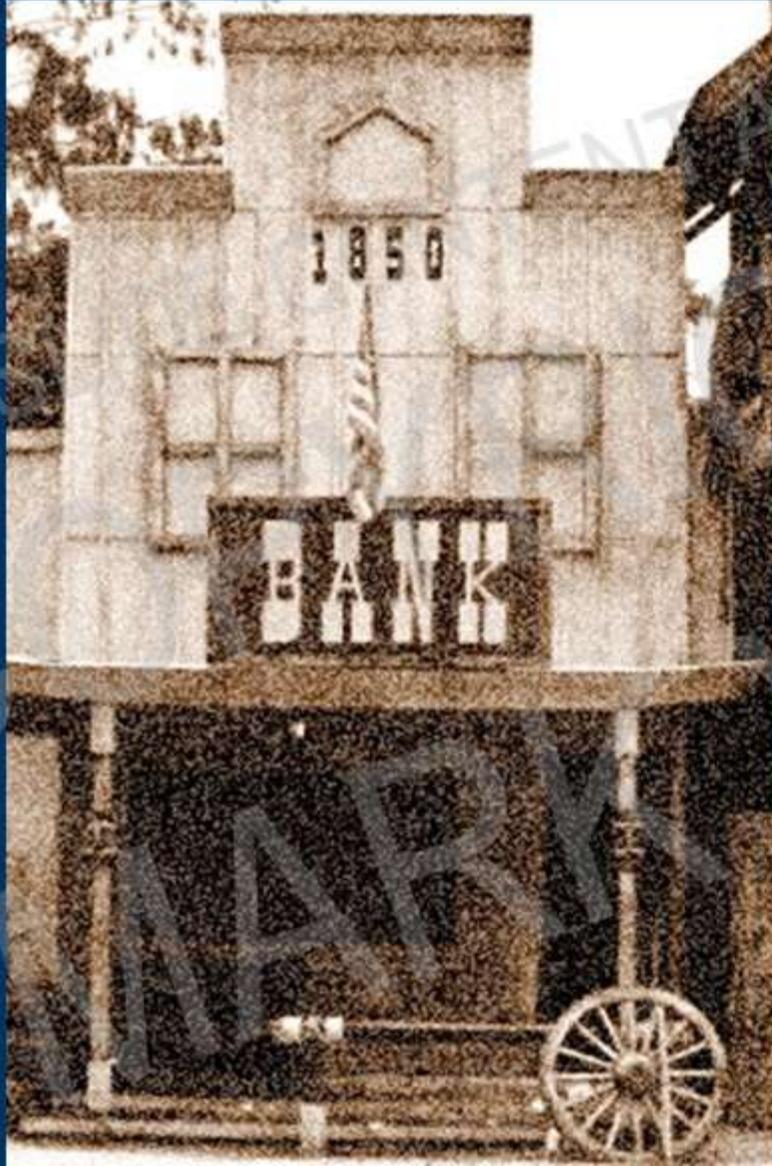
1836-1862: The Era of Free Banking Galbraith



Also put in circulation, just ahead of the commissioners, was the gold and silver that served as the reserve.

This was moved in boxes from bank to bank; when required, the amount was extended by putting a ballast of lead, broken glass and (appropriately) ten-penny nails in the box under a covering of gold coins.

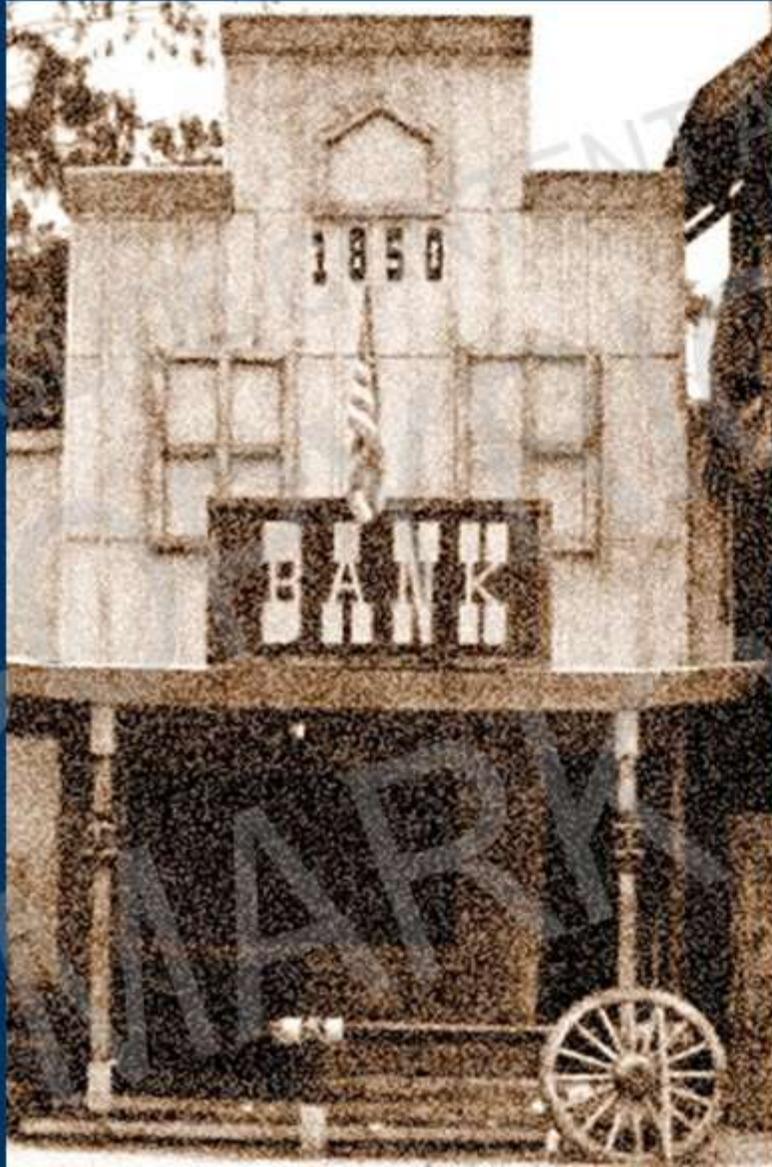
1836-1862: The Era of Free Banking Galbraith



All this was an arrangement which reputable bankers and merchants in the East viewed with extreme distaste.

Men of economic wisdom, then as later, expressing the views of the reputable business community, spoke of the anarchy of unstable banking.

1836-1862: The Era of Free Banking Galbraith



But, this anarchy served the frontier better than a more orderly system that kept a tight hand on credit would have.



As civilization, or some approximation, came to an Indiana or Michigan crossroads in the 1830s or 1840s, so did a bank.

Its notes, when issued and loaned to a farmer to buy land, livestock, seed, feed, food or simple equipment, put him in business.

If he and others in the community prospered and paid off their loans, the bank also prospered.



*Money: Whence It Came,
Where It Went, 1975*

If not, the bank could fail. And someone – perhaps a local creditor, perhaps an eastern supplier – was left holding the worthless banknotes.

But some number of borrowers from this bank were likely also by now in business, worthy men established on farms, running stores, making a living.

Somewhere, someone holding the notes had made an involuntary contribution to the winning of the West.

Bankers are always among
the most sophisticated people working in any economy:

their success depends on their ability
to make good judgments

about *people* (their loan-worthiness)

about the *projects* these people want to borrow money to pursue

and about *the outlook for the economy*,
that these borrowers will be functioning in

What are a bank's most important assets?

William N. Goetzmann

The business of a bank is to take in deposits and make loans;

[however, its] true assets are not a stockpile of currency,
[nor] a grand edifice, [nor] a legion of clerks.

Instead, [the bank's key asset] is *the business acumen of the banker: the eye for opportunities, the canny assessment of risk, and the reputation for integrity.*

Money Changes Everything: How Finance Made Civilization Possible, 2016

So, when did the United States move away from this whole world of banks issuing banknotes?



1862-1878 – Establishment of a national currency, and of federal bank regulation



- Lincoln Administration sees need to raise dramatically more revenue, to finance the Civil War
- US government issues 'greenbacks' in 1861-62: paper legal tender, to be 'eventually' redeemable in gold
- First US 'fiat' money since 'continentals', but ostensibly to be on the gold standard
- Effective abolition of private banknotes in March 1865, in favor of the new national currency

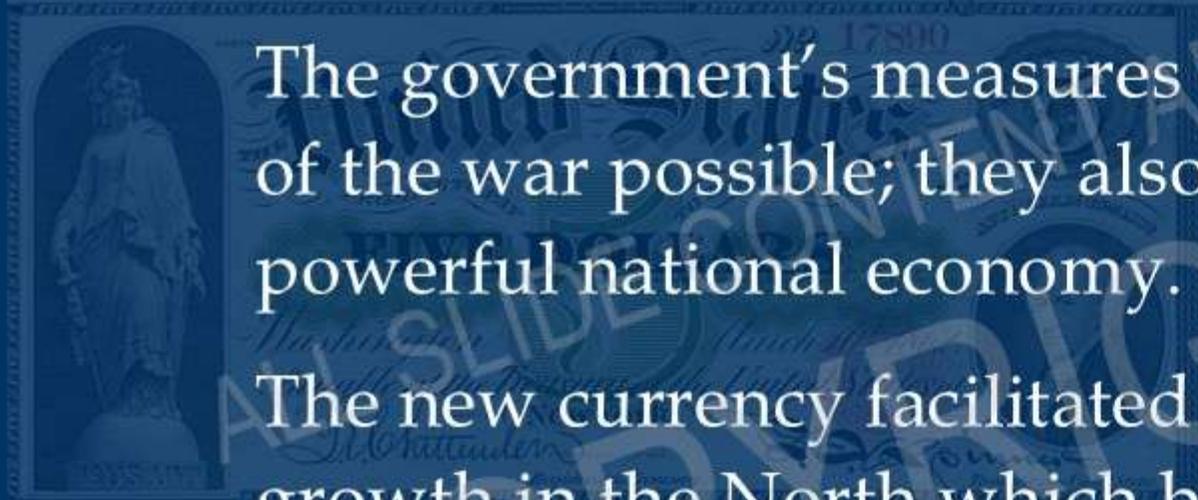
1862-1878 – Establishment of a national currency, and of federal bank regulation



- New initiation of bank examination and regulation by the federal government, with the National Bank Acts of 1863-65
- Transition from note-based bank lending to deposit-based lending, and to transaction (checking) accounts
- Standardized national currency fosters economic development and growth in the North during the war – and well beyond

Ways and Means: Lincoln and His Cabinet and the Financing of the Civil War, Roger Lowenstein

The Economist
book review - April 16, 2022



The government's measures did not just make the financing of the war possible; they also knitted together an ever more powerful national economy.



The new currency facilitated commerce, spurring economic growth in the North which benefited the war effort.

Ways and Means: Lincoln and His Cabinet and the Financing of the Civil War, Roger Lowenstein

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As the fighting broke down the age-old bias against government intervention in the economy, a wave of transformational legislation was passed:

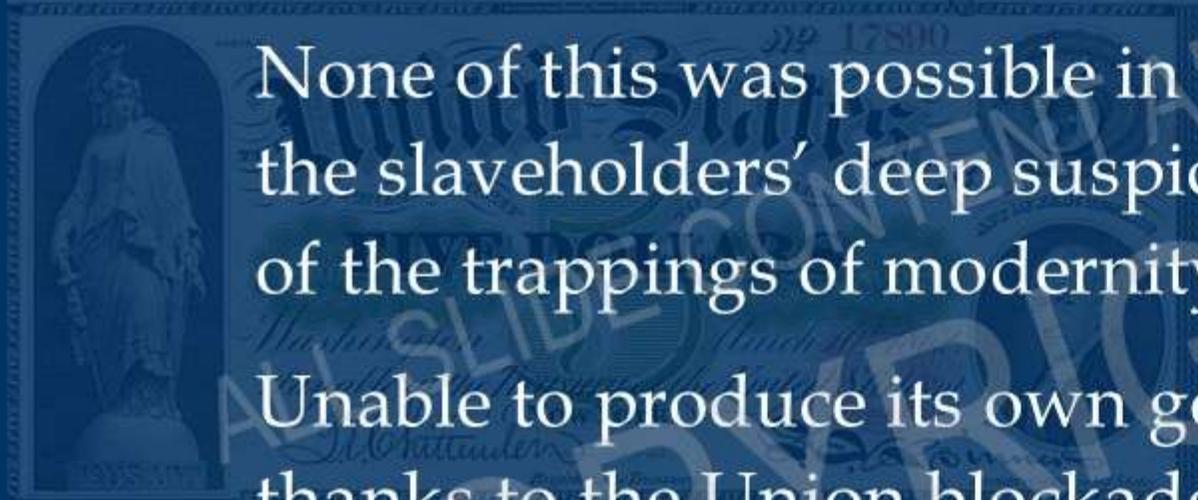
boosting investment in continent-spanning railways
[1862 bill establishing the Union Pacific Railroad]

providing free land to Americans willing to move to the country's western fringes [1862 Homestead Act]

and laying the groundwork for a network of public universities that would provide practical higher education to the masses. [1862 Morrill Act, for land-grant colleges]

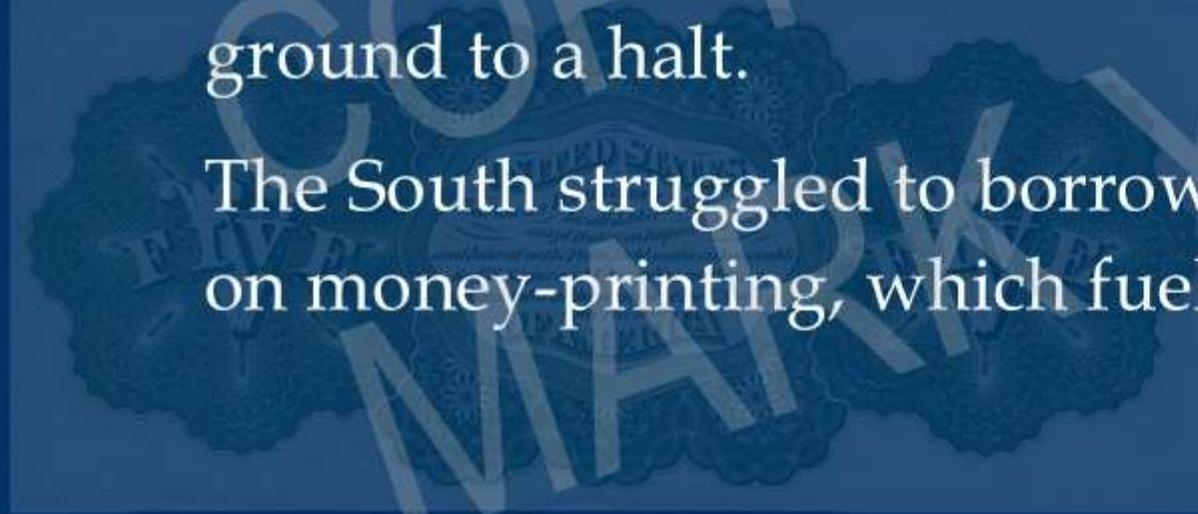
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None of this was possible in the South, where the slaveholders' deep suspicion of government, and indeed of the trappings of modernity, was essential to the rebellion.

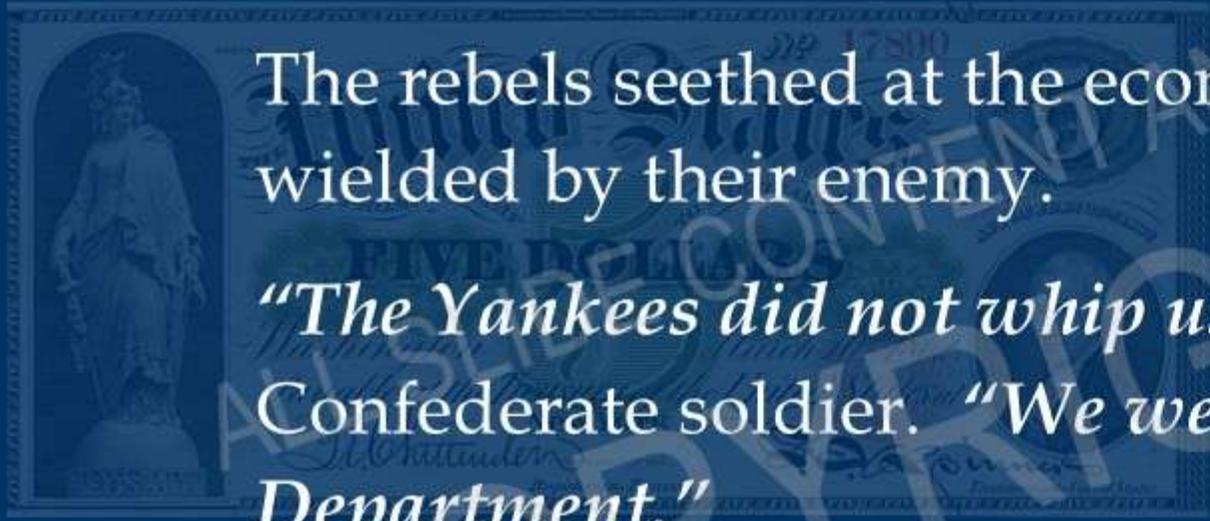
Unable to produce its own goods – or to sell its cotton, thanks to the Union blockade – the Confederate economy ground to a halt.



The South struggled to borrow, and relied heavily on money-printing, which fueled runaway inflation.

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The rebels seethed at the economic power wielded by their enemy.

“The Yankees did not whip us in the field,” noted one Confederate soldier. *“We were whipped in the Treasury Department.”*





The Civil War created a dramatic shift in sentiment – a **sudden consensus for change** – around several expansions in the use of government that had always been blocked, up until then

The most momentous and consequential of these was **transfer of the issuance of money** from the private sector to government

The previous, privately-run system, based on bank notes, was replaced by a single government-issued currency, that **immediately began accelerating the expansion of commerce and industrialization on a nationwide basis**

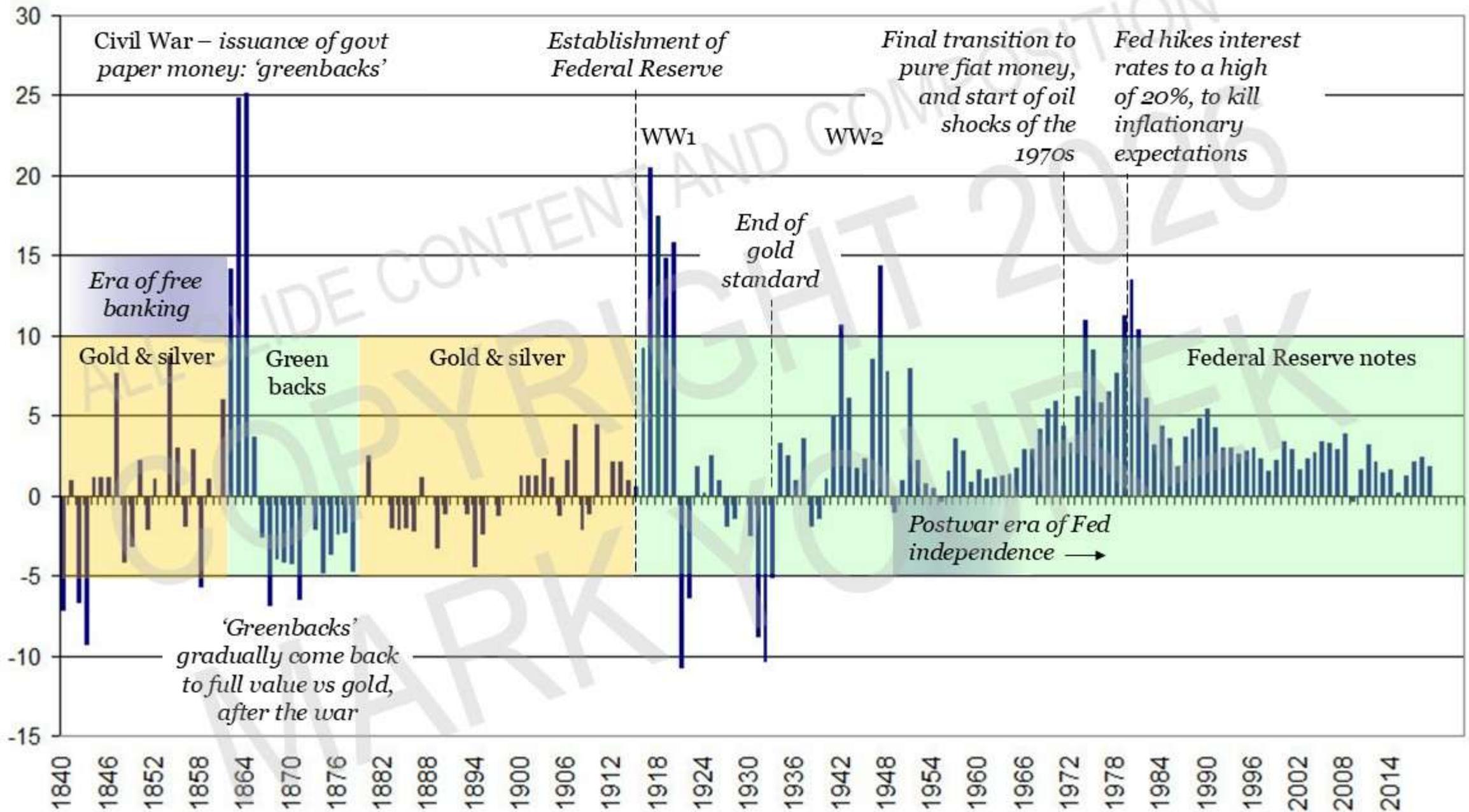
By a pure accident of timing, the Civil War caused a government takeover of the issuance of money, at exactly the moment when economic progress was beginning to be noticeably hampered by the old, locally-oriented banknote system

1862-1878 – Establishment of a National Currency, and of Federal Bank Regulation

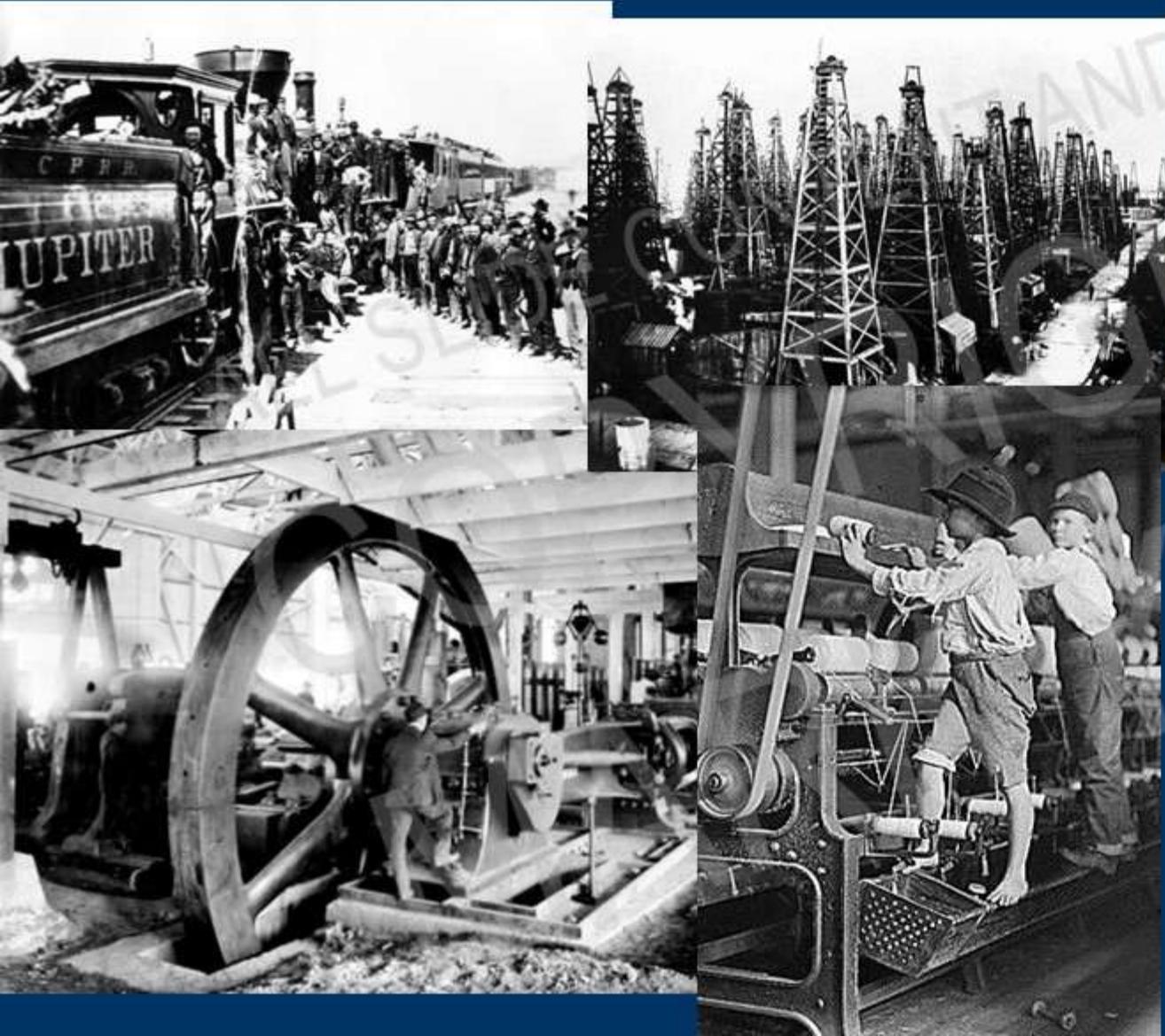


- Fluctuating confidence in the new national currency:
 - High inflation during war
 - Strong deflation for several years afterward, as it became clear that the US government would in fact be able to make good on the gold standard

US Annual Inflation Rate 1840-2019

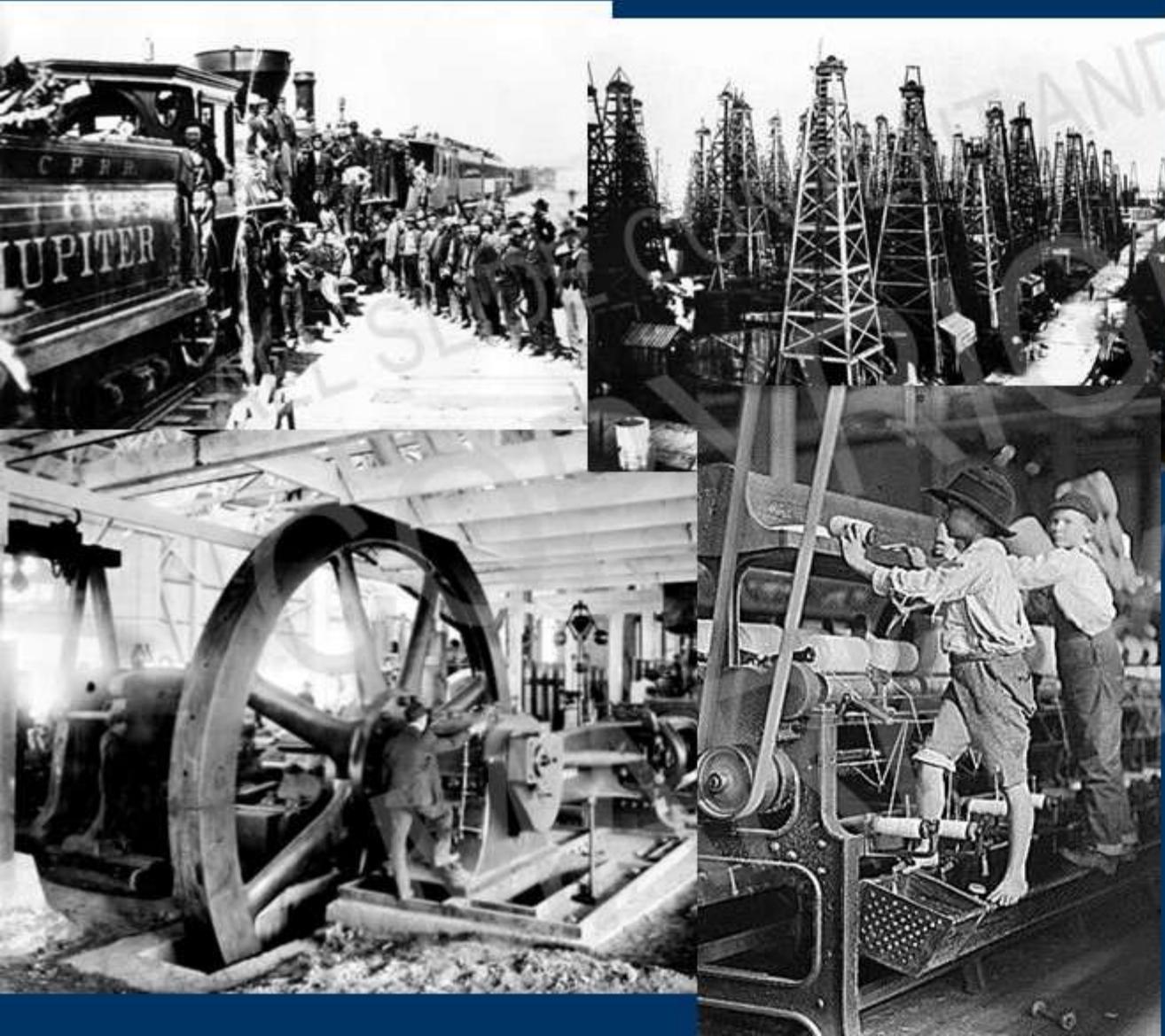


1878-1914 – Immense growth, extreme tensions,
and financial crises becoming more severe



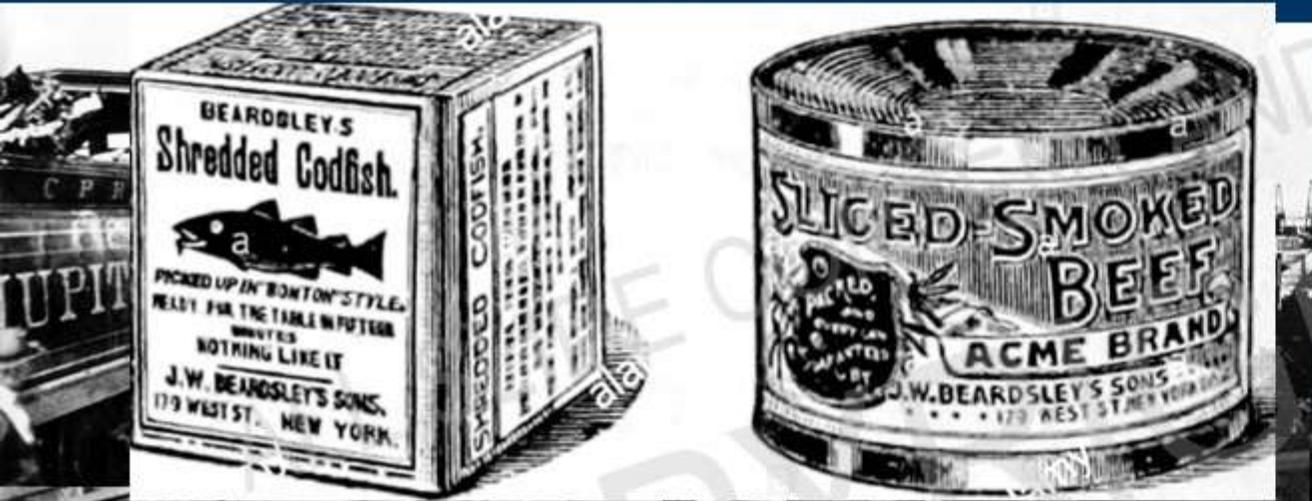
- National currency, on the gold standard
- More consistent and effective bank regulation and examination (but, still no government-backed deposit insurance)
- **Massive, unprecedented economic growth; massive, unprecedented production of wealth**, as the country becomes much more interconnected and industrialized

1878-1914 – Immense growth, extreme tensions,
and financial crises becoming more severe



- **Acute and rising economic tensions and social stresses**
 - Rise of coercive monopolies: railroads, Standard Oil; consensus for action to prevent their abuses
 - Enormous disparities in distribution of income
 - Much argument about the optimal basis for money (gold vs bimetallism), re who benefits from a larger / smaller money supply

1878-1914 – Immense growth, extreme tensions,
and financial crises becoming more severe



- **Acute and rising economic tensions and social stresses**

- Gradually emerging consensus for action on consumer protections: advent of food and drug safety standards

- Gradually emerging consensus for action on employee protections: movement towards workers' compensation and some basic work-safety rules

1878-1914 – Immense growth, extreme tensions, and financial crises becoming more severe



- Continued recurrence of major banking crises and financial panics, with these becoming much more interconnected, far-reaching and severe:

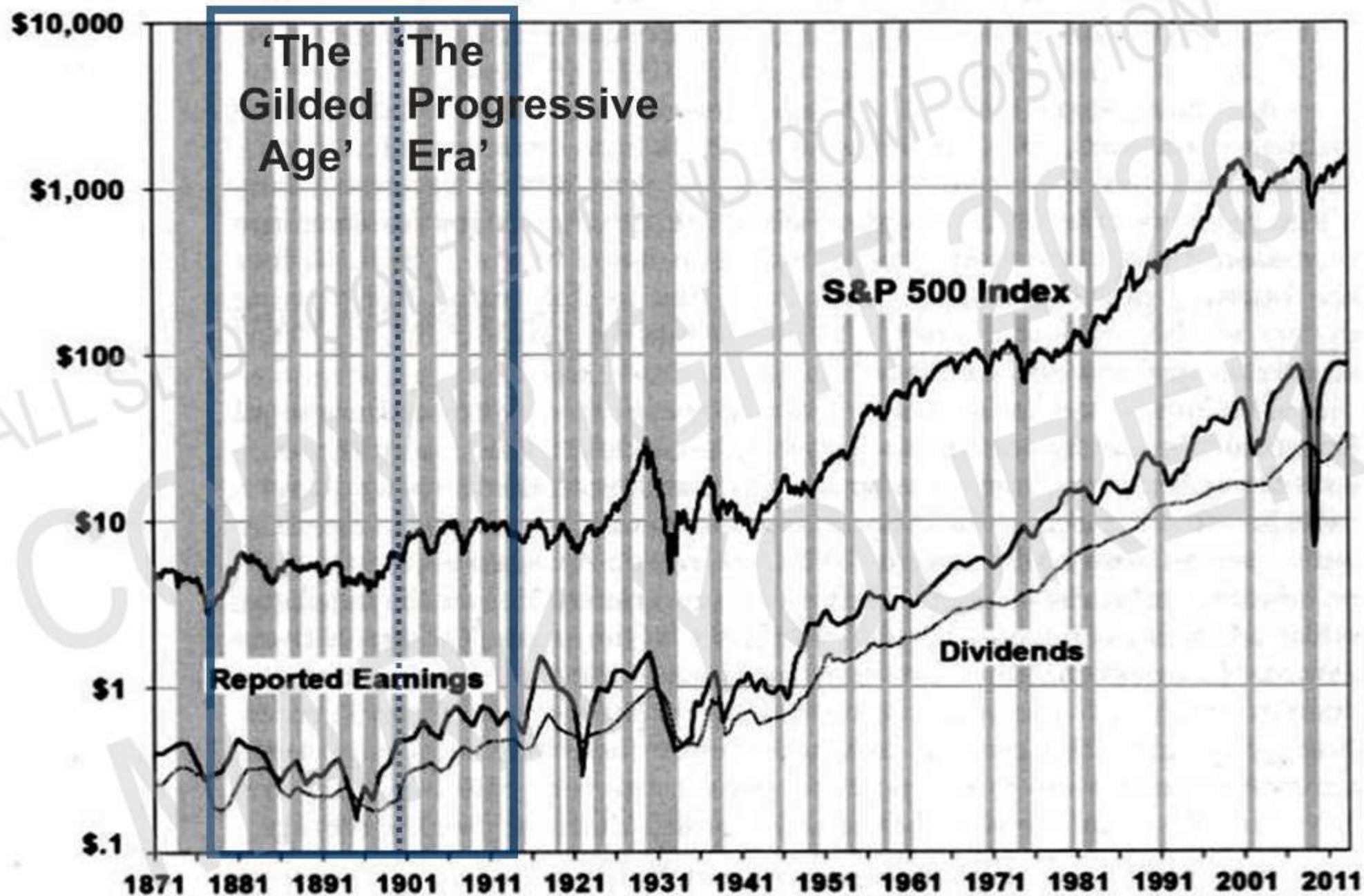
- Panic and 'Great Depression' of 1873-77

- Panic of 1893-97

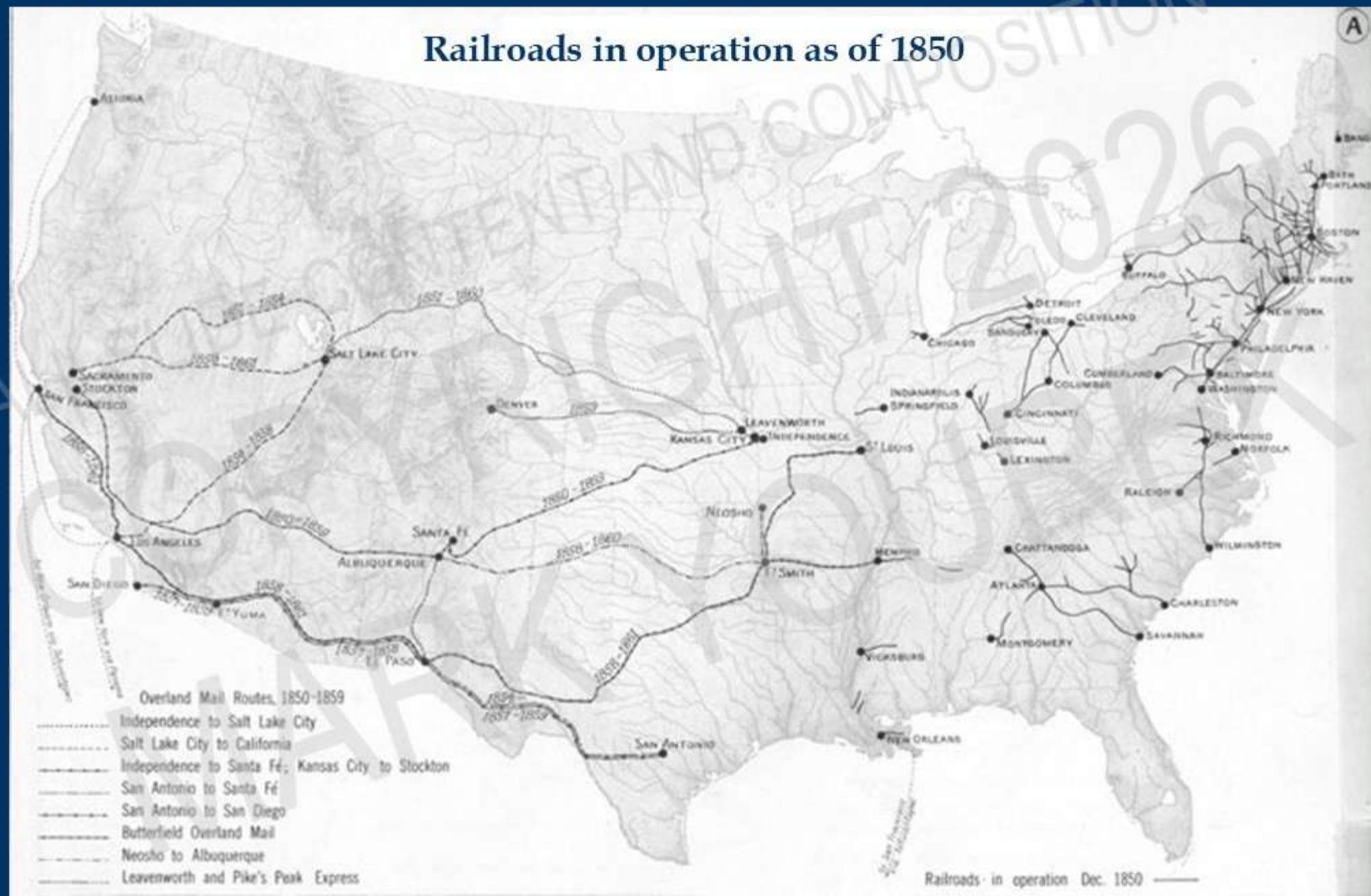
- Panic of 1907

- Move to establish a central banking system, following the disruption of the Panic of 1907

Stock Prices, Earnings, Dividends, and Recessions 1871-2012

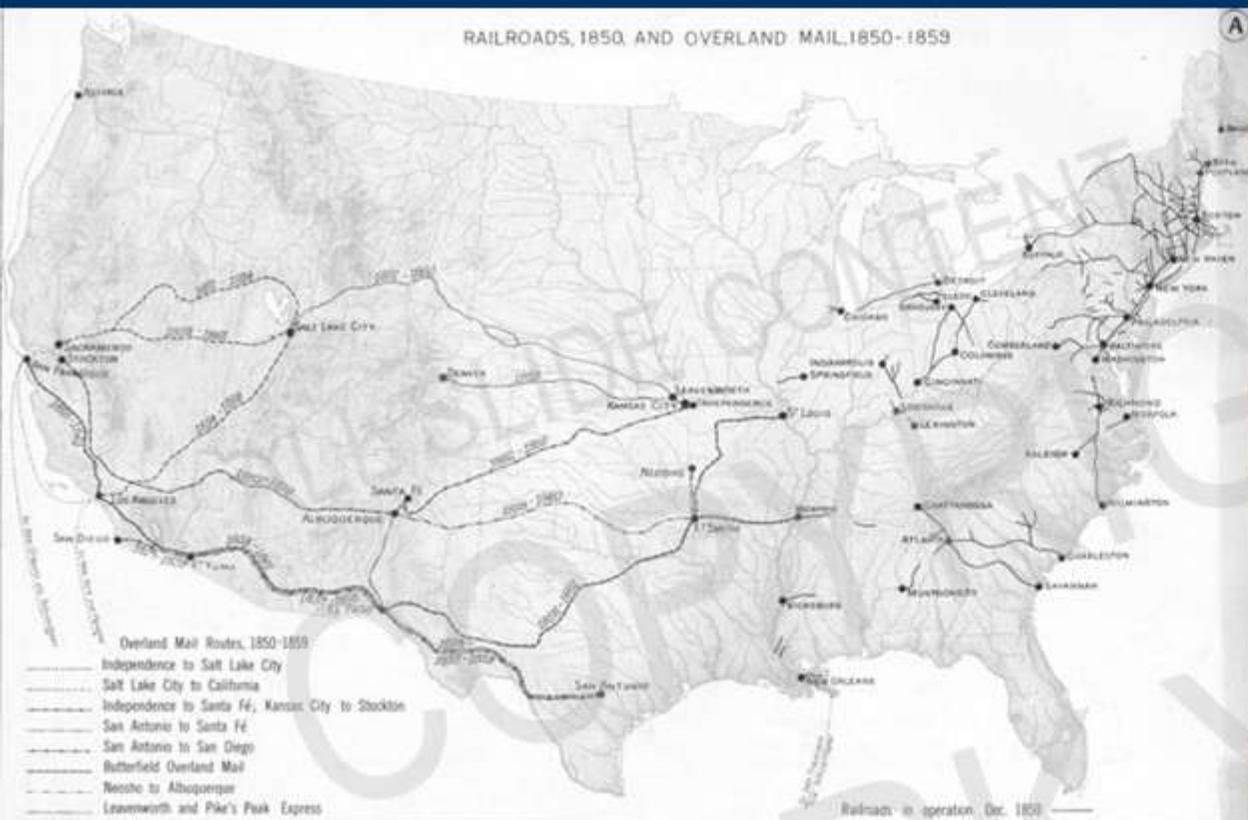


The growing interconnectedness of the US economy during the 19th Century



The growing interconnectedness of the US economy during the 19th Century

Railroads in operation as of 1850

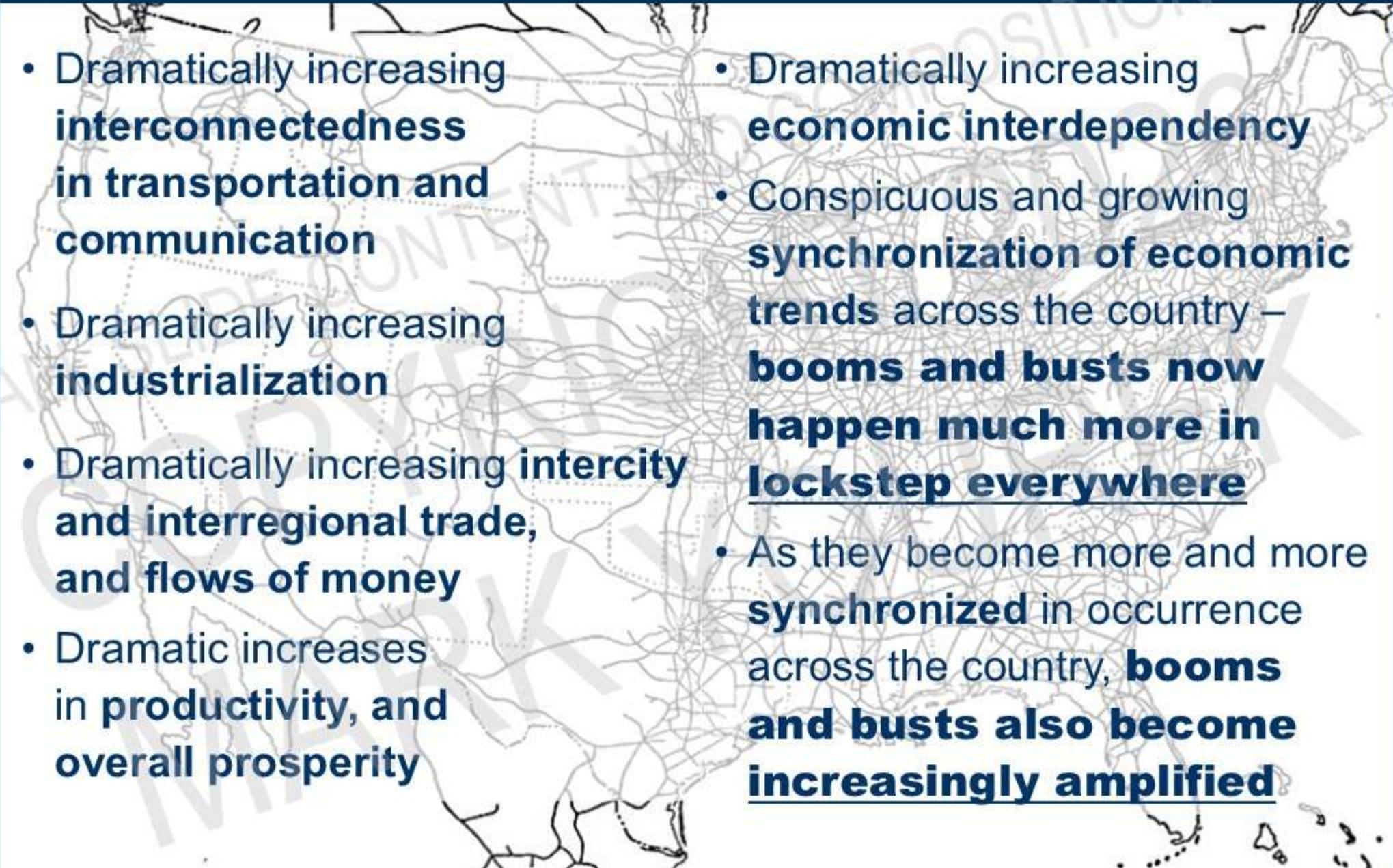


Railroads in operation as of 1900



MARK

The growing interconnectedness of the US economy during the 19th Century

- 
- Dramatically increasing **interconnectedness in transportation and communication**
 - Dramatically increasing **industrialization**
 - Dramatically increasing **intercity and interregional trade, and flows of money**
 - Dramatic increases in **productivity, and overall prosperity**
 - Dramatically increasing **economic interdependency**
 - Conspicuous and growing **synchronization of economic trends** across the country – **booms and busts now happen much more in lockstep everywhere**
 - As they become more and more **synchronized** in occurrence across the country, **booms and busts also become increasingly amplified**

The intensification of panics in the late 19th and early 20th Century Galbraith

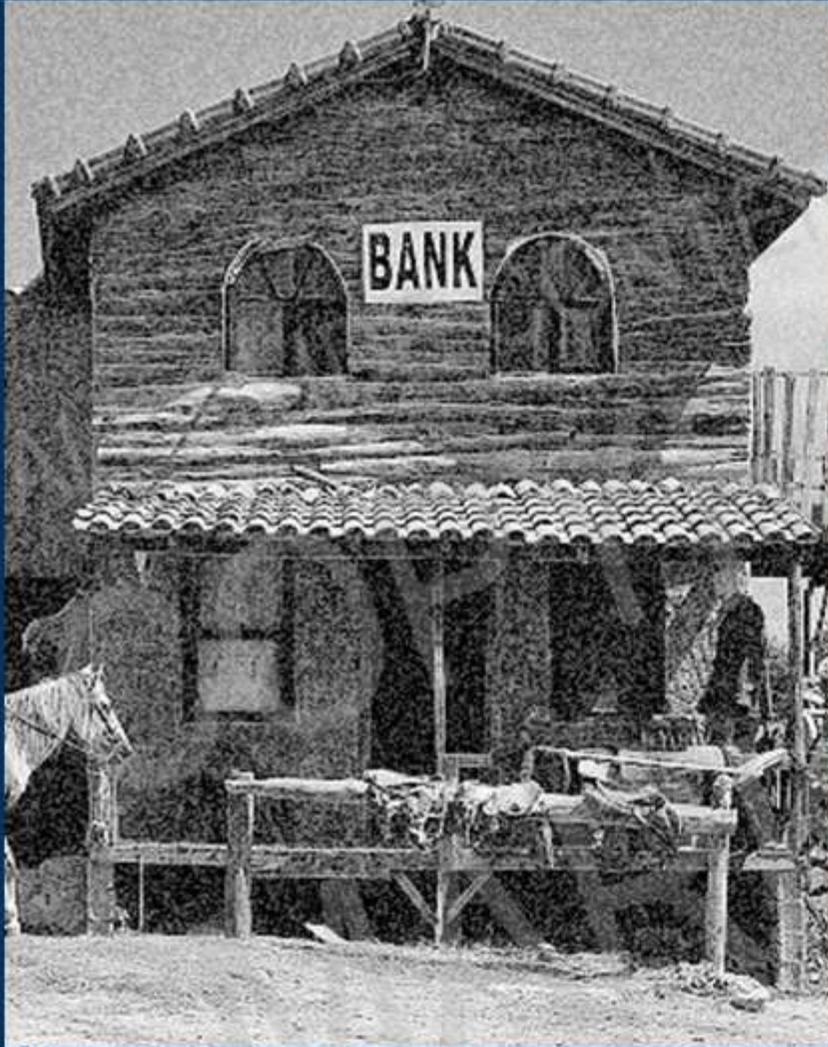


One constant of all the panics of this era was that banks failed.

In the early 1800s, when panics happened, it was mostly the small state banks that went under.

This was in keeping with the great compromise: those in the East who wanted hard money had hard money, and they had large and reliable banks.

The intensification of panics in the late 19th and early 20th Century Galbraith



The new parts of the country and the frontier had the far more relaxed enterprises that served their needs by issuing much more dubious loans and accepting much more doubtful collateral.

The bank failures inherent [to the rural and country banking system] were for a long time not the direct concern of the Eastern sound-money establishment.

The intensification of panics in the late 19th and early 20th Century Galbraith



But by the late 1800s, the separation of Eastern financial interests from that of the country banks was gradually disappearing.

Better communications, and the growing density of commercial intercourse between different parts of the country, were factors that intertwined the cities and the countryside in new and unprecedented ways.

The intensification of panics in the late 19th and early 20th Century Galbraith



One important consequence of this was that the country banks increasingly were placing their own deposits in the Eastern banks, so when depositors ran on the small banks for their money, the small banks went to the large banks to make withdrawals.

The large banks thus started to feel serious strain, caused by country-bank panics.

The intensification of panics in the late 19th and early 20th Century Galbraith



Panics became a more and more intense and widespread national phenomena.

In the panic of 1873, 98 banks failed;
in the panic of 1893, 579 failed;
in 1907, 246 failed.

After 1920, the real slaughter began,
and after 1929, it approached euthanasia.

In the four years beginning in 1930,
more than 9000 banks bit the dust.

The intensification of panics in the late 19th and early 20th Century Galbraith



And panics started happening in the Eastern establishment, rather than just out in the country.

The Panic of 1907 was a turning point: it was entirely a New York product, and for that reason, far more serious.

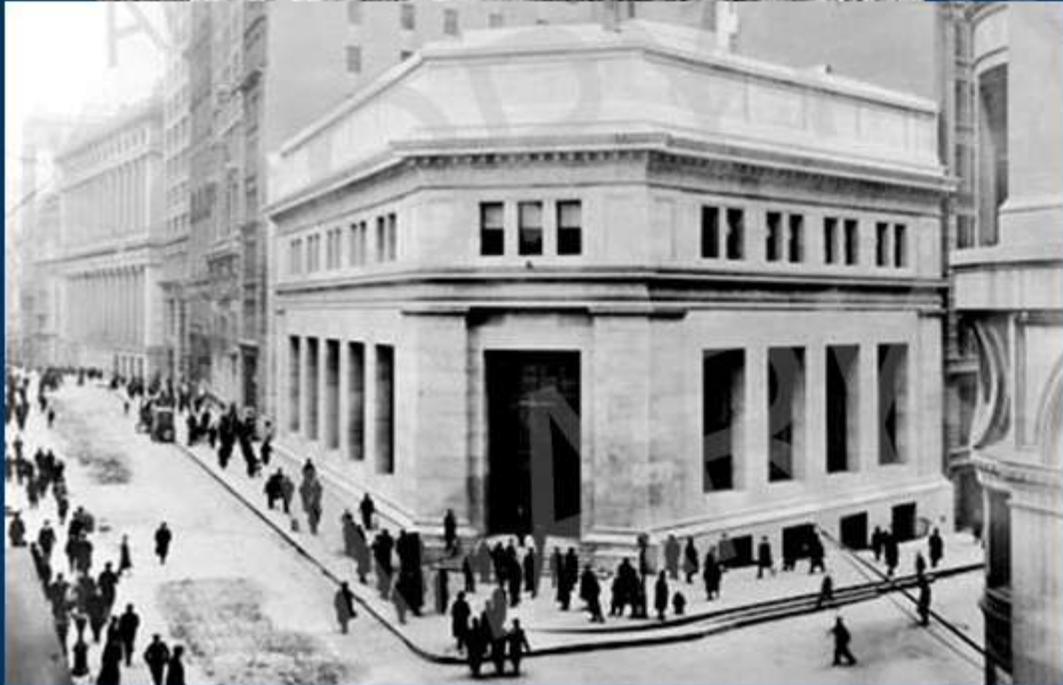
This was not so much that its impact on the country was greater than that of the previous panic; it was rather that its impact was on much more important people.

The intensification of panics in the late 19th and early 20th Century

Galbraith



From the sense of urgency thus induced, came the pressure for the next great step in monetary change and reform, the Federal Reserve System.



POLITICAL CHART

SHOWING THE PERIODS OF PANIC AND PROSPERITY IN THE UNITED STATES FROM 1870 TO 1908

BY J. M. HAWTHORNE, LITTLE, OCTOBER 8, 1908

YEARS	1871	1872	1873	1874	1875	1876	1877	1878	1879	1880	1881	1882	1883	1884	1885	1886	1887	1888	1889	1890	1891	1892	1893	1894	1895	1896	1897	1898	1899	1900	1901	1902	1903	1904	1905	1906	1907	1908
THE PRESIDENTS	Grant, Rep. First Term From March 4, '69 to March 4, '73		Grant, Republican Second Term From March 4, '73 to March 4, '77				Hayes, Rep. From March 4, '77 to March 4, '81				Arthur, Rep. From March 10, '81 to March 4, '85				Cleveland, Rep. First Term From March 4, '85 to March 4, '89				Harrison, Rep. From March 4, '89 to March 4, '93				Cleveland, Dem. Second Term From March 4, '93 to March 4, '97				McKinley, Rep. First Term From March 4, '97 to March 4, '01				Roosevelt, Rep. From March 4, '01 to March 4, '05				Roosevelt, Rep. From March 4, '05 to March 4, '09			
THE TARIFFS	The Morrill or "War" Tariff, 1862 to 1883 (The so-called Tariff Act of 1872 was practically an amendment of the "War" Tariff) Average Tariff 35.50 Per Cent												The "Commission" Tariff (Emergency Board of Tariff Commissioners) Average Tariff 44.75 Per Cent				The McKinley Tariff 1890 to 1894 Average Ad Val. Tariff 48.54 Per Cent				The Wilson Tariff 1894 to 1897 Ad. Val. Tariff 43.75 Per Cent				The Dingley or "Trust" Tariff Revised July 26, 1897, and still in force Average Ad Valorem Tariff 52.07 Per Cent													



The Treasury Deficit
The fiscal year of the Government ends on June 30 in each year. Hence the above figures are on Treasury Surplus and Deficit as for the year ending on the 31st of each June.

Thus the deficit for the year 1894, of \$10,816,261, was for the year ending June 30, 1894, and it is well to remember that it occurred under the McKinley Bill, which was not repealed until August 4, 1894.

The Present Condition of the Treasury is as follows:
Deficit for year ending June 30, 1908, about \$10,000,000
Deficit from July 1 to September 20, 1908, \$11,223,248
—Bart's Review, September 26, 1908.

The Cause of Panics and How to Prevent Them—The Guarantee of Bank Deposits

When a panic occurs, it is due to the fact that the public has lost confidence in the banks. This is the cause of all panics. The only way to prevent panics is to guarantee the deposits of the banks. This can be done by the Government. The Government should guarantee the deposits of all banks. This will prevent panics. The Government should guarantee the deposits of all banks. This will prevent panics.

PANICS AND PROSPERITY

Compiled from the Reports of the Secretary of the Treasury and the Public Income, DEMONSTRATES that

PANICS AND PROSPERITY COME AND GO

Regardless of party affiliations of the PRESIDENT, thus:

The Boom and Prosperity 1886-7 was under	CLEVELAND, a Democrat
The Boom and Prosperity 1905-6 was under	ROOSEVELT, a Republican
THE PANIC 1873 was under	GRANT, a Republican
THE PANIC 1878 was under	HAYES, a Republican
THE PANIC 1884 was under	ARTHUR, a Republican
THE PANIC 1890-1 was under	HARRISON, a Republican
THE PANIC 1893 was under	CLEVELAND, a Democrat
THE PANIC 1907 was under	ROOSEVELT, a Republican

Notes on the "Panic of 1893"

The panic of 1893 was the result of the over-issuance of silver certificates by the Treasury Department in 1876, and the consequent depreciation of the value of silver. It was followed by the failure of the Overend, Gurney & Co., the London financiers of the Erie Railroad, to raise the money for the completion of that road.

Notes on the "Panic of 1907"

The panic of 1907 was the result of the over-issuance of silver certificates by the Treasury Department in 1876, and the consequent depreciation of the value of silver. It was followed by the failure of the Overend, Gurney & Co., the London financiers of the Erie Railroad, to raise the money for the completion of that road.



As capitalism develops and the economy becomes more and more interconnected and people and companies become more and more interdependent all kinds of *growth* and *development* and *progress* and *increasing affluence* become possible

A map of the United States with a dense network of lines representing transportation routes, overlaid with text. The text is in a bold, dark blue font. The background is a light gray map of the United States with a complex network of lines representing roads, highways, and possibly railroads. The text is centered on the map.

**As capitalism develops and the economy
becomes more and more interconnected
and people and companies become
more and more interdependent**

But also ...

The background of the image is a map of the United States, including Alaska and Hawaii. Overlaid on this map is a dense, intricate network of thin, grey lines that crisscross the entire country, representing a highly interconnected system, such as a transportation network or a digital infrastructure. The text is centered over this network and is written in a bold, dark blue font. The text is arranged in five lines, with the first three lines in a standard weight and the last two lines in an italicized weight.

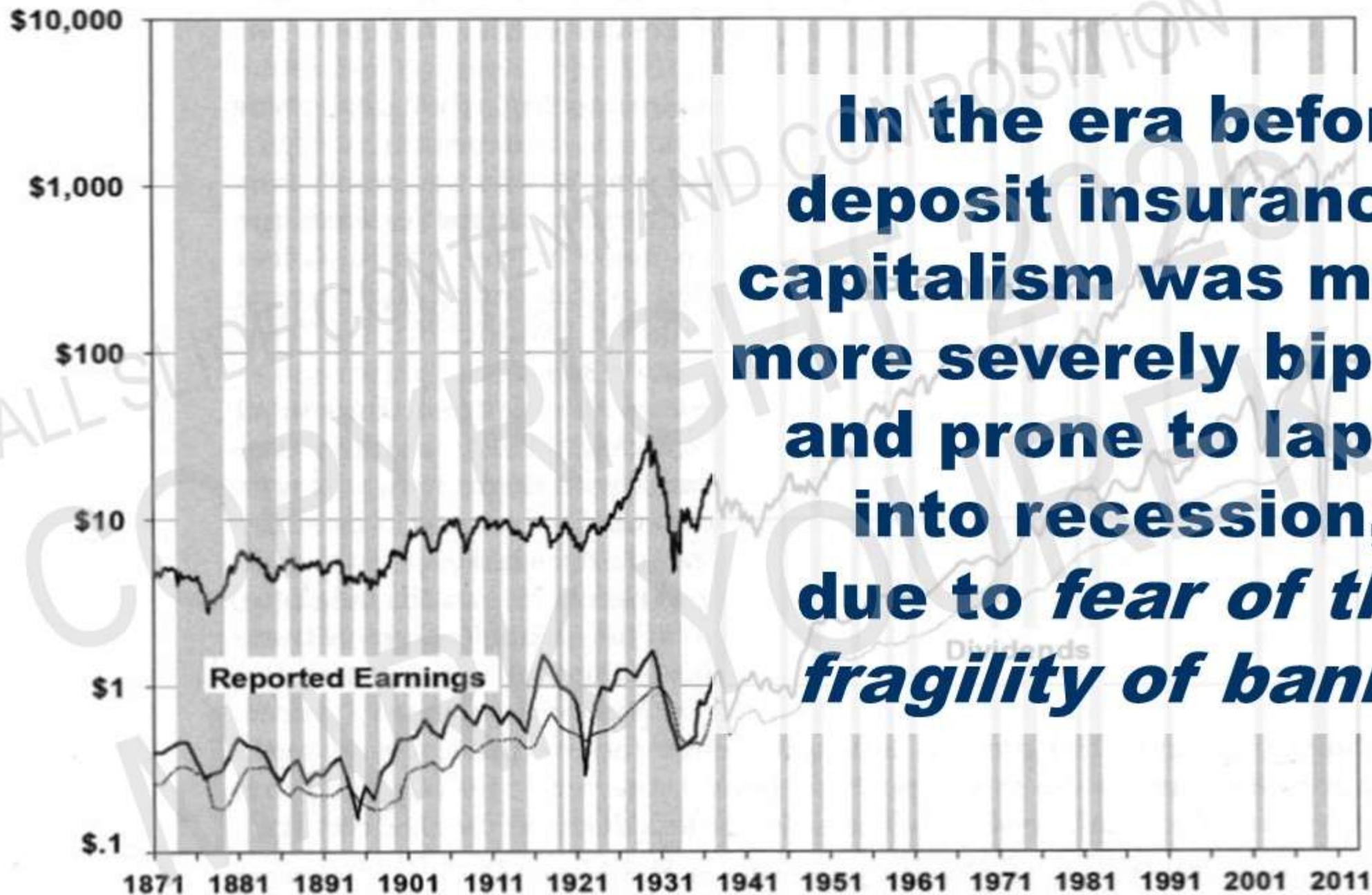
**As capitalism develops and the economy
becomes more and more interconnected
and people and companies become
more and more interdependent
capitalism inevitably produces
panics and collapses of more and more
*widespread impact and severity***



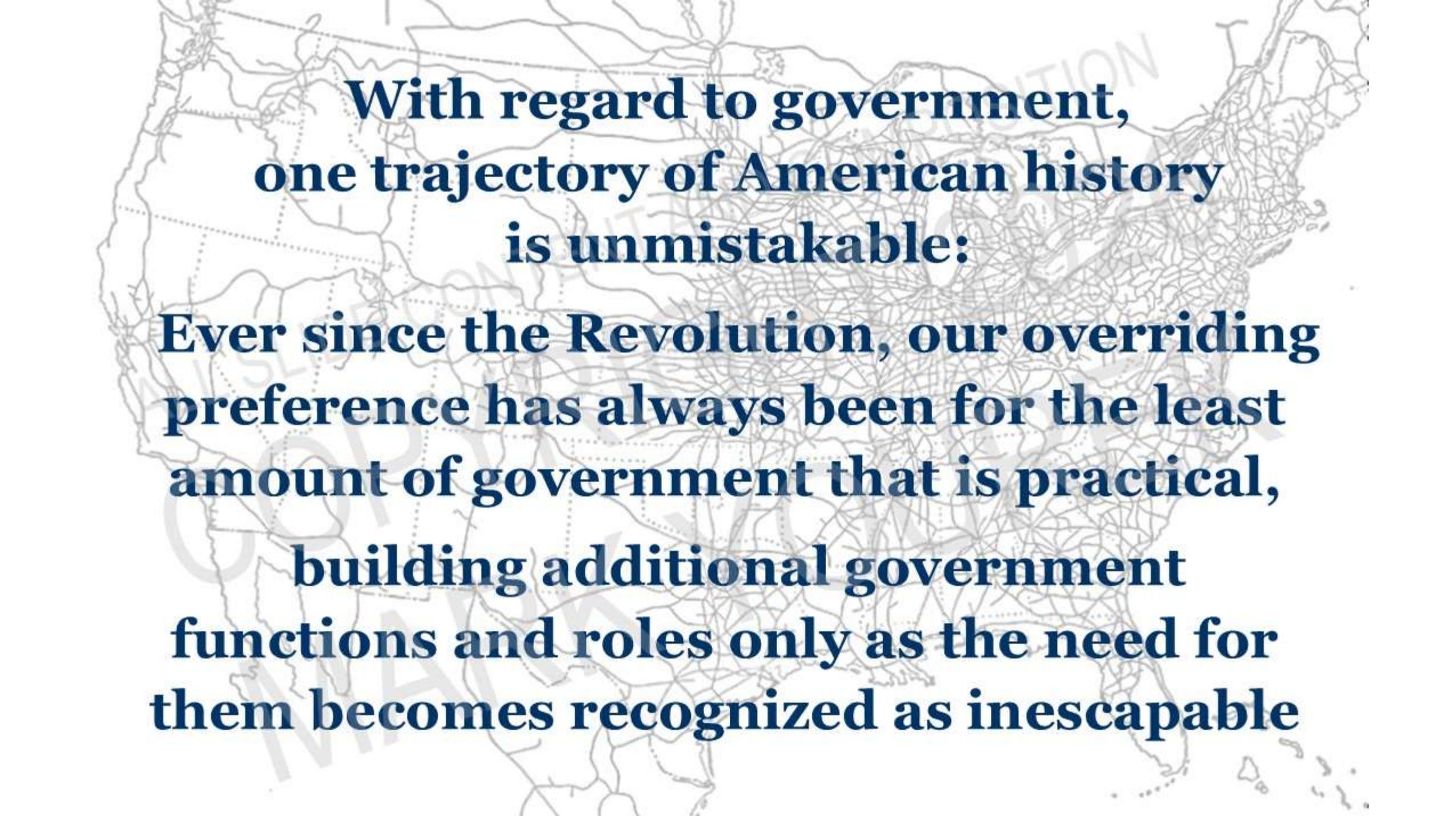
As capitalism develops and the economy becomes more and more interconnected and people and companies become more and more interdependent

all kinds of *growth* and *development* and *progress* and *increasing affluence* become possible

capitalism inevitably produces *panics* and *collapses of more* and *more widespread impact and severity*



**In the era before
deposit insurance,
capitalism was much
more severely bipolar
and prone to lapse
into recession,
due to *fear of the
fragility of banks***



**With regard to government,
one trajectory of American history
is unmistakable:**

**Ever since the Revolution, our overriding
preference has always been for the least
amount of government that is practical,
building additional government
functions and roles only as the need for
them becomes recognized as inescapable**

~~Articles of Confederation~~

> U.S. Constitution

~~Privately issued money~~

> government-issued money

- > Increasing regulation of banking and business, starting in late 1800s, accelerating in the 20th Century
- > Dawning recognition of the need to use government to stabilize capitalism, starting with advent of the 20th Century

**Capitalism,
Government,
Money,
and the
Future of
the World**

*Finding
and Keeping
the Right Balance
in
Market-Capitalist
Democracies*