Contents

List of Tables / xv

Preface / xix

Acknowledgments / xxiii

1
The Genesis of Monetary Control and the First Bank of the United States / 1
   Institutions of Monetary Control / 1
   Principles for the Operation of Metallic Standards / 2
   The First Bank of the United States: Arguments of Alexander Hamilton / 4
   Congressional Debate over the Bill for the First Bank / 7
   The Operational Role of the First Bank / 9
   The First Bank as a Central Bank / 10

2
Treasury Policy, 1811–1820 / 13
   The Conventional View of Monetary Policy, 1811–1820 / 13
   Government Financial Operations during the War of 1812 / 14
   Incorporation of the Second Bank of the United States / 18
   Preparations for the Resumption of Specie Payments / 20
   The Recession of 1818–1819 / 23
   Secretary Crawford's Norms for the Monetary System / 25

3
Central-Banking Growth of the Second Bank of the United States / 28
   Origin of the Second Bank as a Public-Commercial Bank / 28
   Emergence of the Second Bank as a Central Bank / 30
   The Second Bank Investigated by a Congressional Committee / 33
   The Second Inquiry by a Congressional Committee / 37
   Biddle's Case before the Congressional Investigating Committee / 40
   Jackson's Veto of the Recharter Bill / 41
Contents

4 Decline of the Second Bank and Rise of the Treasury / 43
   Political Conflict over the Second Bank of the United States / 43
   Devaluation of the Gold Dollar (1834) / 46
   Federal Regulation of the Deposit Banks / 47
   Secretary Woodbury's Policy toward the Deposit Banks / 49

5 The Specie Circular and the Distribution of the Surplus / 51
   The Effects of the Specie Circular on Public Land Sales / 51
   Events Leading to the Surplus Distribution / 53
   The Effect of the Surplus Distribution on the Banking System / 55
   General Bank-Credit Contraction, Suspension, and the Panic of 1837 / 56
   Secretary Levy Woodbury's Financial Policy / 59
   The Effects of Imports and Exports of Specie on the Banking Crisis / 61

6 The Independent Treasury System before the Civil War / 65
   Political Development of the Independent Treasury / 65
   Whig Attempts to Reincorporate a National Bank / 68
   Treasury Note Issues between 1812 and 1860 / 71
   Countercyclical Treasury Policy / 74
   Treasury Open-Market Operations / 77
   Summary of Central-Banking Development before 1860 / 82

7 Civil War Inflation and Postwar Monetary Policies / 84
   Civil War Effects on the Currency System / 84
   The National Bank Act / 86
   Alternative Possible Policies after the Civil War / 88
   The Policy of Currency Contraction / 89
   Treasury Gold Policy / 91
   Governmental Policies in Allocating National Bank Notes / 93
   Treasury Monetary Policy in the 1870s / 97
   Civil War Financial Policy in the South / 102

8 The Panic of 1873 and Resumption / 104
   Monetary Conditions Presaging the Panic of 1873 / 104
   Treasury Policy during the Panic of 1873 / 105
   Political Attitudes toward Resumption / 107
   The Act Providing for the Free Issue of National Bank Notes / 109
   Political Factors in Passing the Resumption Act / 110
Treasury Implementation of the Resumption Act / 113
The Influence of Silver on the Economics of Resumption / 113
Something for Silver: the Bland-Allison Act / 115
Summary of Post–Civil War Monetary Policies / 116

9

Controversy over Currency Denominations / 118
Arguments over the Issue of Small-Denominational Paper Money / 118
Small-Note Issues in England and the United States before 1820 / 120
Private Issues of Small Notes before and after the Civil War / 121
The Effect of Denominational Shortages on the Measured Velocity of Money / 124

10

The Political Origin and Judicial Sanction of the Greenbacks / 129
Legislative Evolution of the Greenbacks in 1861–1862 / 129
The Question of the Greenbacks’ Constitutionality / 133
Practical Judicial Alternatives to the Supreme Court’s Sanction of the Greenbacks / 138
Juridical Review of the Legal Tender Decisions / 139
Economic and Political Review of the Supreme Court Decisions / 141
Review and Analysis of the Money Clauses in the Constitution / 143

11

The Golden Cloud with the Silver Lining / 146
Currencies in Circulation after the Civil War / 146
Treasury Currency Policy / 149
Congressional Disputes over Silver Policy / 152
Congressional Controversy over the Size of the Treasury’s Cash Balance / 154
Deposit of Treasury Balances in National Banks / 160
Summary of Monetary Events in the 1880s / 164

12

The Fall of Silver / 166
The Political Fortunes of the Silver Movement up to 1890 / 166
The Treasury Note Act of 1890 / 167
The Schism on Silver Policy between Congress and the Executive / 170
Congressional Controversy over the Mint Price of Silver / 171
Political Pressures from the Cleveland Administration / 174
Filibuster in the Senate / 175
Contents

Democratic Attempts to Promote a Compromise Bill / 177
Principles of Polity Revealed by the Repeal of the Silver-Purchase Clause / 179

13
Monetary Policy in the Golden Era / 183
Treasury Policy under Secretary Gage: The Gold Standard Act / 183
The Independent Treasury Becomes a Central Bank under Secretary Shaw / 186
Popular and Professional Criticism of Shaw’s Policies / 190
Treasury Policy under Cortelyou in 1907 / 195
Further Arguments on Treasury Policy / 196

14
The Central-Banking Role of Clearinghouse Associations / 198
Institutional Origin of Clearinghouse Associations / 198
Development of Clearinghouse Loan Certificates / 199
Characteristics of Clearinghouse Policy / 200
Extension of Clearinghouse Media / 202
The Legality of Clearinghouse Issues / 202
Some Contemporary Views of Clearinghouse Central Banking / 204
Proposals for Legalizing the Clearinghouse System / 205
Restriction and Suspension of Cash Payments during a Panic / 207
Monetary Reform Legislation / 209
Résumé of the Clearinghouse Episode / 210
Critical Reassessment of the Private Clearinghouse “Central Bank” / 212

15
Advent of the Federal Reserve System / 214
The Aldrich-Vreeland Act / 214
The National Reserve Association / 217
Issues in the Formation of the Federal Reserve Act / 219
The Blind Men and the Elephant / 231

16
Summary of Central-Banking Development up to 1914 / 235
Stages of Political Control over the Production of Money / 235
Henry Thornton’s Norms for Bank of England Policy / 238
Early Experience in the United States with Government Paper Money / 240
Central-Banking Features of the Banks of the United States / 241
Monetary Policies of the Independent Treasury / 243
Bank of England Policy after 1844 and Bagehot’s Prescriptions / 245
Pre–Federal Reserve Monetary Developments in the United States / 248
The Formal Emergence of Central Banks as Lenders of Last Resort / 250

17
The Real-Bills Era of the Federal Reserve System / 254
Institutional Predecessors of the Federal Reserve System / 254
The Role of the Federal Reserve Board of Governors / 255
Federal Reserve Support of Treasury Policy during World War I / 258
The Gold Standard Act and the Real-Bills Doctrine as Criteria for Creating Money / 259
Early Federal Reserve Experience with Open-Market Operations / 261
Monetary Aggregates and Monetary Gold, 1917–1934 / 263
The Fed as a Promoter of Monetary Elasticity / 266
The Fed’s Discount Policy during the Contraction / 269
The Federal Reserve Banks’ Gold Reserve Policy / 269
The Role of Gold in Central-Bank Policy / 270
The Effects of Reserve Requirements on Monetary Adjustment / 272

18
The Appearance of the Political Federal Reserve System / 274
New Deal Institutions and Banking Legislation / 274
Gold and Silver Legislation in the Mid-Thirties / 278
The Most Important Variable: Federal Government Revenues / 279
U.S. Treasury Monetary Policies in the Mid-Thirties / 279
The Banking Act of 1935: The Rule of Men in Policy / 282

19
The Reserve Requirement Experiment of the Mid-Thirties / 288
Effects of Gold Inflows on Bank Reserves after 1935 / 288
The Move to Increase Member Bank Reserve Requirements / 289
Possible Monetary Effects from Reserve Requirement Increases / 291
Effects of Reserve Requirement Changes / 294
U.S. Treasury Gold Policy / 295
Professional Reaction to Treasury and Federal Reserve Policies / 296
### Contents

#### The Disequilibrium Era: 1940–1951 / 300
- Money Stock Growth during World War II / 300
- Treasury Federal Reserve Interest-Rate Policy / 304
- The Federal Government’s Price-Wage Control Program / 305
- The Validity of the Accounted Price Level Data for the War Years / 306
- Reaction of Professional Economists to the Fed’s Wartime Policies / 309
- Economists’ Guidelines for Federal Reserve Policy / 311
- The Treasury’s Further Attempts to Subjugate the Fed after 1950 / 312

- Treasury Federal Reserve Relationships / 316
- Congressional Subcommittees Review the Federal Reserve’s Role / 318
- Congressional Subcommittee Views on the Gold Standard: The Debate with Walter Spahr / 320
- Monetary Principles of Senator Paul Douglas / 325
- The Fed’s Reserve Requirement Policy from 1948 to 1958 / 327
- Fed Banks’ Balance-Sheet Changes after 1958 / 328

#### Destabilizing Factors in Federal Reserve Policy, 1967–1980 / 332
- Federal Reserve Policy Generates Seigniorage / 332
- Interactions between Money and Prices: The Real Money Stock / 332
- The Fed’s Accommodation—Interest-Rate Policy / 334
- The Effect of the Treasury’s Fiscal “Needs” on Fed Policy / 338
- The Monetary Aggregates Come into Fed Policy / 339
- Nixon’s “New Economic Policy”—Four Thousand Years Old / 340
- “Stimulation” and “Accommodation”: A Recipe for Sustained Inflation / 341
- Federal Reserve Rationalization of Its Inflationary Policies / 342
- Chairman Burns’s Valedictory on Fed Monetary Policy / 345

- The Development of Pseudo-Monetarism in FOMC Policy / 348
- Inflation under “Monetarism” / 350
- The FOMC Reversal to a Policy of Monetary Stringency / 353
- Chairman Volcker’s Case for Fed Policy / 354
- Election Results in 1980 as an Influence on Monetary Policy / 356
Comparison of Fed “Monetarism” with Authentic
Monetarism / 358
The End of Fed “Monetarism” / 360

24
The Monetary Control Act of 1980 / 362
The Legislative Ancestry of the Monetary Control Act / 362
The “Problem” of Commercial Bank Membership / 363
The Discount Window Anachronism / 365
The Mystery of Collateral Provisions for Federal Reserve Notes
in Title I / 366
The Impossibility of Inadequate Collateral for Federal Reserve
Notes / 369
Chairman Volcker’s Financial Connections Suggest a Conflict of
Interest / 370
The “Problem” of Paying Interest on Member Bank Accounts at
Fed Banks / 372

25
The Federal Reserve Approach to Price Level
Stability (I) / 375
Results of Abolishing Interest-Rate Restrictions / 375
Interest-Rate Deregulation and the Velocity of Money / 376
Foreign Holdings of Federal Reserve Notes / 377
Economic Implications of Foreign Holdings of U.S.
Currency / 377
Chairman Volcker’s Eclectic Stance on Monetary Policy / 379
First Tendencies toward Price Level Stability / 380
Chairman Volcker’s Views on Price Level Stability / 383
Fed Policy in the Presence of Price Level Stability / 385
Price Level Stability: The Road Not Taken / 389

26
The Federal Reserve Approach to Price Level
Stability (II) / 390
Federal Reserve Pursuit of Price Level Stability under Chairman
Alan Greenspan / 390
Congressional Support for the Fed’s Stable Price Level
Policy / 393
A New Norm in the FOMC Policy Directive / 394
Support from Fed Bank Presidents / 395
The “Contribution” of the Executive Branch to the Stable Price
Level Initiative / 399

27
What the Fed Cannot Do; What the Fed Can Do; What the
Fed Should Do / 402
Federal Reserve Stewardship over the Real Stock of
Money / 402
Contents

Academic Treatment of Price Level Stability as a Norm for Fed Policy / 407
The Current Initiative for Price Level Stability / 409
Are Central Banks either Necessary or Desirable? / 411
Legal Restrictions on Banking Aggravate Monetary Instability / 413
The Money Clauses in the Constitution and Government Production of Money / 414
Constructing a Constitutional Monetary System from Present-day Institutions / 416
Privatizing the Government's Gold Stock / 418

Notes / 421

Bibliography / 475

Name Index / 485

Subject Index / 490
Tables

2.1 Authorizations and outstanding issues of treasury notes, 1812–1817 / 15
2.2 Principal assets, liabilities, and number of reporting incorporated banks in the United States, and total treasury notes outstanding, 1809–1818 / 16
2.3 Federal fiscal expenditures and receipts and cash balance position of the Treasury, 1812–1821 / 22
3.1 Selected assets and liabilities, and reserve ratios of the Second Bank of the United States, 1817–1840 / 30
3.2 Principal items in the balance sheet of the Bank of the United States / 39
5.1 Land sales in the United States by quarters, 1836–1838 / 53
5.2 Sales and prices of public lands, 1833–1837 / 54
5.3 Specie reserves and demand liabilities of all banks, and reserve ratios / 55
5.4 Specie reserves and demand liabilities of deposit banks, and reserve ratios / 56
5.5 Statistics of Treasury balances in the state banks and distributional shares due each state and each region / 57
5.6 Interstate transfers ordered by Treasury for first two installments of the surplus / 59
5.7 Net specie flows to or from the United States, 1832–1843 / 62
6.1 Stock of money, prices, and specie flows, 1833–1860 / 66
6.2 Governmental expenditures, receipts, cash balances, and changes, 1832–1861 / 75
7.1 Stock of money and components, 1860–1868 / 90
7.2 Bank-note circulation in 1862 and 1873 / 97
7.3 Selected statistics for all national banks, March 1870 to October 1878 / 98
8.1 Current assets and liabilities of the Treasury / 105
8.2 Ratio of reserves to liabilities on selected dates for national banks in states, redemption cities, and New York City / 105
8.3 Average weekly liabilities and reserves of national banks in New York City for September and October 1873 / 106
9.1 Number of pieces of standard currency denominations in the United States, wholesale prices, and average denominations, 1868–1891 / 126
9.2 Total denominations, average money and real denominations, and corresponding rates of growth, 1868–1879 and 1879–1891 / 127
10.1 Characteristics of federal government note issues, 1812–1861 and 1862–1865 / 130
11.1 Gold and silver coin and bullion in the United States Treasury, treasury paper currency in circulation, and ratios of gold and silver to currency, and gold to currency, 1880–1900 / 150
11.2 Values for currencies in circulation, excluding gold coin, and absolute changes between March and September, 1880–1900 / 158
11.3 Treasury deposits in national banks, 1880–1900 / 162
13.1 Selected items in balance sheets of all national banks and Treasury balances, 1901–1907 / 191
14.1 Loan certificate issues and reserves of the New York Clearinghouse banks for selected dates / 204
17.1 Monetary base, \( M_1 \), real \( M_1 \), Federal Reserve gold reserves and demand liabilities, prices, and year-to-year growth in these series, 1917–1934 / 264
17.2 Nominal and real components of the money stock, 1925–1935 / 267
17.3 Federal Reserve banks’ outstanding monetary obligations, gold reserves, and the reserve ratio of gold to total gold obligations, February and August, 1928–1938 / 271
18.1 Gold and silver stocks in U.S. Treasury, 1918–1942 / 281
19.1 Selected data of all member banks, unemployment, prices, actual and potential money supply, and a computed “full employment” money supply, 1935–1942 / 293
20.1 Federal Reserve banks’ Consolidated Statement of Condition, December 31, 1941 / 301
20.2 Federal Reserve monetary liabilities, \( M_1 \), private creation of money, prices, and nominal and real values with annual changes, 1934–1951 / 302
20.3 Gross National Product in nominal and real terms, prices, civilian labor force, GNP per worker, 1941–1954 / 307
21.1 Federal Reserve monetary liabilities, \( M_1 \), private creation of money, nominal and real values with annual changes, and prices (CPI), 1951–1966 / 328
21.2 Reserve requirements of member banks / 330
21.3 Balance sheet for all Reserve banks, December 1948 / 330
21.4 Balance sheet for all Reserve banks, June 1958 / 330
21.5 Balance sheet for all Reserve banks, January 1967 / 330
22.1 Federal Reserve monetary liabilities, M₁, private creation of money, nominal and real values with annual changes, and prices, 1966–1981 / 334
22.2 Annual rates of change in money stocks, and in velocities of money, 1966–1981 / 336
23.1 Actual changes in the monetary base and simulated monetarist changes, October 1979 to January 1983 / 359
25.1 Annual rates of change in money stocks and in velocities, 1981–1990 / 376
25.2 Federal Reserve monetary liabilities, M₁, private creation of money, nominal and real values with annual changes, and prices, 1981–1990 / 380
27.1 Dividend income from and real appreciation or depreciation of monetary capital, 1951–1990 / 404
27.2 Rates of price level change and ratios of annual percentage changes in real dollars to annual percentage changes in nominal dollars, 1951–1990 / 406