# THE EDITOR'S CORNER

*To the Editor:*

In a recent short article, John James presented new information on interest rates paid on bankers' balances by New York City banks in the postbellum period.[1] The major finding was that "Over the last part of the nineteenth century and the first part of the twentieth, the rate paid by New York banks on bankers' balances remained virtually stable at 2 per cent."[2] His explanation of this constancy during periods of falling and then rising general interest rates is unconventional: "Only a small part of this total [New York City banks] participated actively in the competition for country deposits, but the constancy of the rates on bankers' balances is clearly indicative of an extremely competitive banking market in New York in the postbellum period."[3]

In a competitive market, one would expect to find uniform prices but not price constancy over time in the face of substantial changes in demand and supply. Given James' evidence of substantial variations in the supply and demand for bankers' balances between 1890 and 1914, one would expect to find substantial changes in interest rates paid on bankers' balances if the market were competitive. The reported rate constancy would be more characteristic of an imperfectly competitive market which could have resulted from collusion among New York City banks.

James reported that during the 1890s rates paid on bankers' balances did not fall below 2 per cent, except for short periods, while other interest rates declined and the rate on call loans fell as low as 1 per cent.[4] New York banks soliciting bankers' balances derived benefits from these balances through continuing customer relationships even when investment opportunities were weak and this accounts for some downward rate rigidity, but the stability of rates in this period of falling interest rates would not seem to indicate a highly competitive market. If the market was in fact competitive, it is even more difficult to explain why rates paid on bankers' balances did not rise in the post-1900 period when interest rates in general rose substantially. As interest rates obtainable on bank earning assets rose, competition would tend to drive up the rates paid by New York banks on bankers' balances. James indicates that rates paid did not rise much above 2 per cent in the post-1900 period. This suggests that the rate was not competitively determined, but somehow administered.[5] Because of the increasing concentration of bankers' balances in the large New York City national banks, the administering of this rate would have

[1] John A. James, "A Note on Interest Paid on New York Bankers' Balances in the Postbellum Period," *Business History Review*, L (Summer, 1976), 198–202.

[2] *Ibid.*, 202.

[3] *Ibid.*, 202. Uniform prices may be a necessary condition for competition but are certainly not a sufficient one.

[4] *Ibid.*, 200–201.

[5] James mentions Sprague's citation of meetings of New York bankers in 1873 and 1884 in which they attempted to hold down or eliminate interest payments on bankers' balances. In the 1890s, they agreed to try to maintain the 2 per cent rate. *Ibid.*, 201–202.

become easier, not more difficult.[6] The National Banking Act put up effective barriers to competition from banks in any other city. National banks were required to hold reserves, a portion of which had to be in lawful money and the rest in reserve deposits in a national bank in a designated reserve and/or central reserve city. Until 1887, New York City national banks were the only ones designated as depositories for both country and reserve city national bank reserve deposits. This monopoly was broken in 1887 when Chicago and St. Louis became central reserve cities.[7] Thereafter, national banks in those cities began to attract reserve balances of country and city banks in their local regions, but the bulk of national bank reserve deposits from the East, South and Far West continued to flow to New York City. New York City national banks therefore had a substantial advantage over other New York City banks and banks in other cities. While there is evidence supporting the competitive nature of financial markets in New York City, that evidence does not extend to the market for New York bankers' balances.

The issue can be examined in terms of the supply and demand for bankers' balances. Bankers' balances were supplied by country and city banks and there is considerable evidence that this supply curve was upward sloping – that is, country banks would supply more balances at higher interest rates paid.[8] Margaret Myers noted that when interest rates on call loans rose, country banks increasingly began bypassing the New York City banks and investing directly in the call loan market.[9] Therefore, the constancy over time of rates paid by New York City banks cannot be explained by a perfectly elastic supply curve. An alternative explanation is that New York City banks participating in the market would accept all balances at a fixed interest rate (2 per cent) and this rate did not change as the rate banks could earn on assets fluctuated widely. This would imply a horizontal demand curve for bankers' balances that did not change position over time. Rather than indicating competition, this would suggest that banks were overtly or tacitly colluding in some manner. A third possibility, demand and supply curves of more normal slopes changing over time to maintain an unchanging rate, seems too unlikely to merit consideration without additional evidence.

Country banks derived services as well as interest on bankers' balances and these probably varied from one New York bank to another. Thus, even in a competitive market, one could observe differences in rates paid, depending on the services offered. For example, Leonard Watkins indicated that most New York City banks would extend credit to their correspondent banks in the form of discounting their commercial paper and/or direct loans. They generally required that the bankers' balances of the

[6] There are various places that this information is available. One such source is Margaret G. Myers, *The New York Money Market*, Vol. I (New York, 1931), 242–250.

[7] Margaret Myers reported that by 1891 most New York City banks had substituted the direct payment of interest on bankers' balances for the rendering of free services. [Myers *The New York Money Market*, 249.] Watkins indicates that there is evidence that the value of the free services was substantially less than the 2 per cent interest the balances could earn. [Watkins, *Banker's Balances*, 213.]

[8] Sprague points out that the central reserve city banks of Chicago and St. Louis maintained large balances in New York City national banks, and during the 1907 panic drew down their balances like many other country and city banks.

[9] Myers, *The New York Money Market*, 267–268; Leonard L. Watkins, *Banker's Balances* (Chicago, 1929) 153 and 209–210.

correspondent bank average 20 per cent of the credit available to the correspondent bank.[10] There were, therefore, non-price reasons for country banks to maintain bankers' balances in *particular* New York City banks (not just any bank). Under these conditions, uniform and inflexible rates for varying products (depending on service offered) could be an indication of a lack of competition.

The constancy of rates paid by New York City banks on bankers' balances during the last part of the nineteenth century and the first part of the twentieth does not support James' contention that the New York market for bankers' balance was extremely competitive. In fact, the evidence suggests that that market was not competitive.

Richard H. Keehn, *University of Wisconsin-Parkside.*

Gene Smiley, *Marquette University*

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*To the Editor:*

Keehn and Smiley argue in their note that the evidence of stability of the interest rate paid on New York bankers' balances in the late postbellum period that I presented does not support my conclusion of a competitive market there.[11] Instead, they take the constancy of the rate over such a long period to indicate just the opposite, the existence of a noncompetitive market among New York banks. I plead guilty to having been perhaps a bit too facile in outlining my original conclusion; nevertheless, I think that it holds up quite well.

Rigid prices over time resulting from tacit collusion or recognition of mutual interdependence are familiar results from oligopoly models, but they alone cannot be taken as sufficient evidence of noncompetitive behavior. At times during the 1890s the call loan rate, the rate at which the New York correspondent banks lent much of their bankers' balances on deposit, was below the rate New York banks paid on bankers' balances.[12] Certainly a collusive argument cannot be used to explain the constancy of this interest rate when at times it resulted in rates lower than would have prevailed in a traditional purely competitive model. Collusive arrangements would have kept rates lower than they otherwise would have been under pure competition in periods such as the 1890s, rather than higher. Keehn and Smiley's identification of interest rate constancy with noncompetitive behavior illustrates the inadequacy or inappropriateness of the simple competitive model for the problem at hand. The question is more subtle and more interesting. How can we account for the remarkable constancy of the rate paid on bankers' balances over such a long period, including times both of downward pressure on prices and interest rates, as in the 1890s, and of upward pressures, as in the 1900s?

I shall suggest that a long-term, stable correspondent relationship between New York and country banks was desirable for both parties. The stable rate paid on bankers' balances, which was one aspect of the cor-

[10] Watkins, *Banker's Balances*, 153.

[11] John A. James, "A Note on Interest Paid on New York Bankers' Balances in the Postbellum Period," *Business History Review*, L (Summer, 1976), 198–202.

[12] *Ibid.*, 201.

respondent relationship, was in effect a risk-sharing arrangement between correspondents over time. Country banks, being averse to risk, may have desired an asset with a relatively stable rate of return for portfolio diversification, especially if local loans offered little opportunity for diversification. New York banks, on the other hand, were much better able to participate in the call market. In general, they had better information (many had credit departments) and also were larger and hence better able to diversify away risk in the call market than country banks. By attracting funds in the form of bankers' balances and then relending them in the call market, New York banks were essentially functioning as financial intermediaries. They in effect allowed country banks to eliminate the risk in interest rate fluctuations over time by offering them a stable rate.[13] At times the call rate was above the bankers' balance rate, as in the 1900s; at other times, notably at times in the 1890s, it was below it. In the latter cases, New York banks generally continued to pay the standard 2 per cent rate to maintain the stable relationship with their country correspondents. Similar considerations of risk-sharing over time have been employed in explaining long-term wage contracts.

Competition for country correspondents was active among New York banks. Around the turn of the century corespondent accounts were "openly and ostentatiously" solicited by circulars, letters, and even traveling representatives of city banks.[14] The reluctance of New York banks to lower the rate paid on correspondent deposits, even when they were losing money on them, as was certainly the case at times in the 1890s, is clear evidence that the market for correspondent balances or accounts was quite competitive among New York banks.

John A. James, *University of Virginia.*

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The Lincoln Educational Foundation, Inc., will award three fellowships of $3000 each in 1978 in the business history and/or the economic history of the United States. The Foundation states that "applicants must be citizens of the United States or Canada and planning to acquire a Ph.D. degree, with either American Economic History or American Business History as the area of major interest . . . [and] preference will be given to applicants who are preparing for careers of teaching and research." Applications for the Fellowship must be submitted not later than February 1, 1978. Inquiries and requests for application forms should be directed to Professor C. Clyde Jones, College of Business Administration, Kansas State University, Manhattan, Kansas 66502. The fellowships were provided by the late John E. Rovensky, banker and manufacturer, and are designated The John E. Rovensky Fellowships in Business and Economic History of the Lincoln Educational Foundation.

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[13] One result of such an arrangement is that the fluctuations of rates in the call market may have been exacerbated. For example, when interest rates were low, the stable rate paid on bankers' balances became relatively more attractive. As a result, the supply of bankers' balances and hence the supply of lendable funds on the call market increased, driving call rates lower than they would have been otherwise.

[14] Fritz Redlich, *The Molding of American Banking, Men and Ideas* (New York, 1968), 177.

The Regional Economic History Research Center, Eleutherian Mills-Hagley Foundation will sponsor a conference on October 21, 1977, at 2:00 p.m., on "Economic Change in the Chesapeake Colonies." The chairman will be David F. Allmendinger, University of Delaware, and the speakers and their topics will be Russell Menard, University of Minnesota, "The Economic Growth of the Chesapeake Colonies, 1607–1720"; P.M.G. Harris, Temple University, "Economic Development and Demographic Growth in the Chesapeake Area, 1630-1775"; and Lois Green Carr and Lorena S. Walsh, St. Mary's City Commission, "Changing Consumption Patterns in St. Mary's County, Maryland, 1658-1777." The commentator will be Jackson Turner Main, State University of New York, Stony Brook. For further information, write or call Glenn Porter, Director, Regional Economic History Research Center, Eleutherian Mills-Hagley Foundation, Greenville, Wilmington, Delaware 19807, telephone (302) 658-2401.

The Center also announces the appointment of William H. Mulligan to be Assistant to the Director. Mr. Mulligan, who has a B.A. from Assumption College and an M.A. from Clark University, is completing his dissertation on "The Family and Industrialization: Lynn Shoemakers during the Transition from Hand to Machine Production, 1850-1880," under the supervision of Professor Tamara Hareven at Clark University.

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The Forest History Society's thirty-first annual meeting will be held in Portland, OR, October 11-13. Headquarters for the event will be the Western Forestry Center. Principal activities will include a field trip (11th), business meeting and presidential banquet (12th), and the Forest History Symposium (13th). (Note: The Western History Association will hold its annual conference in Portland, October 12-15). For additional information contact Ronald J. Fahl, Forest History Society, P.O. Box 1581, Santa Cruz, CA 95061, (408) 426-3770.

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The Conference on Baltimore History, sponsored by The Baltimore History Research Group through the University of Baltimore and the Maryland Historical Society, will take place March 3-4, 1978. The theme will be *The People of Baltimore,* with emphasis on the history of communities, occupations, economic development, immigration, and local culture.

The Program Committee is now offering an invitation for papers. Sessions will be of two hours' duration and limited to four papers each. The Conference is partially financed by a grant from The Maryland Committee for the Humanities and Public Policy. It is hoped that a large number of papers will be presented and a wide range of topics covered.

Inquiries may be directed to Randall Beirne, Sociology Department, University of Baltimore, Baltimore, Maryland 21201.

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The fourth annual Southwest Labor Studies Conference will be held at Berkeley, California, on March 17 and 18, 1978. The Conference, under John Laslett of U.C.L.A., invites program proposals on all aspects of labor studies, international, national, and regional, from academics and unionists. Proposals should be sent to Norman Amundson, Institute of Industrial Relations, University of California at Berkeley, Berkeley, CA 94720.

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The MacArthur Memorial, Norfolk, Virginia, will sponsor a symposium on the Occupation of Japan, on April 13-15, 1978, to be entitled "The Occupation of Japan: Economic Policy and Reform." Anyone interested in participating, especially in presenting a paper or in presiding over a session, is invited to contact: Director, MacArthur Memorial, 198 Bank Street, Norfolk, Virginia 23510, telephone (804) 441-2256.

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A three-year social science research and training program aimed at closing the knowledge gap between producers and users of statistical data was announced by two key participants in the project – the American Statistical Association (ASA) and the Bureau of the Census, U.S. Department of Commerce. The National Science Foundation (NSF) and the Census Bureau are co-funding the project. Senior social scientists and graduate students will work with Census Bureau specialists on problems encountered by a large data collection agency. Emphasis will be placed on areas of social concern that are of major interest to professionals in statistical, economic, demographic, and allied fields. For further information, write or call Henry H. Smith, U.S. Department of Commerce, Washington, D.C. 20230, (301) 763-7273.

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The National Endowment for the Humanities is inviting applications for Summer Stipends for the summer of 1978, to be awarded to college, junior college, and university faculty, and others working in the humanities. Applicants employed by colleges or universities must be nominated by the president, dean or other designated officer of their institution. Those persons whose appointments are terminating, or who are not employed by a college or university, may apply directly to the Endowment without nomination. Each stipend provides $2500 for two consecutive months of full-time study or research in the humanities. Proposals for the planning of curricula or development of teaching materials are not eligible for support. Applicants must have finished their professional training by *October 17, 1977,* the deadline for applications. For further information about the Summer Stipend program, and application forms, write to: Division of Fellowships, National Endowment for the Humanities, 806 15th Street, NW, Washington, D.C. 20506.

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The Bridgeport, Connecticut Public Library has received word from the National Historical Publications and Records Commission that its grant application for $23,431, to establish a business and labor historical records collection, has been approved by that federal agency. The library will be seeking older, inactive records that will help to preserve the accomplishments and history of business and labor in the Greater Bridgeport area and will provide valuable tools to researchers, according to Douglas G. Reid, Library Director. The project is designed to seek out and assemble a comprehensive collection of business and labor records from firms, organizations, and individuals in the region. The materials will be processed and the resulting archival and manuscript collection will be made freely available to researchers, within any donor restrictions. The items will be part of the library's historical collections. For further information write or call David W. Palmquist, 925 Broad Street, Bridgeport, Connecticut 06603; telephone (203) 576-7417.

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The Institute for Scientific Information will publish a new index beginning in 1978, the first to provide large-scale access to the arts and humanities literature. Entitled the *Arts & Humanities Citation Index,* it will cover more than 1000 key journals from literature, history, languages, religion, philosophy, drama and theater, art, music, and other related fields. Two softbound issues, covering literature published during the periods January-April and May-August, will appear in June and October, to be followed the next May by a hardbound cumulative issue for the year. For further information, write or call Susan Deutsch, Institute for Scientific Information, 325 Chestnut Street, Philadelphia, Pa. 19106, telephone (215) 923-3300.

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The Merrimack Valley Textile Museum in North Andover, Massachusetts, has produced a 28-minute motion picture, "Hopedale: Reflections on the Past," which traces the development of this Massachusetts town from its establishment in 1842 to its emergence as a "company town" centered on the Draper Company, an important manufacturer of textile machinery. The film was produced under a grant from the National Endowment for the Humanities. For further information, write or call Victor Omelczenko or Joan Barrows, National Endowment for the Humanities, Washington, D.C. 20506, telephone (202) 382-7465.

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The Gokhale Institute of Politics and Economics, Poona 411 004 (India), announces the publication of volumes one and two of *An Annotated Bibliography on the Economic History of India (1500 A.D. to 1947 A.D.).* Volumes three and four will be available by March 1978.

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Gale Research Co., Book Tower, Detroit, Michigan 48226, announces the publication of *Directory of British Associations and Associations in Ireland, 1977-78* (Fifth Edition), price $60.

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The Forest History Society, Inc., has published *North American Forest History: A Guide to Archives and Manuscripts in the United States and Canada.* For information, write Clio Press, 2040 Alameda Padre Serra, Santa Barbara, California.

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The Editor regretfully reports that the person who undertook to review Han-sheng Chuan and Richard A. Kraus, *Mid-Ch'ing Rice Markets and Trade: An Essay in Price History*, published in May 1975 by Harvard University Press, has abandoned his commitment and has not responded to our entreaties. The Editor would be pleased to hear from any reader who would like to review this book for the record, and has access to a copy.

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We have received the following books, in addition to those reviewed:

Born, Karl Erich, *Geld und Banken im 19. und 20. Jahrhundert* (Stuttgart: Alfred Kroner, 1977), pp. 663, DM 28.50. A survey.

Leontieff, Wassily, *et al.*, eds., *The Future of the World Economy – A United Nations Study* (New York: Oxford University Press, 1977), pp. 110, $12.95 cloth, $4.95 paper.

Fischer, David Hackett, *Growing Old in America* (New York: Oxford University Press, 1977), pp. 242, $10.95.

Thomas, Dana L., *Lords of the Land* (New York, G. P. Putnam's Sons, 1977), pp. 320, $9.95.

Cipolla, Carlo M., general editor, *The Middle Ages; The Industrial Revolution, 1700-1914; The Emergence of Industrial Societies, Part One;* and *The Emergence of Industrial Societies, Part Two*, which are Volumes I, III, and IV of the Fontana Economic History of Europe (New York: Barnes & Noble, 1976). These books are clothbound editions of books originally published in paperback in 1972-73.

Bailey, Elizabeth E., ed., *Selected Economic Writings of William J. Baumol* (New York, New York University Press, 1976), pp. 655, $29.50 cloth. Articles previously published elsewhere.

Bitros, George C., ed., *Selected Economic Writings of Fritz Machlup* (New York: New York University Press, 1976), pp. 603, $29.50. Articles previously published elsewhere.

Perkins, Edwin J., *Men and Organizations: The American Economy in the Twentieth Century* (New York: G. P. Putnam's Sons, 1977), pp. 201, $7.95. Collection of previously published articles, of which five first appeared in the *Business History Review*.

Tucker, K. A., ed., *Business History: Selected Readings* (Totowa, New Jersey: Frank Cass & Co., 1977), pp. 442, $27.50. Collection of previously published articles, of which four first appeared in the *Business History Review*.

Jones, Robert B., *Tennessee at the Crossroads: The State Debt Controversy*, 1870-1883 (Knoxville, Tennessee, University of Tennessee Press, 1977), pp. 192, $10.95.

Jewell, Donald O., ed., *Women and Management: An Expanding Role* (Atlanta, Georgia State University, 1977), pp. 413, $11.95. Collection of articles previously published elsewhere.

Reischauer, Edwin O., *The Japanese* (Cambridge, Mass., Harvard University Press, 1977), pp. 443, $15. A survey.

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