AMERICAN FINANCE

In the hands of a creative scholar, the history of the United States could be rewritten as a continuing struggle over money and credit. The historian might argue that the contest has pitted "hard money" men, the industrialists and centralizers, against democrats, the advocates of decentralized power and "soft" money.

The writer might begin with Secretary of the Treasury Alexander Hamilton's 1790 Report on Public Credit, which proposed that the new federal government repay all the Revolutionary War debts of the states at full value. Hamilton prevailed over those who howled that the measure benefited the "moneyed interests" only by agreeing to locate the new national capital far from the perfidious money men of New York City, on the banks of the "Potoumac." And there in the national capital, two centuries later, the thread might end in today's recriminations over the treatment of the "moneyed interests" in the savings-and-loan crisis and other affairs. Between these two points the narrative would wind through the battles over the first and second national banks, the memorable assault on the "cross of gold" by William Jennings Bryan, and the New Deal.

In fact, that is a highly simplified (and chronologically altered) version of the history that *was* written by Charles A. and Mary R. Beard in **The Rise of American Civilization** (1927, 1930, 1933, since revised and reprinted many times) and other works. The Beards' thesis has long since been found wanting in the counting houses of academe—the interests were never so neatly divided as the Beards thought, historians say—but on the centrality of contests over money and credit much agreement remains.

Arthur Schlesinger, Jr.'s **The Age of Jackson** (1945, reissued 1988), for example, casts the epic battle over the Second Bank of the United States (1816–36) as a defining episode in American politics. The Philadelphia-based bank was chartered in 1816, empowered to create a more uniform national currency by indirectly regulating the many banks throughout the country that issued their own bank notes. Arrayed against it, Schlesinger notes, were a variety of interests: "hard money" Jeffersonians such as President Andrew Jackson, who opposed paper money in principle, and other democrats, mainly in the West, who only wished that there were more paper money to go around. Jackson spoke for many when he declared, "The Bank of the United States is in itself a Government . . . . The question between it and the people has become one of power." Jackson finally destroyed the bank, but Schlesinger believes that the victory hobbled American liberalism with an anti-statist legacy for the rest of the century.

Out of the bank crisis emerged what economist John Kenneth Galbraith calls the "great compromise." In the settled states, he explains in **Money: Whence it Came, Where it Went** (Houghton Mifflin, 1975), there was "hard money": gold, silver, or bank notes issued by state-regulated banks "with a firm disposition to redeem them" for specie. On the frontier, banks and bank notes alike were more plentiful and correspondingly less reliable. The mainstay scholarly histories of these matters include **A Monetary History of the United States, 1867–1960** (1963), by Milton Friedman and Anna Schwartz; **Financial History of the United States** (1952), by Paul Studenski and Herman E. Krooss; and **Banks and Politics in America** (1957), by Bray Hammond.

The debate over paper money and related issues, observes Irwin Unger in **The Greenback Era: A Social and Political History of American Finance, 1865–1879** (1964), "set the terms of American political conflict" from the Civil War to the turn of the century. **Money and American Society, 1865–1880** (Free Press, 1968) by Walter T. K. Nugent is another major study of the era. During and after the Civil War, the federal government did several things that set the stage for conflict. It restricted the ability to issue bank notes to some 1,600 banks, mostly in the East, with new national charters. It also attempted to withdraw from circulation the "greenbacks," not backed by specie, it had issued to pay for the war effort. These and other measures shrank the money supply and caused farm prices to drop. They also helped the Greenback Party to elect 14 of its candidates to

Congress in 1878.

An even more formidable political movement, populism, gained impetus from the 1873 abandonment of silver as a monetary standard. Washington's great effort to appease the populists, ironically, would ultimately cause a run on the Treasury's gold reserves and force Congress to turn for help to J. P. Morgan, the personification of everything the populists detested. When Morgan was again pressed into service as a private central banker during the Panic of 1907, the country had finally had enough. In 1913 Congress established the Federal Reserve System to control the currency, regulate banks, and act as lender of last resort.

Nearly 80 years after his death Morgan continues to be an object of fascination. He has had more biographers than most U.S. presidents. Two of the livelier older portraits are Lewis Corey's **The House of Morgan** (1930), which is all angry debits, and Frederick Lewis Allen's **The Great Pierpont Morgan** (1949), all graceful credits. Vincent Carosso's recent **The Morgans: Private International Bankers, 1854–1913** (Harvard Univ. Press, 1987) is a scholarly yet very readable account of the Morgans and their enterprise; Ron Chernow's **The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance** (Atlantic Monthly, 1990) follows the fortunes of the original Morgan firm's progeny to the present.

President Franklin D. Roosevelt surely had the Morgans in mind when he declared in his first inaugural that "the money changers have fled from their high seat in the temple of our civilization." FDR vastly expanded public control over credit through the provision of farm loans, federal deposit insurance, and the like. The long history of the "democratization" of credit is reviewed with gallows cheer by James Grant in **Money of the Mind: Borrowing and Lending in America from the Civil War to Michael Milken** (Farrar, 1992).

The Beards would have been hard put to fit the 1980s into their scheme. The decade produced a cascade of chronicles and interpretations (reviewed by Michael M. Thomas in *WQ*, Winter 1992). It found a Republican administration presiding over an expansion of public and private credit so explosive as to kill a 19th-century populist with joy. True enough, financial wheeler-dealers were bathing in Dom Perignon in gold-plated bathtubs, but it was possible even for the average American's pet dog to obtain generous credit. And although some Democrats helped open the taps, most have wagged their fingers at all the mischief as sternly as . . . as J. P. Morgan might have.

The strongest endorsement of reviving Morgan-like methods today is Lester Thurow's **Head to Head: The Coming Economic Battle Among Japan, Europe, and America** (Morrow, 1992). But there is a considerable spectrum of opinion about the future of American finance. In **The Work of Nations** (Knopf, 1991), Harvard's Robert Reich advocates a federal investment bank to channel capital into selected industries. Glenn Yago, an economist at the State University of New York at Stony Brook, argues for a laissez-faire approach in **Junk Bonds: How High Yield Securities Restructured Corporate America** (Oxford Univ. Press, 1991), a scholarly vindication of Milken's great innovation.

Among those staking a claim to the middle ground are Michael E. Porter of Harvard Business School, whose forthcoming book (due next year from Harvard Bus. Sch. Press) is previewed in his *Harvard Business Review* (Sept.–Oct. 1992) essay, "Capital Disadvantage: America's Failing Capital Investment System." Like Thurow, Porter argues that corporate America needs long-term investors to function properly: "The most basic weakness in the American system is transient ownership." But while Thurow looks to a new breed of financier to remedy this deficiency, Porter argues that corporate executives themselves must recruit long-term "owners" from the ranks of investors.

What all of these writers seem to agree on, however, is that the post-Morgan era of "managerial capitalism" is over. The effort to make business executives more accountable to owners will powerfully shape the future of American finance.