



history / education / and / documents

A History of Banking and the Bank of North America



Image from the Bank of North America Collection at the Historical Society of Pennsylvania.

Bell work

- List out the functions that a bank performs.

A Place to Store Money

- Originally banks were a place for safe keeping.
- This is essentially what the **famous Bank of Amsterdam (1609)** was – a so-called “**Bank of Deposit,**” meaning that customers would give the institution bullion for safe keeping in exchange for a receipt of **deposit**.

A Place to Protect Money

- This primitive bank served various important economic roles. In addition to providing security for one's assets, the bank also attempted to guarantee the quality of silver coinage (i.e. to protect against the **debasement** of coins).

A Place to Settle **Debts**

- The Bank of Amsterdam also allowed **creditors and businesspeople** to receive accurate payments. By being forced to pay one's debts within the bank, debtors would have found it to be more difficult to cheat their creditors.
 - Think critically – How could this help the overall economy? How could this earn the bank some enemies?

A Place to **Loan** Money?

Florence invents Modern Banking

- The influence of money-lending Florentines (like the powerful Medici family and their **Medici Bank 1397**) helped create what eventually turned into the modern money-lending banks that exist today.
- These banks receive deposits and then invest that money in order to make profits.
- One source of profit for the bank occurred through issuing loans and receiving **interest**.

Risk and Banking

- For these original European bankers, the Medieval Christian restrictions on **usury** proved to be a challenge, overcome by the Medici by hiding **interest rates** in currency exchanges.
- Nevertheless, every type of investment comes with a certain degree of risk, and lending institutions seek to offset their risk by adjusting their interest rates according to the type of loan being offered.

Questions

- How might the system of offering loans help or hurt business?
- In what ways could these banking institutions (Amsterdam and Medici) influence the government?

Banking Chronology

2697-1399 BC China may have established the first bank in the world.

1171 AD the Bank of Venice is established.

1397 AD the Medici Bank is officially established.

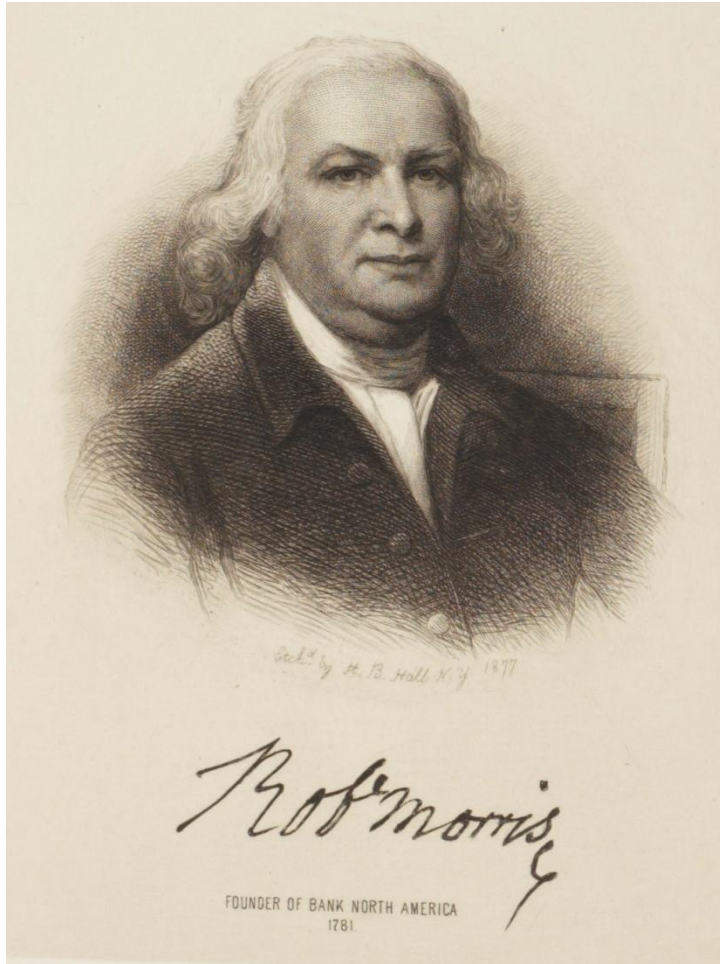
1407 AD the Bank of Genoa is established.

1609 AD the Bank of Amsterdam is established.

1694 AD the Bank of England is established.

1781 AD **the Bank of North America is established in Revolutionary Philadelphia.**

The Bank of North America



- Philadelphia was the financial center of the British Colonies.
- The famous Revolutionary Financier **Robert Morris** wished to establish a bank in America.

The Financial Situation in Revolutionary America

According to bank historian Lawrence Lewis:

Commerce ... had almost perished. Storehouses were empty, and ships were rotting at the quays. But a national system of finance had become a necessity. A national government was to be supported, and a national army to be raised, paid, fed, and clothed.

The various schemes of Congress to this end were badly planned and worse executed. It had resort to paper money, to lotteries, and to loans both foreign and domestic, but by the close of 1779 had almost come to the end of its resources. Its paper money had already depreciated to below one-eighth of its par value, and was still rapidly on the decline, its lotteries proved so many gigantic bubbles, disappointing alike to the government and the adventurers, and its credit seemed too much exhausted to hope for further cash loans to any large extent.



Although considered to be America's first bank, clearly "banking" was different than it is today ... consider this order for blotting paper and quills in 1785!

But there were more than just quaint differences, which can be illustrated by a few different sources...

		The Bank Dr		
		To William Woodhouse		
1785	January 5 th	To 100 of Quills	£	0 11 3
	10	To 24 Books of 2 Sheets		
		To 24 Do - 3 Do		3 0 0
		To 24 Do - 4 Do		
		To 2 Quarts of Black sand		0 7 6
	20	To 1 Quire of Blotting paper		0 1 6
	27	To 1 Royal Ledger of 2 Quires 15 Sheets		3 7 6
		To 1 Do - 2 Quires - 3 Sheets		
	February 2	To 20 Brown paper Books 22 Sheets in each		6 0 0
	15	To 36 Books of 2 Sheets		
		36 Do - 3 Do		4 10 0
		36 Do - 4 Do		
	March 7	To 4 Sheets Blue Rappers		0 1 0
		To Bottle of Ink		0 0 0
	3 rd	To 3 Quire Book thick post		1 2 6
	28 th	To 2 Books of 12 th each		3 10 0
	29 th	To 1 2 nd Blotting paper		0 1 6
	April 5 th	To a Quire Demy Book		0 12 6
	May 12 th	To 6 Books of 17 Sheets each		0 11 3
	31 st	To 5 Quire Demy Book		2 5 0
	June 3 rd	To 4 Quire Medium Book		2 5 0
		To 5 Quire Ledger		0 17 6
		To 4 Quire Cash Book		0 15 0
		To 2 Demy Alphabets		0 3 3
	4	To 15 Books of 2 Sheets Medium		1 10 0
		To 6 Do - 3 Do		
	13	To 12 Books of 2 Sheets		
		To 12 Do - 3 Do		1 10 0
		To 12 Do - 4 Do		
			£	33 3 9

Questions related to sources

- Review the “Bank Charter” from December 1781. Consider the following questions:
 - What is the purpose of a “charter”?
 - What was Morris allowed to do under this charter?
 - Is there anything that banks do today that is not covered by this charter?

Compare the primary source “State of the bank, 1782 February 4-April 1” with the secondary source account of Murray N. Rothbard in *A History of Money and Banking in the United States: The Colonial Era to World War II* [pgs. 62-65.](#)

- What exactly was the role of the U.S. government in this bank?
- Why did the American government approve the creation of this bank?
- Why did Morris seek to get the bank of Pennsylvania charter?



The Bank of the North America in 1828, Third and Chestnut Streets, Philadelphia.

Image from the Bank of North America Collection at the Historical Society of Pennsylvania.

Sources and notes from slides ...

Slide 4

- <https://books.google.com/books?id=iC1MAAAAMAAJ&pg=PA10#v=onepage&q&f=false>
- <http://encyclopedia-of-money.blogspot.com/2010/01/bank-of-amsterdam.html>
- https://www.aeaweb.org/annual_mtg_papers/2007/0106_1015_1201.pdf

Slide 5

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Slide 6

- https://www.aeaweb.org/annual_mtg_papers/2007/0106_1015_1201.pdf

Slide 7

- <http://www.themedicifamily.com/The-Medici-Bank.html>
- <https://books.google.com/books?id=iC1MAAAAMAAJ&pg=PA10#v=onepage&q&f=false>

Slide 8

- <http://www.themedicifamily.com/The-Medici-Bank.html>

Slide 9

- Might be interesting to know that: "In 1494, the Medici were ousted from Florence. The bank, already tottering on bankruptcy, was confiscated and was not successful under its new owners. The Medici Bank contributed little to economic growth. Too many of its funds were used to finance conspicuous consumption of royal courts or the exploits of the Italian condottieri, captains of mercenary armies who sometimes rose to political prominence. Nonetheless, the Medici family represents one of the early examples of capitalist families rising to social and political power."
<http://www.themedicifamily.com/The-Medici-Bank.html>
http://www.democracynow.org/blog/2015/3/11/civil_war_historian_eric_foner_on

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- <https://blogs.wellsfargo.com/guidedbyhistory/2010/04/bank-of-north-america/>

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