



The Banks and How They Come and Go

So it pays to know your banking system. I moved to Boston in 1965 and since then I've seen the demise of the New England Merchants Bank, the South Boston Savings Bank, the Fleet Bank, the Bank of Boston, the Shawmut Bank, and a couple of others whose names escape me. Where did they all go? They were gobbled up by the Bank of America, Citizens Bank, and Sovereign Bank, which is now owned by a Spanish bank.



(Boston, by the way, has also lost its great home-grown department stores: gobbled up by Macy's, which had previously been gobbled up by Federated Department Stores, Inc.)

The function of banks in a free society is crucial to that society's economic progress and well-being. In the early days, before government regulation, banks stored savings in terms of gold and issued loans in their own bank notes. Credit is the essential fuel of economic growth, and so we must have it as a source of investment for commercial enterprise. But as in every human endeavor fraught with risk, banks and their depositors are also susceptible to error and fraud. But in a culture built on self-reliance and economic freedom, one accepts risk, while trying to minimize it.

Our earliest banking panic took place in 1810, and it was brought about by over-generous lending policies. That seems to be a recurring pattern in our history. From 1821 to 1836, the nation experienced a great period of economic expansion and prosperity. But in 1837, a great speculative bubble burst in New York City, after which banks would only accept payment in specie backed by gold and silver.

Some historians blame the panic of 1837 partially on President Jackson's famous refusal to renew the charter of the Second Bank of the United States, which resulted in the withdrawal of government funds from the bank. Many banks failed, credit was unobtainable, and the ensuing depression lasted until 1844. There had been calls for government intervention, but President Van Buren was adamant against any unconstitutional intervention in the workings of the economy.

In 1856, the *Farmer's Almanac* published an extensive list of "Worthless and Uncurrent Bank Notes in New England." Twelve banks in Boston alone were listed. Forty-one banks in Maine were listed as having worthless bank notes, yet the country survived.

The bank panic of 1873 was quite severe. The New York Stock Exchange closed for ten days, and the Jay Cooke bank, the Goldman Sachs of its day, went into bankruptcy. Of the nation's 364 railroads, 89 went bankrupt. A total of 18,000 businesses failed between 1873 and 1875, and unemployment reached 14 percent by 1876. But the nation slowly recovered without government intervention in the economy.

The Panic of 1884 took place during the Recession of 1882-85. New York City national banks halted investments in the rest of the United States and called in outstanding loans, resulting in the failure of



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more than 10,000 small firms.

The Panic of 1893 caused a serious economic depression marked by the collapse of railroad overbuilding and shaky financing which set off a series of bank failures. Yet the nation survived.

The Panic of 1907, known as the Bankers' Panic, was caused when the New York Stock Exchange fell close to 50% from its peak in 1906. There were numerous runs on banks and trust companies. But with the growth of a large industrial economy, the large investment bankers in New York decided that what the United States needed was a European-style central bank to control such financial crises.

The bankers held a secret meeting at Jekyll Island, Georgia, and mapped out a plan for getting Congress to create the Federal Reserve System. It would be sold to the American people as a means of preventing further financial panics. The law creating the Federal Reserve was passed in December 1913 during Woodrow Wilson's administration, which also gave us the Income Tax. In reality, the new central bank was nothing more than a cartel of the big New York national banks to control the financial system of the United States.

But despite the creation of this new financial institution, we continued to have financial panics. Between 1914 and 1929, there were 825 bank failures, and by 1932, there were an additional 1,947 bank failures. In 1933 alone there were about 4,000 bank failures. The banking holocaust of the early 1930's — 9,106 failures, 1,917 of them national banks — culminated in a nationwide bank moratorium in March of 1933, and the enactment of more government regulation.

It was the present chairman of the Federal Reserve System, Mr. Ben Bernanke, who admitted that the Great Depression, that lasted until 1939, was caused by the tight-money policies of the Fed. He made this admission on November 8, 2002, at a conference honoring Milton Friedman's 90th birthday at the University of Chicago. Bernanke, then a Federal Reserve governor, recalled what Friedman had said about the Fed's responsibility for prolonging the Depression.

He cited how Friedman and Schwartz documented the Fed's continual contraction of the money supply during the Depression and its aftermath — and the subsequent abandonment of the gold standard by many nations in order to stop the devastating monetary contraction. Bernanke then concluded his speech with this revealing statement:

Let me end my talk by abusing slightly my status as an official representative of the Federal Reserve. I would like to say to Milton and Anna: Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again.

Now, in 2011, that's still to be seen.

Yet, despite the Fed's incredible blunder, our capitalist system survived. During the Depression many auto companies went out of business. But those that survived — like General Motors, Chrysler, and Ford — managed to produce cars the public wanted, at very moderate prices. The Depression also created deflation, a lowering of prices on everything, since money was so hard to get. The Empire State Building, the Chrysler Building, and Rockefeller Center were built during the Depression. Great bridges and highways were also built. And Hollywood did a booming business with its escapist films. We danced our way through the Depression with Ginger Rogers and Fred Astaire.

World War II got us out of the Depression and led the U.S. into its great post-war prosperity. Since then we've seen the growth of a huge consumer economy, first spurred by the pent-up demand caused by the war, the development of television advertising, the building of low-cost tract houses, and the availability of easy credit through credit cards.



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Then came the technological revolution which produced thousands of new millionaires. Ordinary Americans were now investing directly in the stock market, or indirectly through mutual funds and retirement accounts. But that didn't prevent the debacle of the Savings and Loan banks. Between 1982 and 1992, there were 2,808 bank failures. But our liberal bureaucrats and their liberal legislators didn't seem to learn anything from that debacle. And so, to spread the American dream, a liberal Congress enacted laws requiring banks to finance the mortgages of risky, poor borrowers. And, of course, it never occurred to the bureaucrats that these poor borrowers might not be able to repay their loans.

The result? Who would have guessed it.? A great financial blow-up, not seen since the Depression. We were threatened with a total collapse of our economic system unless the government bailed out banks and insurance companies too big to fail. And when the radical socialists took over the White House and Congress, led by radical-in-chief Barack Obama, the new rulers were ready and eager to use the financial crisis to destroy our capitalist system. The socialists were determined to transform our Constitutional Republic into a European-style social democracy, the kind that has brought Greece to its knees and may unravel the entire European Union.

So they enacted an unconstitutional National Healthcare System, a federal takeover of 17% of the American economy, and other socialist measures. But a large number of Americans decided that they had had enough and formed the Tea Party movement, in honor of the famous Boston Tea Party of 1773 that started the American Revolution. And in the election of November 2010 they managed to evict from Congress a whole lot of socialists.

Meanwhile, the largest bank failure in U.S. history was Washington Mutual, which failed in 2008 with assets of over 300 billion dollars. But America has survived. The American people realize that socialism does not provide economic security. It simply provides equal poverty. They know that capitalism is a risky system, but they also know that it has made us the richest, most advanced nation in human history.

Meanwhile, the big problem is how do we deal with our government's humongous debt that is driving people out of paper money into gold? According to Investment Expert Porter Stansberry, our government has debts that now total a mind-boggling \$17 trillion. The cost of servicing this total debt is about \$1 trillion a year. But total federal revenue from all taxes last year was \$1.1 trillion. Which means that our government is technically bankrupt and cannot finance its debt obligations in sound money. It will either have to borrow more money from willing lenders or print up money at the Fed's money machine, thus decreasing the dollar's value.

The only way to reduce this debt is to reduce federal spending. That will have to be done by the Tea Partiers in Congress who believe in smaller government. One good way to start cutting government "services" is to abolish the U.S. Department of Education, which has made education worse, not better. So let's get rid of it.

Dr. Samuel L. Blumenfeld is the author of nine books on education including *NEA: Trojan Horse in American Education*, *The Whole Language/OBE Fraud*, and *The Victims of Dick & Jane and Other Essays*. Of *NEA: Trojan Horse in American Education*, former U.S. Senator Steve Symms of Idaho said: "Every so often a book is written that can change the thinking of a nation. This book is one of them." Mr. Blumenfeld's columns have appeared in such diverse publications as *Reason*, *The New American*, *The Chalcedon Report*, *Insight*, *Education Digest*, *Vital Speeches*, *WorldNetDaily*, and others.



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Photo: The Chase Tower (Chicago) (formerly, Bank One and First Chicago Plaza) now CHASE headquarters



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