COMMENTARY ON WHITE

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The major thrust of Professor White's paper concerns the use of legislative power to promote monopolistic tendencies within commercial banking. He contends that state legislatures sought to reduce competition by limiting the power of banks to issue bank notes and by making it virtually mandatory to have a state charter.

In developing his case Professor White offers a brief history of legal restrictions on banking activities. He points out that by 1821 all but four states effectively limited bank operations through restraining acts. In his argument White discusses the specific cases of two banks, the Bank of Virginia and the Merchant's Bank of New York.

The next step in Professor White's argument is confusing. He states that he is not interested in whether state legislatures actually did or did not limit competition in the banking industry. Instead he is concerned

> with the regulation of those banks for which legislatures actually granted charters and not with limitations on the number of charters granted.

But the major contention of the author concerns legislative attempts to limit competition in the banking industry. To overlook data on the number of charters granted weakens the argument substantially.

A possible explanation for the author's approach is that he is interested with the intent, rather than the results, of legislative action. If this is the case, one should be interested in factors that would indicate the motivations of important legislators. Items such as the bank connections of legislators, personal correspondence, diaries, and speeches before the legislature might provide helpful clues.

Assuming Professor White was primarily interested in legislative intent, I am surprised that he did not discuss alternative hypotheses. It is plausible that the intent of legislative action was considerably different than Professor White implies.

Limitation of bank note circulation is necessary to maintain a stable monetary system. Wildcat banking activities in a number of western states helped bring about inflation and bank collapses. Countries which have permitted unlimited bank note issue have ultimately faced inflation and severe economic dislocation. It is not likely that legislators were genuinely affected by these concerns? Eventually the United States, after a series of bank crises, passed legislation that eliminated commercial bank note circulation.

Besides excessive bank note issue, there has been concern for the safety of funds deposited in banks. Federal and state laws have been passed which require banks to refrain from practices which undermine their solvency. Also an examination procedure has been set up which helps insure that banks will follow the legislative rules that have been passed.

These are two additional, alternative, plausible explanations of legislative action with respect to the banking industry. To prove which, if any, of these hypotheses is correct is virtually impossible.

A more meaningful investigation would be an exploration of the effect of legislative action on banking activities; a definitive result is much more likely. Data exist; statistical analysis can be employed. Facts concerning the number of banks, their size, who controlled them, and the profitability of bank operations before and after the passage of specific legislative bills would yield interesting results.

Professor White has chosen an intriguing topic. Necessarily, he has embarked upon a study in which it is difficult to find conclusive results.