Mary Bridges

Constructing Credit, Expanding Commerce: The International Expansion of US Branch Banking in the Early Twentieth Century

My dissertation examines the way in which a new cadre of US bankers working overseas determined who to trust, when to lend money, and how to evaluate credit worthiness. It focuses on the first decades of the twentieth century when several independent banks and, following authorization by the Federal Reserve Act of 1913, larger national banks established branches overseas. This time period also coincided with tectonic changes in the way US financiers evaluated credit. For much of the nineteenth century, credit depended primarily on first-hand knowledge, kinship, and social connections. Banking textbooks taught that small banks did not need credit departments because borrowers were likely to be known by the entire staff. Meanwhile, larger commercial institutions, from department stores to mercantile agencies, began systematizing credit files about existing and potential customers. While historians have explored the transition from personal knowledge to quantifiable credit scores in the United States, my dissertation examines how these processes took place in transnational contexts of establishing US bank branches overseas.

Generous support from the History Project and the Institute for New Economic Thinking (INET) allowed me to explore two dimensions of this transformation. First, I examined records of an understudied but influential US bank that was the first to operate branches on more than two continents, the International Banking Corporation. IBC was a curious institution: chartered in Connecticut in 1901, it received state authorization to conduct virtually any kind of banking or commercial transaction anywhere, as long as it did so outside the state of Connecticut. Board members and early stockholders included the owner of Remington Arms, distinguished military generals, confidants of Theodore Roosevelt, railroad magnates, and King Leopold of Belgium. Despite this prominent leadership and the bank's role in public activities such as serving as the US fiscal agent in collecting China's Boxer indemnity payment, the bank has largely escaped scholarly attention.

This oversight has occurred in part due to lack of source material; however, I was able to review IBC minutes, memoranda, and legal documentation at Citi's Center for Culture. (National City Bank, known today as Citi, acquired IBC during World War I.) My goal in examining this cache of archival records was not only to fill a gap in the historical record by explaining what exactly IBC did, but it was also to understand how IBC bankers navigated unfamiliar business cultures overseas. To whom did they lend money and under what circumstances? I expected to find debates among IBC bankers and executives about compiling credit information, assessing the trustworthiness of borrowers overseas, and determining standards for obtaining security against loans. Yet no such discourse emerged in executive committee minutes, correspondence, or branch records. Instead, nearly all credit limits seemed to be set by a committee based in New York, with little—if any—discussion about the financial strength of borrowers, financial statements of firms, or minimum standards of collateral. This finding is consistent with the practices and norms of British institutions in the era of "gentleman banking." In other words, the records revealed a great deal about what credit *wasn't* to IBC bankers. It was not a report in a file-folder in a records room. It was not a financial statement by a certified public accountant. Instead, it was a relationship situated within pre-existing webs of financial and personal contacts.

Another set of questions raised by the IBC records involves the bank's relationship to the US government. IBC acted as fiscal agent for the US government in a number of international contexts including China, Panama, and the Philippines. Beyond these professional ties, evidence from Citi's archive reveals that IBC executives dined with US government representatives and even participated in early meetings related to the Federal Reserve Board's regulations of US banking overseas. While no clear storyline emerges from these scattered findings, these sources call for further investigation into Washington's perspective on IBC's operations in order to gain a fuller perspective on the two-way relationship between the federal government and the bank.

At the Federal Reserve Bank of New York, I examined a second set of sources that captured a different aspect of the international expansion of US banks: namely, the way the new Federal Reserve System altered the dynamics of branch banking overseas. In particular, the 1913 Federal Reserve Act resulted in the creation of a new US market in bills of exchange used to finance international trade. The market was modeled after Britain's discount market, and its boosters claimed that it would reduce the evils of speculation in New York's call market, which had been blamed for contributing to the Panic of 1907. Functionally, the market channeled hundreds of millions of dollars from the Federal Reserve System into buying trade contracts that banks such as National City played an instrumental role in facilitating. The market, which peaked in the 1920s, was one of the primary ways in which the Federal Reserve added liquidity to the US economy and contributed to the economic boom of that decade. While this aspect of US finance history has received some recognition from scholars, an understudied consequence of this system was how the banks financing trade benefited from the new government backstop for its activities.

My research at the Federal Reserve Bank of New York revealed that FRBNY became not only the primary buyer of this paper but the agent most involved in setting the rules of the market and communicating them to bankers and discount houses. Correspondence and FRBNY reports I reviewed demonstrate uncertainty among central bankers as to how exactly the market should operate, as well as difficulties in convincing non-New York banks to participate in the market. My research suggests that the structural change in the operation of the US financial system documented in FRBNY files had ripple effects that not only flooded the US market with credit in the 1920s but also incentivized banks to finance trade. This structural change, I argue, helped galvanize the transition from the IBC model of credit based on trusted-network lending to a more scalable system of paper-based credit files, which carried with it its own values and biases.

These two sites of archival material have helped me frame issues that call for further study in research trips to Washington, DC to examine records at the National Archives, as well as records related to IBC activities in the Philippines, where the IBC played a particularly key role in the early years after US occupation. My hope is that drawing together these different sources will clarify not only the way US banking practices changed in the early 1900s, particularly with regard to credit, but also how seemingly mundane banking activities affected the US economic footprint in communities around the world, as well as the economy at home.