CENTENNIAL OF FAMOUS BANK ACT OF LOUISIANA OBSERVED

The hundredth-anniversary of the Louisiana banking act, one of the most significant documents in the history of American finance, was observed last week.

The act is notable as a legislative embodiment of the principle of short-term, self-liquidating, commercial credit, according to Bray Hammond, Washington, D.C.

Mr. Hammond, chief of the correspondence and publications section, office of the secretary, board of governors of the Federal Reserve System, wrote in the Author and Monthly Review of the Federal Reserve Bank of Atlanta that under the act's provisions, the banks of New Orleans became famous for their liquidity.

The Louisiana Bank, the Canal and Banking Company, the Louisiana State Bank, the Mechanics and Traders Bank, the Citizens' Bank, and the Union Bank, all located in New Orleans, were the only banks in Louisiana, the rest of the state being served by their branches. They weathered the crisis of 1857, in which banks elsewhere suspended almost universally, and they continued until interrupted by the military operations of the War Between the States.

Important provisions of the act follow:

At least one-third of the amount of each bank's deposits and circulating notes had to be in specie; the balance had to be in paper maturing in less than 90 days and not renewable.

These quick assets and liabilities were denominated "movement." They were segregated sharply from slow assets and liabilities, including capital, which were denominated "dead weight."

Renewal of paper at maturity was forbidden, the penalty being that the depositor's account be closed at the creditor bank and notice thereof furnished other banks.

A condensed statement of condition of all the New Orleans banks had to be published weekly.

Edmond J. Forstall was author of the Louisiana banking act of 1842. He was a representative of New Orleans in the Louisiana Legislature for 20 years, a planter, a banker, and agent for Baring Brothers, English banking firm long prominent in American financing. The law was drawn up during the crisis of 1842 when the banks of New Orleans along with those in most of the United States had suspended specie payments. It is remarkable for the directness and simplicity of its provisions.

Mr. Forstall based the provisions of the law on the peculiar situation of New Orleans, then the fourth largest commercial port in the world. There was no other place on the globe, he said, "possessing so many elements and sounder materials for banking."

The produce of the vast territory drained by the Mississippi, its tributaries, and other streams flowing into the Gulf was exported mainly from New Orleans, and, accordingly, the New Orleans money market was supplied with a great volume of short-term, self-liquidating paper, based on merchandise transactions.

The Louisiana act of 1842 was one of several efforts being made by various states to solve the banking problem. One of its distinctions was that it put firm emphasis upon bank reserves for the first time in American legislation. Its requirements were directly imitated in the later banking laws of Massachusetts and New York and influenced ultimately the reserve provisions of the national banking act and the Federal Reserve act.

The characteristic provisions of the act are not typical of American banking legislation in general. Its requirements, while practicable for the New Orleans banks, both as to cash and as to short-term paper, were not generally practicable elsewhere. They are memorable, however, as a realistic and skillful adaptation of banking practice to the environment in which the banks concerned were then operating; and some of those requirements—such as the ones dealing with bank reserves—influenced later developments profoundly and contributed to some of the most important features of present-day banking legislation.