Banking and Insurance in New Jersey: A History

THE NEW JERSEY HISTORICAL SERIES

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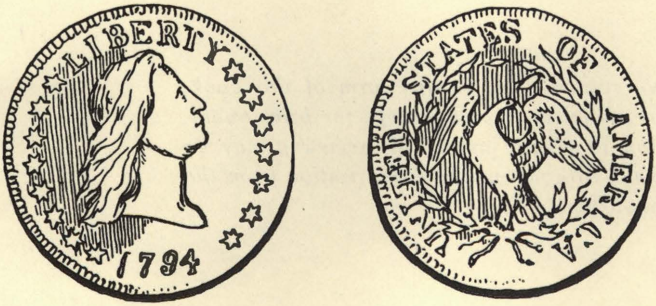
Banking and Insurance in New Jersey: A History



BRUCE H. FRENCH

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FOREWORD

Many tracks will be left by the New Jersey Tercentenary celebration, but few will be larger than those made by the New Jersey Historical Series. The Series is a monumental publishing project—the product of a remarkable collaborative effort between public and private enterprise.

New Jersey has needed a series of books about itself. The 300th anniversary of the State is a fitting time to publish such a series. It is to the credit of the State's Tercentenary Commission that this series has been created.

In an enterprise of such scope, there must be many contributors. Each of these must give considerably of himself if the enterprise is to succeed. The New Jersey Historical Series, the most ambitious publishing venture ever undertaken about a state, was conceived by a committee of Jerseymen—Julian P. Boyd, Wesley Frank Craven, John T. Cunningham, David S. Davies, and Richard P. McCormick. Not only did these men outline the need for such an historic venture; they also aided in the selection of the editors of the series.

Both jobs were well done. The volumes speak for themselves. The devoted and scholarly services of Richard M. Huber and Wheaton J. Lane, the editors, are a part of every book in the series. The editors have been aided in their work by two fine assistants, Elizabeth Jackson Holland and Bertha DeGraw Miller.

To D. Van Nostrand Company, Inc. my special thanks for recognizing New Jersey's need and for bringing their skills and publishing wisdom to bear upon the printing and distributing of the New Jersey Historical Series.

My final and most heartfelt thanks must go to Bruce H. French, who accepted my invitation to write *Banking and Insurance in New Jersey: A History,* doing so at great personal sacrifice and without thought of material gain. We are richer by his scholarship. We welcome this important contribution to an understanding of our State.

RICHARD J. HUGHES
Governor of the
State of New Jersey

January, 1965

PREFACE

This small volume is not intended as a technical treatise on the history or economics of banking and insurance in New Jersey. Such a treatise would require hundreds of pages and, owing to the nature of the subject, would be of little interest to the lay reader. Therefore, I have attempted to present the material in a form as readable as the subject permits. If the presentation seems superficial to those persons who are involved in banking and insurance, either as scholars or practitioners, it is my hope that they will understand my problems in simplifying a complex subject.

New Jersey is a very prosperous and growing state. Its manufacturing, agricultural, and recreational industries are extremely important. It has a very high per capita income. A great many persons who work in New York and Philadelphia live in New Jersey, including thousands of the country's top executives and professional men. It would be inaccurate, however, to designate the state as a great financial center. Only in the case of the Prudential Insurance Company of America, which is the third largest corporation in the United States, is New Jersey the home location of a preeminent financial institution. Of the 300 largest commercial banks in the United States, as of December 31, 1963, only 16 are New Jersey banks, and the largest, Fidelity Union Trust Company, Newark, ranks sixty-ninth in size with approximately $516 million of deposits as contrasted with the largest commercial bank in the United States, the Bank of America, San Francisco, with over $13 billion of deposits. Among the fifty largest mutual savings banks in the United States, only Howard Savings Institute, Newark, is included, with $524 million of deposits, in the seventeenth position.

No doubt the existence of two major financial centers, New York and Philadelphia, has reduced the likelihood of a third major financial center developing within New Jersey, particularly since so many of Jersey's eminent residents have themselves been identified in business life with New York and Philadelphia. Lack of outstanding size, fortunately, renders New Jersey's financial institutions no less interesting, nor does it reduce the quality of services rendered to the communities served.

A history of banking and insurance, owing to its very nature, must deal with the country as a whole because many of the factors that influenced Ney Jersey banking and insurance had their origins outside the state. While the banks and insurance companies of many states confronted similar overall economic conditions and such institutions everywhere were mainly influenced by countrywide conditions, the state banking and insurance laws differed widely and the institutions reacted in a variety of ways. I think it will be apparent that New Jersey's financial institutions for the most part conducted themselves, with the aid of state regulatory provisions, in a creditable fashion. New Jersey banks and insurance companies existed in a national economy which has seemed peculiarly vulnerable to economic fluctuations and financial panics. These conditions are a sad part of our American heritage. In retrospect, wiser policies, better legislation, and greater self-restraint might have prevented them. Suffice it to say that under difficult circumstances, New Jersey's bankers and New Jersey's insurance men have conducted themselves and their institutions with greater wisdom than their counterparts in many other states.

Many individuals—too numerous to mention in this short space—have provided material used in the preparation of this book. I am particularly indebted to Mr.

George R. Cook III for allowing me to use his very fine collection of the histories of New Jersey banks which he had assembled over a great many years; to Mr. Sydney G. Stevens, for the histories of the Trenton Banking Company and of the First Mechanics Bank, along with manuscripts pertaining to the history of the First Trenton National Bank; to the personnel of the Department of Banking and Insurance of New Jersey, who have been extremely cooperative in making their records available to me; to Mr. Gordon Colket and Mr. Donald A. Sinclair, Curator of Special Collections in the Rutgers University Library for their generous help.

The editors of the Tercentenary Series, Dr. Richard M. Huber and Dr. Wheaton J. Lane, have given me many helpful suggestions regarding this book. Many comments and suggestions were made by my colleagues at Rutgers who kindly read the manuscript, Professor Emeritus Eugene E. Agger and Professor Salomon J. Flink; also, Mr. Robert C. Forrey read the manuscript and made helpful suggestions, as did some members of the Department of Banking and Insurance and the staff of D. Van Nostrand Company, Inc.

I am sure that I have benefited from these suggestions. The degree to which this book has shortcoming is, of course, my own responsibility.

Finally, I am most grateful to my personal secretaries, Marie Montague, and Christine House Yorke, for typing the manuscript and helping with editorial revisions and my wife, Jeanne, without whose patience and understanding this book could not have been written.

BRUCE H. FRENCH

Princeton, New Jersey
May, 1964

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Fire in Newark, 1845
Courtesy of The Newark Museum

I

THE ECONOMY OF NEW JERSEY BEFORE 1800

THE HISTORY of public banking and insurance in the State of New Jersey began on May 4, 1804, when the stockholders gathered to organize the Newark Banking and Insurance Company at Archer Gifford's Tavern, located on the northeast corner of Broad and Market Streets. Newark was then a small town with a population of between three and four thousand inhabitants. This institution is now known as the National Newark and Essex Banking Company, one of the largest banks in New Jersey. Later that same year the Trenton Banking Company received its charter from the state Legislature.

In the early morning of July 13 in that same year Alexander Hamilton, the brilliant Federalist Secretary of the Treasury and the father of the first Bank of the United States, fell mortally wounded on a dueling field at Hoboken, the victim of Aaron Burr's malice. Thus, the year of the establishment of New Jersey's first two state-chartered banks coincided with the death of the man who, had he lived, would have fought for the continuance of a Federal central banking system, which he had established and which was to languish during Jackson's administration when the death knell of the second Bank of the United States was sounded by the Democratic Party's opposition to its rechartering.

The ultimate failure of Hamilton's plan for a central bank, modeled after the Bank of England, ushered in an era of generally irresponsible, poorly regulated state bank dominance. Only after the establishment of the national banking system during the Civil War did the United States Government again begin to play an important role in American banking. Fortunately, the State of New Jersey was spared the worst abuses of the wildcat banking era between the demise of the second Bank of the United States and the establishment of the national banking system. It might further be said, by way of generalization, that, from its inception to the present day, New Jersey banking has been essentially conservative. Even in the financial debacle of the great depression which reached its low point in 1933, the New Jersey banking community emerged in far better condition than did the institutions in many other states.

Since we are celebrating the anniversary of the founding of the State of New Jersey in the year 1664, it is immediately apparent that the year 1804 is a rather late date with which to begin our history. That is the year, however, in which the first banks in New Jersey were founded, and it must be noted that the earliest bank charter anywhere in the United States was that of the Bank of North America established only a few years before—in 1781 in Philadelphia. There were, in fact, comparatively few banks established anywhere prior to 1804. Among these were the Bank of Massachusetts and the Bank of New York, chartered in 1784 and 1791 respectively. A bank in Baltimore and another in Providence were also established in the 1790's. New Jersey's first banks were, therefore, among the very earliest and were chartered less than twenty-five years after the first bank in the country.

Today we are all aware of the important functions of banks. We may not all understand the principles and details of operation, but however little we may understand their workings it is hard for any of us to envisage a society in which banks did not exist. One reason for this is, of course, that we associate money, which is indispensable in our society today, with banks. Moreover most of us have had occasion to borrow money from banks as well as to use banks as places of safekeeping for our savings and securities. Why, then, did our forebears, who adopted the first constitution of New Jersey in 1664 and settled the state even earlier, not immediately establish such important institutions as banks? The answer to this question lies essentially in the nature of the economy which existed in those early days. Our history therefore will begin with a look at conditions existing in the financial community during the seventeenth and eighteenth centuries.

Almost immediately after its settlement, New Jersey, along with the other seaboard colonies, faced a shortage of money, which at that time was in the form of gold and silver. As in other colonies, imports exceeded exports during the earliest years of settlement and this was made possible by substantial investments made by capitalists of England, Scotland, and Holland. Most of these investments were not repaid and ultimately were canceled. New Jersey's main hope for an influx of gold and silver, apart from risky investments, lay in the development of an excess of exports over imports.

By the last decade of the seventeenth century, New Jersey was beginning to share with the more prosperous southern colonies a slight export balance of physical goods. However, as part of the British mercantilist system, any surplus of exports over imports which might have resulted in an inflow of scarce specie was offset by payment to England for indentured servants and the payment of shipping costs and costs of other services demanded by the English merchants. Fortunately, by evasion of the restrictive English Navigation Acts, the seaboard colonies, New Jersey included, carried on trade with countries other than England. Since America was closer to the West Indies, its agricultural products were competitive with those of England. In New Jersey's case, its principal export was grain. There was, therefore, an influx—though limited—of gold and silver from the West

Indian colonies and of pieces of eight, doubloons, and Spanish dollars from the Spanish colonies.

Another source of bullion for the American colonies was pirates' gold and silver brought into port by English pirates after preying on Spanish and Portuguese shipping. Most of the gold and silver coming to the colonies flowed out to England. In each year, however, some of it was diverted to monetary uses within the colonies. This money supply was inadequate generally in the colonies and New Jersey shared with the other colonies this inadequacy—perhaps even more so because of Jersey's tendency to export and import through the neighboring ports of Philadelphia and New York.

Fortunately, during the early years of settlement there was little need for currency. New Jersey was overwhelmingly agricultural in its economy and the settlers tended to be largely self-sufficient. British colonial policy, fearing the growth of a sense of mutual interdependence, discouraged trade among the separate colonies. What the Jersey farmer couldn't himself grow or make, therefore, he was inclined to seek, not from his neighbors but from England. As towns developed, however, the need for a medium of exchange became more essential. There being no common currency during the seventeenth century, prices had to be stated in terms of Dutch, Spanish, French, and English coins. Moreover, the circulating coins tended to be in large denominations. Eventually, however, the colonists began to cut the Spanish dollar and other large coins into quarters, eighths, and sixteenths.

Due to the confusion generally prevailing in the money supply and the fact that most people had little occasion to see coins, the opportunities for counterfeiting were very great. The quality of the work was usually very poor, owing to the ignorance of the populace as to what the real coin looked like. This problem was further complicated by the fact that the laws against counterfeiting differed widely from colony to colony, and chances for escape from jails were great. There was a tendency on the part of the governors to grant pardons to the counterfeiters. Haines, Cooper, and Budd, convicted counterfeiters, were pardoned by the Governor of New Jersey.

In his readable book, *Counterfeiting in Colonial America,* Scott makes the following observation:

The Province of New York was constantly plagued by the importation of bogus Massachusetts and Spanish coin and the striking of such money in New York. In 1680 John Archer, sheriff of New York, presented two rascals from New Jersey, John Burrell and William Shore, whom he arrested in New York City for bringing into that town and passing there various false Boston coins. Burrell confessed his guilt, so got off by making restitution to those who had suffered loss through the cheat and by paying a fine. Shore was so ill-advised as to try to brazen out the affair, was tried, convicted by the Mayor's court, and given thirty lashes well laid on.*

Scott also reports that there were numerous complaints in 1683 in the Jerseys against counterfeiting and clipping of Spanish and New England coins. That year a law was passed in West New Jersey requiring the authorities to search for and arrest the offenders. In August, 1698, Emanuel Smith was charged in Burlington County with clipping coins.

The Crown produced witnesses, John Buntin and Richard French, but the grand jury returned the indictment ignoramus on the ground that no clippings had been found in Smith's chest. . . . Numerous other people were charged under the New Jersey statutes, with no convictions until 1731 when Duncan Campbell of New Brunswick, a laborer, pleaded guilty to passing a counterfeit pistole. All together, for his offenses, Campbell stood two hours in the pillory in Amboy, two days later was given thirty-nine lashes on

* Kenneth Scott, *Counterfeiting in Colonial America* (New York, 1957), 18.

the bare back at cart's tail, two days later thirty-one more stripes, and was thereafter remanded for similar wrongdoing in Monmouth County.*

Although Massachusetts and Maryland established mints in the seventeenth century, New Jersey did not do so. With the growth of wealth and trade and the general inadequacy of the monetary supply, New Jersey citizens, along with the other colonists, developed alternative media of exchange, such as wampum and commodity currency.

Long before the white man came to New Jersey the Indians had their own currency, known as wampum, which had definite exchange value among the Indians themselves. This wampum, consisting of lengths of shell beading strung by the Indian women, was measured in fathoms—the distance from a man's elbow to his fingertip. It was worth about five English shillings or four Dutch guilders per fathom. For lack of any other currency, the colonists began to accept wampum as a medium of exchange. In New Jersey, wampum was mostly used in the Dutch settlements just as it was used extensively as a circulating currency in New Amsterdam. Examples of its use were the purchase of the Township of Bergen, New Jersey, by Governor Peter Stuyvesant in 1658 for "80 fathems of wampum." Later, in 1667, the Town of Newark was bought by Connecticut settlers for 850 fathoms of wampum. Most of the purchases of Indian lands in New Jersey—and such purchases were common practice particularly among the Friends—were made with wampum. Eventually, however, the white man learned to produce wampum in such quantities that it became relatively valueless except as ceremonial accompaniment to various Indian treaties. Franklin Township in Bergen County became the center for such manufacture. The family of William Campbell, an Irishman who married Elizabeth Demarest, for three generations pro-

* Kenneth Scott, *Counterfeiting in Colonial America* (New York, 1957), 26, 27, 28.

duced vast quantities of wampum, much of it going to John Jacob Astor for trade purposes. The home of Campbell and his family was known as "The Mint." This production of wampum was continued by them until as recently as 1899.*

Commodity currency and barter became practical necessities in the seventeenth century in New Jersey in the light of the shortage of coins. Beaver skins, for instance, which had a stable market in Europe and in the colonies, were generally accepted in New Jersey since they had been given official currency status in New Amsterdam and New England. The Dutch valued them at 8 florins per skin. Taxes were frequently paid in grain, many of the towns establishing storehouses in which to keep their tax receipts. Whitehead, in his "East Jersey under the Proprietary Governments," states that "not until 1692 was the payment of taxes in current silver provided for, and then it was left optional with the taxpayers." The earliest New Jersey coin with official standing is described very interestingly by Carl K. Withers:

> New Jersey also tried its hand along the line of coinage, as for example, the "Newbie coppers," that are treasured to this day by numismatists. Collectors differ in opinions as to what the "Newbie coppers" or "Patrick pence" were, some holding they were medals of Papist origin of the time of Charles I, or that they were Dublin tokens authorized by the Kilkenny Assembly. At any rate, their chief characteristic was St. Patrick in several poses upon one side of the token, and various figures and legends on the reverse. Mark Newbie, member of the Society of Friends and one of the founders of Gloucester, New Jersey, evidently had a number of these tokens in his possession when he left Ireland, September 19, 1681, and two months later arrived within "ye Capes of ye De La Ware." Some authorities hold that he struck these off himself. His scheme, and one approved by the few people of West Jersey, was to use these with some sort of official backing for small coins. The West Jersey

* Carl K. Withers, "Banking," in William Starr Myers (ed.) *The Story of New Jersey* (5 vols.; New York, 1945), II, 431.

Assembly, in May, 1682, adopted an Act that provided "that Mark Newbie's half-pence called Patrick's half-pence Current pay of this Province, provided he, the said Mark, give sufficient security to the Speaker of This House for use of the General Assembly from time to time being, that he the said Mark, his executors and administrators, shall and will change the said half-pence and pay equivalent upon demand; and provided also that no Person or Persons be here obliged to take more than five shillings in one payment." *

Although there were early experiments in Boston with the idea of establishing banks for the emission of bills of credit or paper money, there is no evidence that New Jersey issued paper currency in the seventeenth century.

New Jersey did little toward the establishment of a coinage or banking system during the eighteenth century and did not carry on its earlier experiment with the "Newbie coppers." Economic development in New Jersey was slow until just before the Revolutionary War. The product consisted largely of furs, lumber, and agricultural products, most of which were delivered to market in New York or Philadelphia where barter sufficed—that is, the exchange of one commodity for another or for several commodities equal in value to that originally sold.

In the absence of banks, however, there was, of course, a need for credit. Wealthy land owners and merchants under common law right and in the absence of prohibitory statutes accepted funds on deposit and issued their own notes, thus engaging in private banking. The soundness of this plan depended largely on the self-restraint of the individual in not overextending credit based on his personal reputation for wealth and on the deposits left with him. The colonial period contains many instances of such individuals ending in bankruptcy and carrying down with them depositors and note holders. A well-known example late in the century was Robert Morris, signer of the Declaration of Independence and

* Carl K. Withers, "Banking," in William Starr Myers (ed.), *The Story of New Jersey* (5 vols:; New York, 1945), II, 433, 434.

Revolutionary War financier, who after release from debtors' prison was supported in his last years on an annuity provided by his kind friend, Gouverneur Morris.

Although in general the produce of New Jersey was marketed in New York and Philadelphia during the eighteenth century, a number of merchant capitalists established warehouses and summer homes on the Raritan River at New Brunswick or Raritan Landing, whence direct shipments to England and the West Indies were made. Moreover, the office of Collector of the Port of Perth Amboy on Raritan Bay was much sought after. Many early merchants believed that the difficulty of land access to Manhattan Island would result eventually in Raritan River towns' becoming the pre-eminent ports for the area—a dream which did not materialize. There was a fair amount of direct shipment of farm products from Delaware River and Bay ports such as Salem and Greenwich.

The shortage of currency generally prevailing in the colonies in the seventeenth century became much more serious in the eighteenth century. During the first half of the eighteenth century there was little English coinage circulating in the colonies. In the last half of the eighteenth century there was none. The Dutch coins disappeared when New Amsterdam ceased to be a Dutch colony. The major circulating coin became the Spanish milled dollar. Thus, within the colonies, the dollar, the half-dollars, and fractional coins down to a sixteenth of a dollar, were commonly used as the medium of exchange. As a result, exchange ratios between the Spanish dollar and the English pound had to be established. These exchange ratios established by merchants differed from colony to colony, thereby further complicating the monetary situation. The milled feature of the Spanish dollar discouraged clipping and this problem disappeared.

With the gradual development of paper currency, the use of commodity currency was officially discouraged—no longer were tobacco, beaver skins, grain, etc., legal tender.

Massachusetts pioneered in the issuance of paper currency. Many issues, beginning in 1690, were made with varying maturity dates. By 1748, £500,000 in paper money were circulating in Massachusetts—largely government bills of credit. Some paper bills were issued in very low denominations to serve in lieu of minor coinage. There was a general pattern of continued and increasing depreciation in the value of these bills of credit, both in terms of specie and in terms of English exchange. Other states rapidly followed Massachusetts' example. In 1723, New Jersey issued notes in denominations from one shilling to £3. These note issues were by the colonial government and as such represented the action of informal government "banks."

The first private bank performing similar functions was the New London Society United for Trade and Commerce, a Connecticut institution opened in 1730. Others followed, particularly in New England. The abuse of note issue in the colonies and the continuing decline in value of the notes issued finally resulted, in 1764, in Parliament's forbidding any of the colonies to issue any further legal tender, bills of credit or "bank notes." This regulation and previous ones directed at New England colonies tended to stifle trade but helped to stabilize the currencies. To the credit of New York, New Jersey, and Pennsylvania, their note issues tended toward conservatism long before Parliamentary regulation. Due to the abuses of other colonies, however, there was a tendency in New Jersey to accept in exchange only their own bills and notes and usually those of Pennsylvania and New York. Most payments in intercolony trading were made by specie or bills of exchange on England after 1750. The inadequacy of the money supply and the inconvenience of having to calculate the circulating dollar values into pounds sterling continued at least until the outbreak of the Revolutionary War.

In 1776, the Pennsylvania dollar was adopted by the Continental Congress as the official monetary unit. Essentially, it was related to English currency on the basis of being worth 7*s.* 6*d.* Later it was given a bullion value

Revolutionary War Currency of New Jersey
Courtesy of Rutgers University Library

by making it equivalent to one and one-quarter Spanish milled dollars. Beyond this, the Continental Congress did not progress in setting up a coinage system. To help finance the war, there were many Continental and state paper money issues, beginning in 1775. As the war progressed, however, and more money was issued, prices tended to rise, and the value of the paper money declined, especially in 1779 and 1780. From this period we get the expression "not worth a Continental"—referring to the Continental currency. Originally, the Continental currency was supposed to be legal tender, but to relieve the pressure on creditors Congress eventually established depreciation tables whereby the Continental currency was made legal tender only at discounted values. Between 1780 and 1783 it is estimated that approximately $6 million worth of specie moved into the colonies—partly as a result of British payments to their troops and Tory allies, partly through French payments to French troops and ships in the colonies, partly from French payments for American goods, and partly from gold and silver coming into the colonies from the West Indies. Moreover, as the currency crisis eased, some of the specie which had been hoarded was released.

Under the Articles of Confederation which was the guiding instrument for the 13 colonies in the latter part of the war and until the adoption of the new Constitution, the Government could issue coins of its own as well as paper money but it had no control over the coinage and paper money issued by the 13 separate colonies. As a result, chaos prevailed and was a factor in the pressure for a new constitution and a new form of government. New Jersey, like the other colonies during this period, in 1785 and 1786 set up its own coinage system and an informal bank authorizing an issue of paper money of something less than £100,000. This issue held up rather well because of its initial conservatism. At the time of the establishment of the new federal government, notes of the few chartered commercial banks were also beginning to circulate.

II

EARLY FEDERAL BANK POLICY

THE ESTABLISHMENT of the new government of the United States under the Constitution ushered in a period during which federal policy was a major factor in money and banking.

BANKING AND CURRENCY UNDER THE FEDERALISTS—1789-1800

The 52 members of the Constitutional Convention which met in Philadelphia during the hot summer of 1787 soon determined that a new constitution would be necessary for the 13 colonies rather than the mere amending of the Articles of Confederation. This body was generally conservative in its outlook and many years' experience with a weak central government had led the delegates to want a federal government with enough power to deal with the many problems of the time and in particular a government which could achieve a good credit rating and put an end to the chaotic currency situation. As a class, most of the delegates were creditors rather than debtors and, as such, favored hard money over the depreciating paper money which debtors were then using to satisfy their debts at the expense of creditors.

In Section 8 of Article I, Congress was given the power "to coin money; to regulate the value thereof, and of foreign coin." Section 10 forbade the states to "coin money; emit bills of credit; make anything but gold and silver coin a tender in payment of debt." The states were specifically prohibited from issuing paper money—the federal government was neither given that power nor denied it. Related to the establishment of the new governments' credit, Article IV promised assumption of the revolutionary debt both of the Continental Congress and of the states.

Although there was considerable opposition to the adoption of the Constitution by the requisite three-fourths of the states, particularly from the less prosperous citizens, the Federalists were successful in securing the adoption of the Constitution and under the presidencies of George Washington and John Adams controlled the new government until the election of the Republican Thomas Jefferson in 1800. Much of the legislation of the Federalist period was concerned with financial organization of the new government. In 1789, a Department of the Treasury was established. Alexander Hamilton first filled this cabinet position; he set up the mechanics of day-to-day operation and laid down the broad policy to be followed. It is beyond the scope of this small volume to go into many aspects of Hamiltonian finance.

Prior to the establishment of the first state-chartered banks, most of the commercial credit, of which there was a great deal during the early years of the republic, was personal in nature and unsystematized. Imports from England were financed by English exporters, and to a lesser degree domestic commerce was financed by American merchants.

Hamilton, who was in many respects a financial genius, was very early interested in formal banking and was an important factor in the establishment of the Bank of New York in 1784, the charter of which, however, was not issued until 1791. In his first report, even in the absence of specific constitutional mandate Hamilton proposed the establishment of a Bank of the United States. After considerable debate and with much southern opposition, including that of Attorney General Edmund

Randolph and Secretary of State Thomas Jefferson, Congress passed a measure creating the first Bank of the United States. Washington, under Hamilton's urging, signed the bill on February 14, 1791. The bank was chartered for twenty years and capitalized at $10 million, with 25,000 shares, each having a par value of $400. One-fifth of these shares was purchased by the federal government and the balance was sold to the public who were permitted to buy them with one-fourth in specie and three-fourths in federal government 6 per cent bonds. Over one-half of the capital was earmarked for the main office in Philadelphia and the balance was to be distributed among eight branches in the principal cities. The Bank was controlled by a board of 25 directors who in turn elected the president. There were numerous limitations on the lending function but the Bank could make loans by creating deposits or issuing its own bank notes. Within a few months its stock was selling at six times its par value. Since most of the Bank's commercial records were destroyed when the British burned Washington in 1814, there are few details remaining.

Certainly the Bank of the United States played a leading role in the commercial life of the young nation and provided for almost the first time a stable note issue of approximately $5 million. In the early period the federal government borrowed extensively against its interest in the bank but later repaid these loans. The bank was used as a depository of federal funds but not exclusively since the original three state banks shared in federal deposits. Many more state banks were chartered, and by 1801 there were 30 state-chartered banks in existence, Massachusetts having six, New York and Rhode Island five each. At this time only New Jersey, Virginia, North Carolina, and Georgia were without banks.

Until the middle of the nineteenth century, most states had no general banking statutes. A bank charter could be obtained only by a special act of the state legislature.

This meant that only persons of considerable wealth and political influence could obtain a charter. Each charter was different and, as in the case of New Jersey's first bank, a number of them provided for the writing of insurance. In New York Aaron Burr and the Republicans were able to get a charter through the state legislature over Federalist opposition led by Hamilton only through a ruse. Burr obtained a charter for the Manhattan Company, a water company, and buried the banking privileges in the fine print. The chartering of the Manhattan Company thus led immediately to the establishment of the Bank of the Manhattan Company. In general the charters were loose and provided little protection for depositors or note holders other than the self-regulation of the management. Often the capital was paid for by the personal notes of the subscribers.

The establishment of the new federal government coincided with the outbreak of the French Revolution, which in turn led to the rise of Napoleon and the almost continuous European wars lasting until 1815. There was thus provided a ready market for the agricultural surplus which the young United States was happy to sell. This situation resulted in a favorable balance of international payments and during the Federalist period caused an influx of specie.

Acting upon another of Hamilton's recommendations, Congress, in 1792 established a mint which began operation in 1794. For various reasons, however, the mint's production did not establish a standard American currency but merely added one more to the many forms of money still circulating.

Banking and Currency under the Republicans—1800-1818

After the election of Jefferson as President, Hamilton was succeeded as Secretary of the Treasury by Robert Gallatin. Gallatin had disagreed in many respects with Hamilton. He had many difficulties in handling the government's finances during the years in which the

Non-Intercourse and Embargo Acts were in force and during the War of 1812, because these disruptions of foreign trade dried up the import duties which were the principal source of revenue for the federal government. While many of the Republicans, including Jefferson, had very little interest in or appreciation for the Bank of the United States, Gallatin himself valued the Bank's achievements, its operations having been generally conservative and profitable. Jefferson did, however, divert many of the federal deposits to state banks and the Republican-controlled Congress refused to recharter the Bank of the United States when it applied in 1808, three years before the charter's expiration date. The first Bank of the United States, therefore, was required to liquidate, and terminated its operations in 1811. Between 1811 and 1815, 120 new state banks were organized. These banks put out note circulation approximately equal to that withdrawn by the liquidation of the Bank of the United States. Unfortunately, a great many of these new state banks were much less solid than the Bank of the United States had been. Moreover, with the outbreak of the War of 1812, the federal government found itself with no central banking institution upon which to rely. The situation was further complicated by the tendency of the many state banks to circulate notes at a discount. Only in New England had a serious effort been made to end the circulation of unsound bank notes. Virtually everywhere state banks suspended specie payment and refused to redeem their note issues when the British capturd Washington in August, 1814. Thus American banking faced its first crisis—largely due to the inadequacy of the controls exercised by the states which had chartered them. By 1811, a favorable balance of trade had raised specie to a level of approximately $30 million. In the ensuing four years, this amount decreased by approximately $13 million, and by 1815 virtually all of the country's specie was in the hands of the banks.*

* William J. Shultz and M. R. Caine, *Financial Development of the United States* (Englewood Cliffs, N.J., 1937), 153.

After the closing of the United States Bank in 1811, state bank note circulation rose by 1815 to $45 million. However, after suspension of specie payment in 1814, most of the state bank notes were circulating at discounts ranging up to 20 per cent. Only federal treasury note issues of 1814 and 1815 had relatively stable values. In general, by the close of the War of 1812, federal and state finances were in poor condition; the banking structure was weak; and the currency was in a state of extreme disorder. Since there was general agreement that the failure to recharter the first Bank of the United States had been a mistake, a second Bank of the United States was chartered. It opened its doors on January 7, 1817, with its main office in Philadelphia; soon thereafter it had 19 branches, none of which was located in New Jersey. In two years of operation under William Jones as president, the bank became involved in all kinds of difficulties, which resulted in an investigation by Congress. Reorganization under the presidency of Langdon Cleeves in the next four years followed, and the bank, next under the direction of Nicholas Biddle, became very profitable.

Meanwhile, there had been a fairly rapid recovery among the state banks and specie redemption was resumed in February, 1817. A major depression hit the country in 1819 and almost all the banks west of the Appalachians, along with many southern banks, failed. By 1820, however, the country was well on its way to a period of sustained prosperity and capital growth with an accompanying increase in the number of state banks and insurance companies.

The second Bank of the United States reached its height of prosperity in 1828. Thereafter, it became embroiled in politics to the point where it also was not rechartered. It terminated its operations as a result of the opposition of Andrew Jackson in February, 1836; its policies under Biddle had meanwhile brought about a nationwide deflation and had helped to precipitate the first major panic, that of 1837.

III

BANKING IN NEW JERSEY 1804-1837

THE CHARTERING OF BANKS in New Jersey roughly paralleled that of the other states except that in New Jersey there were relatively few. Certainly, other states went to extremes in the chartering of banks as New Jersey did not. This may have been owing to the absence of important commercial centers, the inherent conservatism of the New Jersey Legislature, or to the predominance of agriculture in the New Jersey economy.

After the chartering in 1804 of the Newark Bank and Insurance Company and of the Trenton Banking Company, the following banks were chartered in the years indicated:

1807—Bank of New Brunswick
(Now National Bank of New Jersey, New Brunswick)
1812—State Bank of Camden
(Now First Camden National Bank and Trust Company)
State Bank of Elizabeth
(Now National State Bank of Elizabeth)
State Bank of Morris
State Bank of New Brunswick
State Bank of Newark
(Now The National State Bank of Newark, New Jersey)
State Bank of Trenton

1815—Farmers Bank, Mt. Holly
(Now Farmers Trust Company, Mt. Holly)
Paterson Bank
1816—Cumberland Bank, Bridgeton
(Now Cumberland National Bank of Bridgeton)
1818—Sussex Bank, Sussex
(Now Sussex and Merchants National Bank of Newton)
1822—Salem Banking and Steam Co., Salem
(Now The Salem National Bank and Trust Company, Salem)
Commercial Bank of New Jersey, Perth Amboy
Hoboken Banking and Grazing, Hoboken
1823—New Jersey Manufacturers and Banking Co., Hoboken
1824—Weehawk Banking Company, Hackensack
Peoples Bank, Paterson
Monmouth Bank, Freehold
Morris Canal and Banking Company, Morris
New Jersey Protection and Lombard Co., Jersey City
Franklin Bank, Jersey City
1828—Orange Bank, Essex County
Farmers and Mechanics Bank, Rahway
Newark Savings Fund, Newark
1830—Farmers and Mechanics Bank, Middletown Point
(Now The Farmers and Merchants National Bank of Matawan)
Belvidere Bank, Belvidere
1831—Mechanics Bank, Newark
1832—Mechanics Bank, Paterson
Union Bank, Dover
1834—Mechanics and Manufacturers Bank, Trenton
Manufacturers Bank, Belleville
Farmers and Mechanics Bank, New Brunswick
Princeton Bank, Princeton
(Now Princeton Bank and Trust Company, Princeton)
1836—Morris County Bank, Morris County
1837—Bank of New Jersey, Newark
Bergen Point Manufacturers Company, Bergen County
Citizens and Mechanics Bank, Elizabeth
Hamburg Bank, Hamburg
Plainfield Bank, Plainfield
Burlington County Bank, Medford

All together these banks totaled 42. By contrast, the State of Kentucky in three years, between 1815 and 1818, chartered 43 new banks, and the number of banks generally in the United States rose in 1820 from 329 to 788 in 1837. Massachusetts alone chartered 72 new banks in the period from 1830 to 1836. Against the record in other states and in the United States as a whole, New Jersey banking experience must be judged as conservative. New Jersey banks were influenced by the same general economic conditions affecting those in other states and of course reflected the predominantly rural character of the State.

It is not feasible, of course, to discuss in detail the experience of all the banks chartered between 1804 and 1837. However, some insight into their operations and their problems can be gained by highlighting the experiences of a few of them.

New Jersey's commercial development at this time was apparently so retarded that neither the first nor the second Bank of the United States established a branch within the confines of the state. The absence of a branch may also have been caused by the nearness of Jersey's principal population centers to New York and Philadelphia. One important fact concerning New Jersey in this early period, is apt to be overlooked, however: New Jersey had not developed a major city even by the modest definitions of the period. Today we are apt to forget that as late as 1840 many towns which are now the major cities of New Jersey had very small populations—for example, in that year the largest towns in New Jersey were Newark, 17,290; New Brunswick, 8693; Paterson, 7598; Trenton, 6000; Elizabeth, 4184; Jersey City, 4000; Burlington, 3434; Camden, 3366; and the Amboys, 3128.* Population growth in New Jersey was retarded by the continual emigration of its native population to the new states opening up in the West. Several counties in New

* John W. Barber and Henry Howe, *Historical Collections of the State of New Jersey* (New York, 1844).

Jersey experienced a decline in population in the decade from 1830 to 1840. Immigration from abroad had little impact on New Jersey except as a spill-over from the concentration of immigrants in New York and Philadelphia.

Newark Banking and Insurance Company

Between 1795 and 1804 when the Newark Banking and Insurance Company was founded, the population of that town had increased from a thousand to approximately four thousand people. Seven shoe manufacturers provided the basis of Newark industry. In addition there were jewelers, hatters, clockmakers, silversmiths, and sheet-iron workers. The development of Newark had been greatly aided by the construction of bridges over the Passaic and Hackensack rivers in 1794. Although there were four banks in New York, with the rapid development of Newark, it became increasingly inconvenient for the merchants and the growing population to depend upon banks that far away. These same bridges, however, tended to divert Essex County's substantial farm produce from Newark to the much richer market in New York. The Newark banks and other banks of New Jersey were very much a part of the overall economy of the young United States. The Jersey banks in the cities were, however, aided, particularly during the War of 1812, by the enforced development of manufacturing because of the cutoff of English manufactured goods. As elsewhere, however, with the burning of Washington in 1814, New Jersey banks suspended payments in specie. The Newark banks shared in the prosperity resulting from the completion in 1832 of the Morris Canal and the Morris and Essex Railroad and Newark's becoming a port of entry in 1834.

Trenton Banking Company

In December, 1804, when the legislature chartered the Trenton Banking Company as the state's second bank, the population of Trenton was only 2000. The stock of the new bank consisted of $300,000 divided into 6000 shares of $50 each. The original directors chosen by the incorporators were Isaac Smith, Joseph Bloomfield, John Beatty, Joshua Wright, Thomas Newbold, Alexander Chambers, Peter Hunt, Abraham Hunt, Jonathan Rhea, Joseph M. Lawrie, and James H. Imlay. Isaac Smith was elected President. Joseph Bloomfield was Governor of New Jersey, and from the very beginning, the Trenton Banking Company has enjoyed a close relationship with the state government. In 1810, the State subscribed to $20,000 worth of the capital stock of the Bank and in 1813 chose four directors to represent its interests. The Trenton Banking Company early chose as its New York correspondent the Bank of the Manhattan Company. This relationship has been maintained through the years. In 1816, Trenton Banking Company loaned the State of New Jersey $10,000 and it also advanced funds to the City of Trenton with which to pay the town watchmen.

In February, 1833, Trenton Banking Company agreed to lend the State of New Jersey up to $30,000 and the following year made another loan of $20,000 to the State. In June, 1836, the bank was designated as a depository for public funds of the United States Government. In the course of the years, several new banking houses were built—the last one being the building used until the Trenton Banking Company was merged with the First Mechanics National Bank and Trust Company in 1958. This beautiful building was erected in 1919 at the northeast corner of Warren and State Streets. It was demolished in 1961 after the merger. Unlike the Newark Banking and Insurance Company, which became a National Bank in 1865, the Trenton Banking Company continued to operate until its 1958 merger as a state-chartered bank. The list of its officers and directors is a most distinguished one; many of them have also held eminent positions in state and federal governments. Obviously, any bank's success must be related to its Officers' and Boards' honoring the confidential nature of its dealings with its customers. A widespread failure on the part of the banks to observe such a rule would undoubtedly retard the development of banks and promote private lending where, of course, many fewer persons are privy to the transaction.

On this point Sydney G. Stevens, then Chairman of the Trenton Banking Company, made the following observation:

> The Directors of the Bank were clearly aware of the confidential nature of the banking business. In a resolution passed on February 28, 1805, the Directors and Officers considered themselves bound in honor and they severally pledged themselves to each other "not to disclose or discover upon any accounts, or at any time, whatsoever, the opinion or vote of any Director of this Board or any transaction thereof of a confidential nature.*

Beginnings of Banking Competition

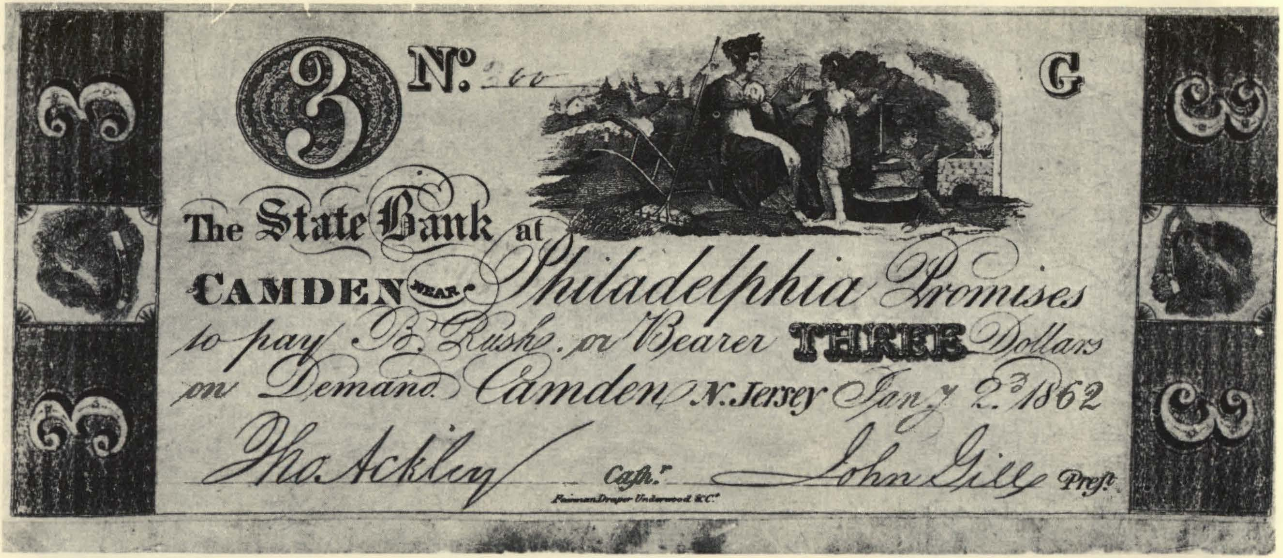
The third bank chartered in New Jersey, in 1807, was the Bank of New Brunswick. This bank is now known as the National Bank of New Jersey. New Jersey passed a law in 1812 chartering state banks in Camden, Elizabeth, Morris, New Brunswick, Newark, and Trenton. Three of these banks terminated operations—Trenton in 1827, Morris in 1848, and New Brunswick in 1873. National charters were taken out by the other three and they are now known as First Camden National Bank and Trust Company, National State Bank of Elizabeth, and the National State Bank of Newark, New Jersey.

The charter creating the state banks had resulted from the fear of the legislature that New Jersey banking

* Sydney G. Stevens, *One of the Nation's Oldest Banking Houses—Trenton Banking Company—1804-1954* (Newcomen Society, 1954).

New Brunswick Bank Note, 1832. This note preserves the oldest known view of the city and the college.

Courtesy of Rutgers University Library



Three-Dollar Note of the State Bank at Camden "near Philadelphia," 1862

Courtesy of First Camden National Bank and Trust Company facilities would be inadequate following the closing of the first Bank of the United States in 1811. Moreover, the chartering of these banks was an effort to make banking facilities more generally available throughout the State. At the time, of course, in those communities where banks had already been established, there was considerable resentment of what was looked upon as state-encouraged competition.

State Bank of Camden

It is interesting to observe with respect to the State Bank at Camden that, on its early notes, after the name of the bank, i.e., State Bank at Camden were printed the words "near Philadelphia." Moreover, within a year the Camden Bank opened a Philadelphia agency. Services there were limited to accepting notes offered for discount. In the general Philadelphia-Camden area there are only two Philadelphia banks that predate the First Camden National Bank and Trust Company. Today this Philadelphia Branch still operates at 223 Market Street. First Camden's Philadelphia office is the only interstate branch of a National Bank east of the Rockies and only one other bank in the nation, the Bank of California, has branches in other states. Present-day federal banking regulations do not interfere with the Philadelphia Branch because it was firmly established long before the National Banking Act. At the time of the establishment of the Camden Bank and its Philadelphia branch, there were only about a thousand people in Camden, many of whom were engaged in business in or near Philadelphia. Thus, the Philadelphia branch, at Second and Market Streets, was in the center of the farmers' markets of the period, markets used extensively by New Jersey farmers as outlets for their produce. Samuel Spackman was employed as the Philadelphia agent of the bank at a salary of $2500 a year, out of which he was required to pay his clerks and other expenses. Today the services of this bank, and of all other banks in New Jersey, are extensive both for businessmen and for individuals, but in 1812 bank services were available only to businessmen. In the case of the Camden Bank, the functions performed by the bank were solely these: to cash checks, to accept deposits, and to discount notes. In the Panic of 1837, several Philadelphia banks failed but the State Bank of Camden weathered this storm.

During this early period loans were made principally for business purposes and security for the loans generally consisted of merchandise, livestock, and real estate. Mortgages on private houses as we know them today were unknown. Banking was a man's world and the business details of banks were closely controlled by officers and directors. With regard to the matter of secrecy, above mentioned, an early edition of the Camden Banks' by-laws stipulated that only the president could inspect individually the account of a customer. Individual accounts were balanced once a year on January 1 or when "the convenience of the Bank or its customers required it." During the first century of its operation, the bank had no safe deposit boxes available or other facilities for safekeeping of clients' valuables. Work at the Camden Bank began at 8:00 A.M., and employees remained well into the evening until their work was finished. Banking hours were from 10:00 A.M. to 3:00 P.M., including Saturdays. Holidays were limited to Christmas and July 4. Before 1920, only the wealthy had individual checking accounts. Personal accounts were almost all restricted to savings. It was common practice also to have separate paying and receiving tellers, whereas today deposits and outgoing cash are handled by the same teller.*

State Bank of Elizabeth

Elizabeth at the time of the founding of its bank had a population of approximately three thousand. It was

* "The First Camden Whig," a pamphlet published by the First Camden National Bank and Trust Company (Camden, February 12, 1959).

important as a transportation center because here the stagecoaches from Washington and Philadelphia met the packet boats which sailed for New York. The Federalist Party was in strong control of state politics at the time, and the few banks that existed were controlled by a few wealthy men. The establishment of the six state banks throughout New Jersey was in part an effort to offset the practical monopoly enjoyed by the three banks established earlier at Newark, New Brunswick, and Trenton. The directors chose Thaddeus Mills as the first bank president. Among the original stockholders was Peter Kean, who became a director of the bank in 1815, beginning one of the most remarkable banking connections of an individual family in the annals of American banking. This family has provided the following presidents: Colonel John Kean, 1873-1889; John Kean, Jr., 1889-1914; Julian H. Kean, 1914-1932; and John Kean III, 1933-1949. The bank's current president, W. Emlen Roosevelt, is also a member of this family.

The Elizabeth Bank from its inception has been another example of New Jersey's seemingly inherent conservatism in banking at a time when, generally, currency was unstable and banking irresponsible. An interesting feature of all the state banks established at this time was that the president and six directors were to be chosen by the Council and General Assembly of New Jersey in joint meeting and that the other six directors were to be elected by the stockholders. Moreover, the voting was arranged so as to prevent dominance by one or a few individuals among the stockholder-elected directors. Of the original depositors in 1812, representatives of some of the same families had accounts on the bank's books 121 years later. These families were: Bonnell, Campbell, Chetwood, Coursen, Crane, Kean, Lum, Meeker, Ogden, Parrot, Sayre, Thomas, Townley, and Woodruff.

The period, 1812-1837, witnessed a great deal of economic development in New Jersey generally and in the immediate area of Elizabeth. Particularly in the area of transportation there were important developments affecting Elizabeth, such as the completion of the all-rail route between Jersey City and Philadelphia, which reached Elizabeth in 1834, connected with the Camden and Amboy in 1839, and was known as the New Jersey Railroad.

President Jackson, whose unremitting fight against the second Bank of the United States had resulted in its demise, retired from office in March, 1837, with a statement, "I leave this great people prosperous and happy." Shortly thereafter, under President Van Buren, the Panic of 1837 ensued. In ten days one hundred merchants in New York City lost everything and business failures within two months in that city exceeded $100 million. Immediately the banks began to fail and their specie disappeared. Factories and mills stopped running; trade came to a standstill; there was widespread unemployment. Many states (not including New Jersey, however) were overextended by reason of borrowing large sums of money in Europe in order to build roads, canals, and railways. This kind of debt had risen in the United States from $13 million in 1830 to nearly $200 million in 1837. Default on bond issues followed for a number of states. The Elizabeth Bank, like most others, did suspend specie payments for approximately a year but continued its dividends throughout this difficult period, including the depression which followed the panic.

State Bank of Newark

Surrounding Newark, particularly in Essex County, were a number of fast-growing communities. There was probable need in the county for a second bank. The State Bank of Newark, now the National State Bank of Newark, New Jersey, opened its doors for business on June 1, 1812. The first president of the new bank was a former captain in the Revolutionary War, William S. Pennington.

Newark in 1812 had been settled for 146 years although it did not incorporate until 1836. It had sandstone quarries, carriage and coach factories, hat shops, lacework houses, cider mills, and a leather business which employed one-third of the 6000 population.

Within weeks of the founding of the Bank, the War of 1812 broke out, and uncertainties and difficulties ensued. Whereas the Camden Bank minimized its exchange problems by the establishment of a Philadelphia branch, the Newark Bank sent horse messengers to New York once or twice a week with out-of-town notes for clearance with its correspondent, the Mechanics Bank of New York. The horse was regularly stabled in the rear of the bank. Local clearances were made by foot messengers, who hurried between banks each morning, beginning, of course, with the only other bank in Newark, the Newark Bank and Insurance Company. The histories of virtually all the banks in New Jersey recount the existence of heavy wooden metal-bound boxes, which served as the first vaults. The Newark State Bank had one of this description.

Like the other early banks, the Newark State Bank almost immediately designed its first currency, which was ordinarily grey or green in color and approximately the size and denomination of federal currency today. The first issue of $84,000 had denominations of $3, $4, $5, $10, $20, $50, and $100. Post notes also were included in the original issue. These were promissory notes made payable to order at a fixed time and were issued as a circulatiing medium among the banks of several states between 1781 and 1863.

The site of the original bank at Broad and Mechanic Streets is the site of the present bank. It is interesting to note that the price paid for what is today certainly one of the most valuable pieces of real estate in Newark was $2800.

Beginning in the first year, a dividend has been paid on the bank's stock every year. The bank made rapid progress and by the end of 1813 paid-in stock had reached $100,000 and a loan had been made to the

State of New Jersey for $8000. The bank's first crisis, which it weathered along with many to follow, came in 1814 when the power of the British Navy justified the fear of a British invasion of Newark. This was reflected in a minute of September, 1814, whereby the cashier had been authorized "to remove to Morris-Town the cash and such other property of the Bank as he may think necessary." Like most of the other New Jersey banks, the Newark Bank was troubled by the counterfeiting of its notes. In April, 1819, the Bank paid Ashbal Green and David Ball $4, and $6, respectively, for helping catch the guilty parties.

Newark in 1836, the time of its incorporation, had a population of almost twenty thousand, including 20 slaves; it had 12 hotels, 18 churches, and a newly established school system for poor children. The 106-mile trans-state Morris Canal had been completed and horse cars on tracks were in operation between Newark and Jersey City over the New Jersey Railroad. Steam locomotives appeared a bit later. The Morris and Essex Railroad, later a part of the Lackawanna, was chartered in 1835. By 1837 the bank's resources had reached $553,001 and the bank was doing business with correspondent institutions as far away as Savannah and Natchez.

Other Early New Jersey Banks

After the founding of the six state banks, no more were chartered in New Jersey for three years. Beginning with the year 1815, there was a great expansion in the number of state-chartered banks.

The Salem Banking and Steam Mill Company at Salem, New Jersey, was chartered in November, 1822. This bank is now the prosperous Salem National Bank and Trust Company. The dual purpose of the institution was banking and the erection of a steam flour mill in Salem to accommodate neighboring farmers. Its capital was $75,000, of which $25,000 was to be deposited to the steam mill and the surplus to be used in banking. The

Morris Canal Five-Dollar Note, 1835. The note shows a portrait of the Company's first president, Cadwallader D. Colden, and a boat on one of the Canal's inclined planes.
Courtesy of the American Numismatic Society

bank was built during the next year at 61 Market Street. William Jeffers was elected president and William Mulford cashier. The combination of manufacturing and banking in a single business proved both unprofitable and embarrassing so the charter was amended in 1825, naming the company "The Salem Banking Company" and giving the firm one year to dispose of the steam mill. Many of the names of the original Board of Directors were the same as those of the original Quaker families which settled Salem in the latter part of the seventeenth century. The original directors were: Samuel Clement, Richard Craven, Daniel Garrison, Benjamin Griscom, Morris Hancock, William M. Jeffers, Joseph Kelly, William Mulford, James Newell, Jonathan Richman, Jeremiah Stull, John Tuft, and Daniel Vanneman. The year in which the bank was founded, 1822, was the same year in which plans were laid for a steamboat line directly between Salem and Philadelphia. Prior to that time in order to get to Philadelphia from Salem it had been necessary to take the stage to Cranin's Ferry; thence to go by horseboat, sailboat, or rowboat to New Castle, Delaware, and thence to go by steamboat to Philadelphia. The only other alternative up to that time had been to take the mail stage which ran north overland on the Jersey side and to cross the Delaware River by ferry below Philadelphia—an opportunity available only three days a week.

The oldest bank still existing in Monmouth County is the Farmers and Mechanics Bank, Middletown Point, founded in 1830. This bank is now the Farmers and Merchants National Bank of Matawan. (An earlier bank, the Monmouth Bank at Freehold did not survive. It lacked public confidence, perhaps because it kept its cash and valuables in the county jail overnight.) After the charter for the bank at Middletown Point was passed with difficulty in 1830, more than a year was necessary to get the subscribers for the $50,000 of capital stock.

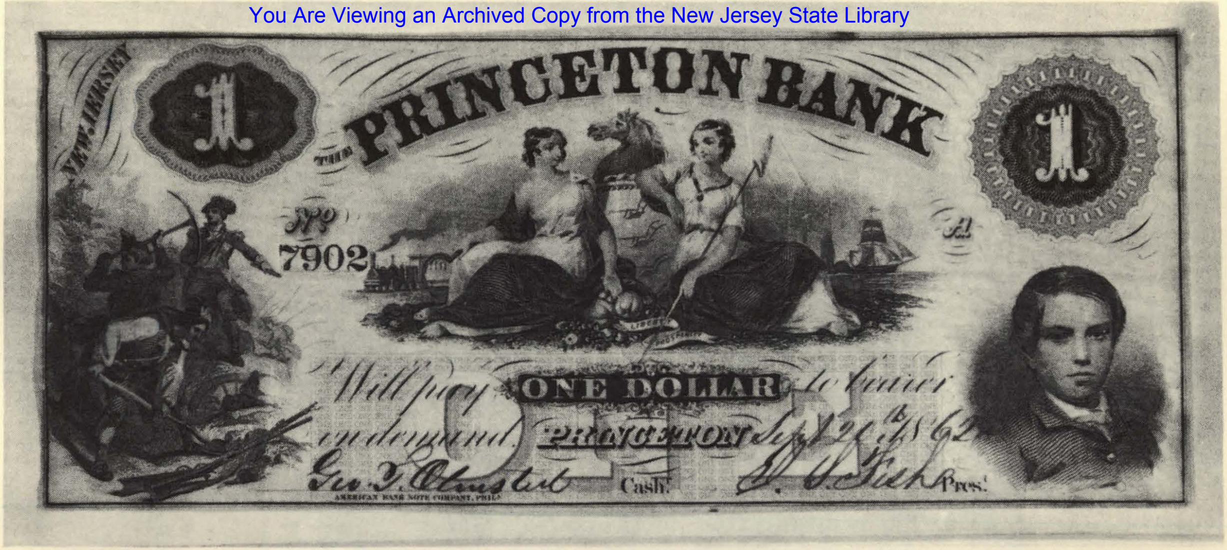
The Farmers and Mechanics Bank was very helpful in the marketing of farmers' goods from Monmouth County which had to be transported to the New York market. After the founding of the bank it was possible for farmers to bring their produce overland to Middletown Point, now Matawan, whence it was taken to New York by a sailing sloop. Before the bank had been established, goods were often sold by barter usually to the disadvantage of Jersey farmers who, having brought their produce all the way to New York, took whatever they could get in trade rather than have to transport it back again. In good times they could get money and bank notes of one sort or another. In very good times they could get specie which had a more predictable value than the bank notes. In either case, but particularly if they were carrying gold or silver, the farmers who had sold their produce were subject to robbery on the way back, owing to the isolated rural areas through which they traveled. As business grew, the exchange problem required a better solution than having the nearest bank a three-day trip by water. This was particularly true as some industry began to develop in the Matawan area.

DeLafayette Schenck, a farmer, and William Little, a merchant, were the leaders in obtaining the bank's charter. After the founding of the bank, the farmers and merchants had a much easier time in their commercial relations with New York. The earlier Monmouth Bank at Freehold suspended operations in 1836 and there was a heavy drain on deposits at the Farmers and Mechanics Bank in Matawan. However, this crisis, and many others to come, was passed by the bank. This bank was one of two banks in New Jersey which did not suspend specie payment during the Panic of 1837. In 1836 the bank was instrumental, by extension of credit, in keeping in operation the steamer *Monmouth* which reduced the travel time between Matawan and New York to one day from three or four days taken by sailing vessels. The President of the bank, DeLafayette Schenck, was forced personally to bid the *Monmouth* in at sheriff's sale in order to save the bank's loan in 1839. The steamboat was sold the next year and the bank's loss was negligible.

The Fountain Horner steamboat enterprise shortly thereafter became very successful because of its ready access either from Perth Amboy or Middletown Point to the newly built Camden and Amboy Railroad. Other efforts in Monmouth County to maintain established banks were unsuccessful because these banks all became involved in speculative business activities.

Only in 1856 with the opening of Freehold Banking Company did the Farmers and Mechanics Bank have serious competition in the county. Later, many other banks were established, particularly by the various members of the Terhune family who were trained at Farmers and Mechanics Bank. The pre-eminent position of the Farmers and Mechanics Bank declined relatively later, with the establishment of other banks and the tendency of such cities as Asbury Park, Long Branch, Red Bank, Freehold, and Keyport to outstrip Matawan in population growth.

Princeton, which had been since 1756 the site of the College of New Jersey (now Princeton University), and of the Theological Seminary, established in 1812, had its first bank established by a charter granted in 1834. The bank was known as Princeton Bank and is now the Princeton Bank and Trust Company. Princeton had long been on the stagecoach route between Philadelphia and New York and for some years since the completion of the Camden and Amboy Railroad had been connected with Philadelphia and New York by the stagecoach from Hightstown, the nearest station on that railroad. At about the same time that the Princeton Bank was founded, however, the Delaware and Raritan Canal on the edge of town was completed and a railroad was built along the canal bank, thus giving Princeton access by water and land directly to the major cities. The "basin" at the foot of present-day Alexander Street boasted a railroad station and a thriving business center along with a stopover point for the canal barges and the mules which pulled them. The original directors of the Princeton Bank, described by John F. Hageman as the most



Dollar Note of the Princeton Bank, 1862
Courtesy of Princeton Bank and Trust Company

Interior of the Princeton Bank
Courtesy of Princeton Bank and Trust Company

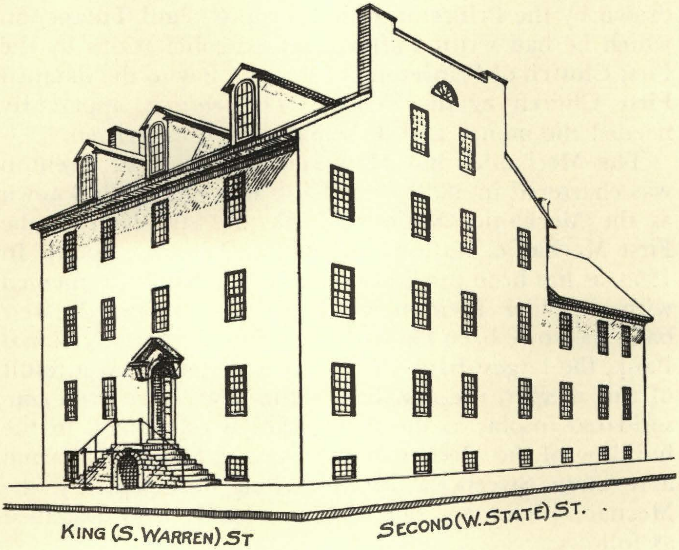
enterprising and solid men of the community, were the following: Robert Voorhees, Samuel Bayard, Robert Bayles, William Cruser, John Gulick, John S. Vandike, Thomas White, Abraham Cruser, William Gulick, Charles Steadman, Emley Olden, Richard S. Field, and Robert F. Stockton.

The bank was located at 2 Nassau Street within a few feet of its present building. Like the other early banks the Princeton Bank invested in an iron chest, later replaced by a modern fire and burglar-proof vault. This bank has long held an important position in the community and was, until 1896 when the First National Bank of Princeton was founded, the only bank in the town. Many of its directors and officers have had financial interests of an important nature beyond the immediate environs of Princeton. An interesting anecdote concerning this bank is reported by John F. Hageman. The bank for many years had the framed original of a check drawn by the Princeton philanthropist, Paul Tulane, on which he had written after repeated solicitations by the First Church of Princeton as follows: "Pay to the damned First Church again—$5,000." The church apparently needed the money and duly endorsed it as written.

The Mechanics and Manufacturers Bank in Trenton was chartered in 1834. This bank was eventually known as the Mechanics National Bank and still later as the First Mechanics National Bank and Trust Company. In 1958, as has been previously noted, this bank was merged with the older Trenton Banking Company and the new bank has since been known as the First Trenton National Bank, the largest bank in central New Jersey. As a result of this merger, the new bank's functions have been consolidated insofar as the main office is concerned, in the building of the Mechanics Bank at the corner of Warren and State Streets, a location long occupied by the Mechanics Bank and one which Carlos Godfrey described as follows:

> There is no landmark in historic Trenton which stands forth so pre-eminently as that now occupied by the Mechanics Bank. The combination of events occurring upon it are as conspicuous as they were extraordinary and rare. On the site resided one or more of our Colonial Governors. The Seventh

Capitol of the United States was located in the Old Tavern, where the Continental Congress deliberated, and where the New Jersey Legislature frequently met during and after the Revolution. Here Lafayette took his farewell of Congress, and here years after, he was entertained by his illustrious comrades in arms of the Society of the Cincinnati. The first American flag definitely known to have been hoisted in Trenton was unfurled to the breezes from the French Arms [Tavern] on May 24th, 1782. In the Tavern the National Constitution was ratified by the Convention of the State of New Jersey. And here also Washington was dined and here he held a public reception when enroute to New York to be inaugurated President of the United States.*



Historic Site of the First Trenton National Bank
Courtesy of First Trenton National Bank

* Carlos E. Godfrey, *Mechanics Bank 1834-1919* (Trenton, 1919), 41.

IV

BANKING IN NEW JERSEY 1837-1860

LIKE MOST ASPECTS of New Jersey history, the development of banking was closely related to the economic and poltical development occurring in other states and in the United States as a whole.

GENERAL FINANCIAL TRENDS PRIOR TO THE CIVIL WAR

In the period before the Civil War, particularly after 1829, there were a number of factors which encouraged the chartering of banks everywhere in the United States. The first was a need for institutions which could gather up the growing capital resources of the nation. Second, there was a general shortage of credit for agricultural purposes. Third, there was a continuous demand for cheap paper money which had not been met by the national currency structure. Finally, there was a fear of a too highly centralized control over the monetary system, particularly where such control might be used for deflationary purposes—an example of this having been the effort of Nicholas Biddle, as President of the second Bank of the United States, to frighten the people by a contraction of credit in 1833.

Between 1829 and 1837 there had been an increase nationally in the number of state banks from 329 to 788. Banking capital rose from $110 to $290 million; circulation of notes from $48 million to $149 million, loans and discounts rose in the same period from $137 million to $525 million. This period was generally one of easy credit and loose banking, the banks in many instances having been drawn into purely speculative loans. In New Jersey where the increase in banks and the quality of the banks even in this speculative period had been conservative, there was very little anti-bank feeling. In the South and West, however, there was widespread distrust of the banking community. The depression following the Panic of 1837 lasted through 1842. It witnessed hundreds of bank and business failures. Prices fell sharply, property values declined, and there was considerable unemployment and unrest. Eight states and one territorial government failed to make their interest payments on their obligations. In 1840 Congress saw fit to set up an independent treasury system in order to prevent tax collections from being involved in the failure of "pet" state banks where they had previously been deposited.

A Congressional Bankruptcy Act, passed in 1841, resulted in the cancellation of over $450 million of debts held by one million creditors, and a great many state legislative acts of a reform nature were passed. Many states amended their constitutions to prevent the use of state credit for internal improvements or the support of commercial banks. The Constitution of the State of New Jersey of 1844 contained a clause requiring referenda whenever the State sought to borrow money by the issuance of bonds, a principle continued in the new Constitution of 1946.

There was a period of general recovery in the late 1840's and beginning with 1850 there was rapid economic expansion. Railroad construction boomed, foreign trade reached new heights, and there was, of course, an accompanying expansion of banking. There was also a heavy influx of foreign investments made in state securities, railroad stocks, and bonds. This boom, which again resulted in overinvestment and speculation, particularly in Western railroads, ended in the Panic of 1857. To the country generally, the depression brought a sharp decline in commodity and stock prices. The failure of over thirteen thousand firms reduced wages and increased unemployment. The banks again had to suspend specie payments. Recovery from this crisis awaited the outbreak of the Civil War. Between 1789 and 1859 there had been a modest increase in the per-capita real income, together with a slight increase in the percentage of national income derived from manufacturing and a decline in the percentage derived from agriculture. In finance, the dominance of the merchant or trader had been gradually superseded by that of the manufacturing entrepreneur.

Establishment of Savings Banks

An additional feature of the banking system has been the development of savings banks. A Scotch minister, the Reverend Henry Duncan, founded the first savings bank, known as the Ruthwell Savings Bank, in Dumfrieshire, Scotland, in 1810. The first such bank in the United States was the Provident Institution for Savings in the town of Boston, chartered by Massachusetts in 1816. The concept of a savings bank differs from that of an ordinary commercial bank in that the savings bank is by law forbidden to make investments or loans of a speculative type—for example, a savings bank may not make commercial loans. Its investments are generally of a conservative nature. Moreover, the profits made by the bank are distributed, not to shareholders, but to the depositors. This type of bank is a mutual savings bank, defined by the Supreme Court of the United States as "an institution in the hands of disinterested persons, the profit of which, after deducting the necessary expenses of conducting the business, inure wholly to the benefit of the depositors, in the dividends, or in a reserve surplus for their greater security." The savings bank is really owned by the depositors and there are no stockholders.

The two earliest savings banks incorporated by the New Jersey Legislature which are still in existence are the Provident Institution for Savings in Jersey City, incorporated in 1839, and the Trenton Savings Fund Society, incorporated in 1844. Another venerable bank is the New Brunswick Savings Institution, founded in 1851. The largest savings bank in New Jersey is the Howard Savings Institution, founded in Newark in 1857. It has long enjoyed the services of a distinguished board of managers and eminent presidents, including Frederick Frelinghuysen and three members of the Vanderpool family: Beach Vanderpool, 1857-1884; Eugene Vanderpool, 1902-1903; and Wynant D. Vanderpool, 1924-1944.

The savings banks in New Jersey established over a century ago are:

1828—Newark Savings Fund Association
1838—Provident Institution for Savings (Jersey City)
1844—Trenton Savings Fund Society
1847—Newark Savings Institution
1848—Paterson Savings
1850—Elizabethtown Savings (Elizabeth)
1851—Rahway Savings Bank
1851—New Brunswick Savings Institution
1854—Orange Savings
1855—Bordertown Savings Institution
1855—Gloucester Savings Fund and Building Association
1857—Hoboken Savings
1857—Howard Savings of Newark
1857—Burlington Savings Institution
1861—Morristown Savings Institution
1863—Fifth Ward Savings, Jersey City

Establishment of Other Banks in Period

As New Jersey slowly recovered from the Panic of 1837, new banks were founded. Up to 1850 all banks in the State were chartered by special acts of the Legislature; after 1850 it was possible to start a bank by compliance with a statute which came to be known as the

General Banking Act. While it was probably intended that the General Banking Act would be the basis for the establishment of all future banks, the New Jersey Legislature continued specifically to charter new banks and to renew the charters of the older banks. Many banks were started under the new General Banking Act, too frequently, however, by speculators. In 1852, as a result of Governor George Fort's observation that "details of the General Banking Act are vague, unsatisfactory, and open a wide field of abuse," drastic amendments were adopted by the legislature. A board of bank commissioners was established, to consist of the governor, the secretary of state, and the attorney general.

It was given fairly broad powers of examination and reported derelictions to the Chancellor, who was in turn authorized to close any bank that fell below the legal requirements. It must be noted that the commissioners were empowered to examine the banks incorporated under special charters. The law provided additional regulations governing the control of original issue and of final return and destruction of the circulating notes. There was a significant provision to the effect that no association incorporated under the general banking law was to be designated by the name of any other bank, and the name and location of the bank was to be printed in "large legible letters" upon the notes at issue.

An effort was also made to check more carefully real estate loans. The Governor was to appoint three commissioners in each county to check up on appraisals, etc. Other provisions put suggestive emphasis on certain additional aspects of control. No association was to be formed and no existing associations were to retain authority to continue the banking business unless a majority of the shares were held by actual residents of the State. Another section of the law provided that all banks incorporated under the general act or under special charter and issuing notes were to appoint agents for the redemption of their notes at par in designated centers. Banks in East Jersey generally had to appoint such agents in Jersey City or in Newark while those in West Jersey utilized Camden or Trenton. No redemption agent was required if banks redeemed their notes either in

Philadelphia or New York. There were special provisions governing the selection and the functioning of the agents and it was finally stipulated that any bank whose agent refused on demand to redeem its notes at par from ten to three o'clock on every day except Sunday must pay to the person making demand for redemeption interest at the rate of 20 per cent per annum for the period of refusal.*

In the four years following the passage of the General Banking Act of 1851, 25 banks had been established; 11 continued to operate, 11 were in the process of liquidation, and 3 had been stopped by injunction. Because banking operations under this Act were somewhat less profitable than under special charter, there was no great desire to operate under it. Moreover, the legislature inconsistently continued the direct chartering and rechartering of state banks. The most significant result of the General Banking Act was that it led to some regulation and supervision by the State beyond the ordinary requirements contained in the individual bank charters.

* Eugene E. Agger, "Banking in New Jersey," in Irving S. Kull (ed.), *New Jersey—A History* (5 vols.; New York, 1930), IV, 1227.

V

GENERAL BANKING EVOLUTION 1860 TO THE PRESENT

THE PERIOD from the Civil War to date has witnessed an ever-increasing involvement of individual state banking in the national economy—and in national money and banking developments in particular. It is, therefore, necessary to describe briefly these broader developments in order to see New Jersey banking in proper perspective.

MONETARY PROBLEMS—1860-1900

During the Civil War, the Union issued United States notes or "greenbacks" amounting to nearly $450 million. This was legal tender, paper money, unbacked by gold or silver, which fluctuated in value during the war. It was intended at the time of issue that these greenbacks should ultimately be retired and some actually were retired during the years 1866 to 1868. Thereafter, the matter of retirement of the greenbacks became a controversial issue between the inflationists, who urged that they not be retired and that the issue should be expanded, and the deflationists, who sought to retire them. When the Civil War ended, the economy of the North had grown enormously under the stimulus of the War and the people of the Confederate states re-entered the Union without any money supply at all, confederate money having become worthless. It should have been obvious under these circumstances that even with the greenback issue the money supply was quite inadequate. The money supply became even more inadequate as the economy of the nation continued to expand with rising industrial capitalism accompanied by the growth of heavy industry, the expansion of the railroad system, etc. It is therefore not surprising that from 1870 to approximately 1898, with the outbreak of the Spanish American War and the discovery of gold in South Africa and in the Klondike, there should have been a long sustained period of declining prices. This period was of course a very prosperous one for the creditor class and for those who had money. It was a very harsh period for those who were debtors and were without money. The debtor class found itself under continual pressure since it had to pay off debts with dollars ever more valuable than the dollars that originally had been borrowed.

The protests were many, but during this period the conservative, hard-money Republicans were in power most of the time, and the only Democratic president elected during the period, Grover Cleveland, was an Eastern lawyer and a "sound-money" man. A Greenback Party nominated Horace Greeley for president, but he was not elected and later William Jennings Bryan for all his brilliant oratory was not elected as a Democrat running on a free-silver issue. Apart from the Act of 1871 which made greenbacks legal tender, some progress made by the debtor class was its success in preventing the retirement of $346 million worth of greenbacks by the passage of the Bland-Allison Act in 1878. Even this modest victory was largely offset by the Specie Resumption Act which backed up the greenbacks with gold and silver. The Bland-Allison Act also gave the inflationists a partial victory when it was passed over Rutherford B. Hayes' veto. It required the government to purchase and coin during a twelve-year period $378 million in silver. Moreover, the Sherman Silver Purchase Act of 1890 required the Treasury to buy 4.5 million ounces of silver monthly and to issue in payment legal tender Treasury notes. This roughly doubled the amount of silver purchased under the Bland-Allison Act. In three years the government purchased $156 million worth of silver. In Grover Cleveland's second administration the Sherman Act was repealed because the gold supply was being endangered.

William Jennings Bryan was defeated in the election of 1896 by William McKinley, Bryan having advocated the free coinage of silver at a 16-to-1 ratio to gold. Any effort to restore the bi-metallic standard with its inherent problem of unrealistic ratios was abandoned with the adoption of the gold standard in 1900 which required the Treasury to keep other forms of currency on a parity with gold and established a gold reserve of $150 million. The increased availability of gold because of the aforementioned discoveries about this time ended the deflationary monetary situation but did not cure the weaknesses of the banking system.

The National Banking and Federal Reserve Systems

Although there were obvious weaknesses in the American banking system, dramatically illustrated in the panics of 1837 and 1857, Southern opposition to the creation of a third Bank of the United States or a national banking system prevented any reform by federal action until after the outbreak of the Civil War and the removal by secession of the Southern States and of Southern Congressmen. The way was thus opened for the passage of the National Banking Acts of 1863 and 1864 creating a national system to replace or supplement the chaotic local banking systems, to provide a paper currency, and to help finance the Union war effort.

As we have seen, New Jersey took preliminary steps of a not-too effective nature in 1852 to give some supervisory responsibility for its state banks to a banking commission. The regulations in New Jersey were scarcely adequate but, nevertheless, they were far advanced over controls in most other states outside of New England.

The National Banking Acts permitted the Comptroller after due investigation and approval to issue charters from the federal government provided that the banks applying conformed with capitalization requirements related to the size of the community in which located. In communities under 6000 persons, the *minimum* capitalization was $50,000; in larger communities the minimum was $100,000. The charters were originally issued for twenty years; later they had no time limit. All national banks were required to purchase United States Bonds. Shareholders were liable for additional assessment equal to the par value of their stock. This is the famous double liability clause which proved so disastrous to many stockholders in national banks in 1933. Federal bonds were deposited as backing for notes issued and reserve requirements were established to protect depositors. The National Banking System provided the country with a nation-wide banking structure and an effort was made to force state banks to join the system by imposing a 10 per cent tax on state bank notes. Initially, in the nation generally, most of the state banks joined the national banking system—the number of state banks having declined from 1562 in 1860 to 247 in 1868. Thereafter, the number of state banks began to rise so that by 1900 they outnumbered the national banks.

The tax on state bank notes was designed to force state banks to join the national system, because most loans up to that time had been made by the issuance of bank notes. The development of checkbook money and the granting of loans by crediting an account against which checks could be written rather than by note issue made state bank survival possible.

The inadequacy of the National Banking System was clearly revealed by the Panic of 1907. The major criticisms of the national banks were their inflexibility and inelasticity. In general, there was more concern for the safety of the bank notes than there was for the safety of deposits. The bank notes could be issued only to the extent of 90 per cent of the value of the federal bonds deposited with the Comptroller. Thus, note issue was more closely related to the condition of the government bond market than it was to the needs of business. Moreover, the bank notes lacked seasonal elasticity necessary to deal with currency requirements in the fall and at Christmastime. The volume of bank notes tended to remain stable throughout the year. The inelasticity of the national bank notes was particularly evident during banking crises since there was no authorization for emergency issue. Beyond the question of inelasticity of note issue, there were serious defects also in the reserve requirements and in the location of reserves. Reserves had to be maintained against bonds, notes, and deposits; 25 per cent in central reserve and reserve cities; 15 per cent in country banks. In the case of country banks and reserve city banks two-fifths of reserves and one-half of reserves, respectively, were kept as cash in vault and the balance with reserve city or central city banks. Thus, in the Panic of 1907, the country banks and the reserve city banks had difficulty in withdrawing their deposits because of the double pressure on the reserve city banks and the central reserve city banks from the general cash withdrawals by the public and the efforts of the country banks to withdraw that percentage of reserves on deposit in the cities.

The inelasticity of national bank notes and the defective bank reserve requirement should have been evident in the panics of 1873, 1884, and 1893. After the Panic of 1907, beginning in October of that year, there could no longer be any doubt of the weaknesses of the system. A total collapse in the banking system at that time was narrowly avoided by concerted action in the New York banking community, informally led by J. P. Morgan, and the concurrent deposit of large sums of money there by the federal Treasury.

Following the Panic of 1907 a number of studies were made but it was not until after the election of Woodrow Wilson that the Congress created the Federal Reserve System by the Federal Reserve Act of 1913, whereby the country was divided into 12 economic districts and a Federal Reserve Bank was established in the chief financial center of each district. As in the case of the first and second Banks of the United States no Federal Reserve Bank was located in a New Jersey city and the State was in fact divided between two Federal Reserve districts, one with its headquarters in New York and the other with its headquarters in Philadelphia. Under the system national banks were required, and other banks encouraged, to join the Federal Reserve System by subscribing 6 per cent of the capital stock and surplus to the district Federal Reserve Bank. A Federal Advisory Council determined policy matters and each Federal Reserve Bank had a board of nine directors, six of them selected by member banks and the others appointed by the Federal Reserve Board of Governors, which in turn consisted of eight members including the Secretary of the Treasury and the Comptroller of the Currency and was the governing body of the system.

Although during the period after 1865 there was great growth in manufacturing as compared with agriculture and although the standard of living had increased substantially, there were violent fluctuations which dramatized our apparent inability as a nation to develop a stable monetary system and an adequate banking system which could permit the economy to take financial crises in stride. For example, the Panic of 1873 was touched off by the failure of Jay Cooke & Company in Philadelphia and the Panic of 1893 was largely the result of businessmen's fears that the victorious Democrats would lower the tariff and adopt the silver standard. Again, as above indicated, the Panic of 1907 was a response by the economy to overconcentration of bank reserves in New York and their speculative use. From these illustrations, it should be clear that the economy as a whole and the state of business in general was overly and adversely influenced by monetary and banking problems.

Whereas in the pre-Civil War period there were many bank failures in New Jersey which reflected speculative involvement in local situations, in the post-Civil War period virtually all the banking crises and the failures in New Jersey were a reflection of nation-wide conditions and cannot easily be dissociated from them. From 1865 until today we have had in the United States a dual banking system, with state banks continuing to operate under state bank statutes and a national banking system regulated by the Comptroller of the Currency. Today almost all banks are members of the Federal Reserve System and members of the Federal Deposit Insurance Corporation—created after the banking crisis of 1933.

It was hoped, with the passage of the Federal Reserve Act in 1913, that the United States had perhaps put an end to the recurrent crises in its banking and economic structure. Certainly the Federal Reserve System was an improvement and it aided the country greatly in financing World War I. In 1921, however, our banks were put under pressure by a severe price collapse. Moreover, all during the prosperous period of the 1920's there were straws in the wind indicating the storm to follow. There were numerous failures of rural banks which had become involved in farm mortgages in the midwest. Their difficulties were a reflection of the declining land values and the generally depressed state of agriculture after the European nations returned to full production after 1918.

The causes for the Great Depression, dramatically ushered in by the stock market crash in October, 1929, are too many and too complex to explore here. The efforts of the Hoover Administration to deal with the many problems that resulted were generally inadequate, and Franklin D. Roosevelt was inaugurated as President in March, 1933, at a time when the nation was facing economic collapse. Almost the first object of his attention were the banks, which were in grave difficulties due to the collapse of prices and of real estate values, runs of depositors, heavy withdrawals of deposits, rumor, etc. An Emergency Banking Act provided for the inspection of banks and the reopening of sound banks under license after declaration of a banking holiday during which all banks in the country were closed. Authority was granted also for extending Reconstruction Finance Corporation loans to banks needing them.

Commodity prices in the prosperous 1920's had not been high. Security prices and prices of certain types of real estate had, however, reached unheard of highs and when they collapsed commodity prices in general declined and reached a low in 1933. The price of wheat, for example, sold at a price comparable to that in Elizabethan England. Policies of the New Deal with respect to money, credit, and banking were all directed toward stopping the declining price spiral and restoring confidence in the economy in order to reduce the widespread unemployment prevailing.

In April, 1933, the gold standard was abandoned; hoarding of gold and gold certificates was prohibited; and the gold clauses in all contracts and bonds were abrogated. Silver was purchased in large quantities and gold content of the dollar was reduced by 40.94 per cent, thereby at the same time increasing the value dollar-wise of the gold reserves of the banks. The Glass-Steagall Act, passed in June, 1933, gave the Federal Reserve Banks the power to restrict speculative expansion of credit by member banks and to remove them from investment banking activities.

The Federal Deposit Insurance Corporation was set up, guaranteeing deposits up to $2500, later raised to $5000, and still later to $10,000. Powers of the Federal Reserve Board were increased, permitting it to vary its reserve requirements within limits and an Open Market Committee was created to help control credit policy of the member banks. Many other acts were passed generally directed toward reform and recovery. With this system the United States entered and financed World War II.

The post-World War II period has been concerned with control of a long-sustained price rise and inflation which have been partly the result of widespread sale of government bonds to the banks instead of to individuals and institutions which could pay for them with savings. In general, in the postwar period, the banks have prospered. As gross national product and national income have risen so have the resources of the banks. Although to some degree the banks have been squeezed between rising costs of operation associated with inflation and relatively low and fixed interest rates they have operated profitably. Moreover, the postwar period provides evidence that the financial community and the economy of the country as a whole are much less easily thrown off their courses by events which in past periods might well have precipitated panic and depression. For example in the period, 1962-1963, neither the sharp decline of the stock market in which $100 billion worth of paper wealth disappeared nor the assassination of President John F. Kennedy has more than temporarily interrupted the generally prosperous trend.

VI

NEW JERSEY BANKING SYSTEM 1860-1913

BANKING RESOURCES GROW with the commercial and industrial wealth of the community. Banks do not of themselves create wealth but they facilitate the growth of wealth by providing adequate exchange and credit facilities. Thus, as the number of banks in New Jersey grew from 49 with resources of approximately $28 million in 1860 to 323 with resources of over $500 million in 1910, there had to be a related growth in the New Jersey economy. This is reflected in at least two statistics —the growth of manufacturing from about $90 million in 1860 to over $425 million in 1910; railroad mileage in the same period increased from 560 to 2256.

The 49 banks existing in 1860 were, of course, all state banks. After the passage of the National Banking Act, there was a widespread movement on the part of New Jersey banks to drop their state charters and become national banks. This was partly owing to the 10 per cent tax levied on state bank note issues. So great was the interest in becoming part of the national system that by the end of 1870 there were only five state banks left. There was some slight growth in the number of state banks, but most new banking institutions in New Jersey thereafter were trust companies. Eugene E. Agger describes the advent of trust companies in this state as follows:

The trust company known in New Jersey may be said to have definitely begun with the Act of April 20, 1885, which was the first act to provide a plan of organization for "safe deposit and trust companies." Thereafter down to the close of the period under review there were only two years (1894 and 1898) in which no new trust companies were organized. The banner year was 1902, when 31 new companies were organized—although not all of them succeeded in getting the necessary certificate of authority from the Commissioner of Banking and Insurance. Thirteen companies had been organized and actually started by the end of 1890. This number had grown to 19 by 1895, to 29 by 1900, to 63 by 1905, and to 85 by 1910. At the end of 1890 the total resources of the trust companies equaled $6,575,190; by 1910 total resources had grown to 226 millions. In 1890 trust company deposits had not reached 5 millions; by 1910 their demand deposits (exclusive of bank balances) were almost 87 millions, while their time deposits were well over 83 millions. In other words, by the end of the period under review the national banks and the trust companies dominated New Jersey banking.*

Legislation was subsequently passed permitting national banks to convert back to state banks and there was some trend in this direction. However by 1910 there were only 19 state banks in existence in New Jersey.

While the trust company was unique at the time of its inception, its uniqueness has been altered through the years by the granting to national and state banks of powers originally limited to trust companies. Moreover, the trust companies in 1888 which operated in communities lacking other banking facilities were granted banking powers. Today most national banks, for example, have trust powers. An understanding of a trust company requires a definition. A trust company is a corporation, created by a sovereign state and empowered thereby to perform specified fiduciary services which

* Eugene E. Agger, "Banking in New Jersey," in Irving S. Kull (ed.), *New Jersey—A History* (5 vols.; New York, 1930), IV, 1239, 1240.

would be lawful for a natural person to perform. Thus, a trust company is often referred to as a corporate fiduciary. Since a trust company is a corporate fiduciary, it is perhaps appropriate to spell out the fiduciary powers specified in the New Jersey Trust Company Law:

(1) To act as the fiscal or transfer agent of any state, municipality, body politic or corporation and in such capacity to receive and disburse money;

(2) To transfer, register and countersign certificates of stock, bonds or other evidences of indebtedness, and to act as agent of any corporation, foreign or domestic, for any purpose now or hereafter required by statute or otherwise;

(3) To receive deposits of trust moneys, securities and other personal property from any person or corporation, and to loan money on real or personal securities;

(4) To lease, hold, purchase and convey any and all real property necessary for or convenient in the transaction of its business, or which the purposes of the corporation may require, or which it shall acquire in satisfaction or partial satisfaction of debts due the corporation under sales, judgments or mortgages, or in settlement or partial settlement of debts due the corporation by any of its debtors;

(5) To act as trustee under any mortgage or bond issued by any municipality, body politic or corporation, and to accept and execute any other municipal or corporate trust not inconsistent with the laws of this state;

(6) To accept trusts from and execute trusts for married women, in respect to their separate property, and to be their agent in the management of such property, or to transact any business in relation thereto;

(7) To act, under the order or appointment of any court of record, as guardian, receiver or trustee of the estate of any minor, and as depository of any moneys paid into court, whether for the benefit of any such minor or other person, corporation or party;

(8) To take, accept and execute any and all such legal trusts, duties and powers in regard to the holding, management and disposition of any estate, real or personal, and the rents and profits thereof, or the sale thereof, as may be granted or confided to it by any court of record, or by any person, corporation, municipal or other authority, and it shall be accountable to all parties in interest for the faithful discharge of every such trust, duty or power which it may so accept;

(9) To take, accept and execute any and all such trusts and powers of whatever nature or description as may be conferred upon or intrusted or committed to it by any person or persons, or any body politic, corporation or other authority, by grant, assignment, transfer, devise, bequest or otherwise, or which may be intrusted or committed or transferred to it or vested in it by order of any court of record, or any surrogate, and to receive and take and hold any property or estate, real or personal, which may be the subject of any such trust;

(11) To be appointed and to accept the appointment of assignee or trustee, under any assignment for the benefit of creditors of any debtor, made pursuant to any statute or otherwise;

(12) To act under the order or appointment of the court of chancery or otherwise as receiver or trustee of the estate or property of any person, firm, association or corporation;

(13) To be appointed and to accept the appointment of executor of or trustee under the last will and testament or administrator with or without the will annexed, of the estate of any deceased person, and to be appointed and to act as the committee of the estates of lunatics, idiots, persons of unsound mind and habitual drunkards;

(15) To collect coupons on, or interest upon all manner of securities when authorized so to do by the parties depositing the same;

(16) To receive and manage any sinking fund of any corporation, upon such terms as may be agreed upon between said corporation and those dealing with it;

(17) Generally to execute trusts of every description not inconsistent with the laws of this state or of the United States.

Obviously the exercise of these powers greatly extends the simple concept of banking involved in most of the early charters of New Jersey banks. Further, these powers provide a source for substantial revenues to trust companies as the wealth of the state and of its individual citizens grows. The Trenton Trust Company is a good example of dynamic growth of this type of institution. In recent years, its Chairman and President has been Mrs. Mary A. Roebling, New Jersey's outstanding woman banker.

The Legislature of New Jersey, often under the prodding of alert governors, became increasingly aware of the importance of a sound banking system to the development of the economy. A landmark in New Jersey bank law was the General Bank Revision Act of March 24, 1899. This Act deprived the state banks of the right to issue notes and required a general revision of all laws pertaining to organization and operations of banks under the jurisdiction of New Jersey statutes including savings banks, state banks, trust companies, private banks, foreign banks, and building and loan associations. Eventually the supervision of these institutions was entrusted to a Department of Banking and Insurance created in 1891 when the legislature passed:

"An Act to establish a department of banking and insurance," approved February tenth, one thousand eight hundred and ninety-one, and charged with the issuance of all laws relative to insurance, banking, savings, trust, guarantee, safe deposit, indemnity, mortgage, investment and loan corporations is continued. Such department shall be vested with all the powers and charged with all the duties and subject to all the obligations and penalties which, on February tenth, one thousand eight hundred and ninety-one, were vested in, conferred and imposed upon the secretary of state, acting as commissioner of insurance, or upon the board of bank commissioners or any other officer or board charged with the execution of the laws relative to subjects hereinabove recited, as also building and loan corporations or associations organized under the laws of other states, transacting or to be admitted to transact business in this state.*

At a much later date, as a result of the urging of Commissioner Eugene E. Agger, the banking laws were recodified in the Banking Act of 1948 which with supplements is the present body of operative law. A mine of information concerning banking and insurance in New Jersey is contained in the voluminous annual reports published by the Commissioner of Banking and Insurance relative to all phases of his activities. These reports are concerned with savings and loan and building and loan associations, all phases of insurance, with state banks, savings banks, trust companies, etc. The Commissioner of Banking and Insurance is also charged with the responsibility for the licensing of insurance agents, brokers, and solicitors, and his department is also engaged in important research of an actuarial nature. The basic law which this department is charged with administering makes up three volumes in the New Jersey Statutes Annotated (Title 17—Corporations and Institutions for Finance and Insurance), consisting all together of 1564 pages. Interesting as much of this material is to the economist, banker, and the insurance man, it can hardly be covered in any detail for the lay reader of a brief history of this kind.

The Department of Banking and Insurance, since its establishment in 1891, has had 19 commissioners, the incumbent, Charles R. Howell, having served in this position longer than any other person. The men who have served over the years (some of them for periods so brief that they had little effect on the department as it is presently organized) have been lawyers, bankers, scholars, and politicians. Many of them viewed their responsibilities as part-time. Others, such as Eugene E.

* Charles R. Howell, "New Jersey's Contribution to the Evolution of Banking," *New Jersey Savings Bank Journal*, L (1958), 7.

Agger, treated the position as a full-time job, as does Commissioner Howell.

Fortunately, from 1893 to 1951, the department enjoyed the services of a devoted and competent full-time servant, Christopher A. Gough. As commissioners came and went, Gough provided the continuity necessary to the department. In 1926 Gough finally was named Deputy Commissioner of Insurance.

Today, the four major divisions of the Department of Banking and Insurance are headed by deputies whose careers are devoted to the proper functioning of the banking, insurance, savings and loan, and actuarial bureaus.

VII

NEW JERSEY BANKING SYSTEM 1914 TO PRESENT

NEW JERSEY'S national banks automatically became members of the Federal Reserve System from its beginning. State banks and trust companies were more hesitant in joining because of their fear of domination by the federal government. New Jersey is divided jurisdictionally between the Philadelphia and New York Federal Reserve Banks, the line being approximately the middle of the state. Nine southern counties are in the Philadelphia Reserve District. In a largely statistical study of New Jersey banks from 1902 to 1927, Professor E. W. Kemmerer observes that during those years there was an 855 per cent increase in banking resources against an increase in population of only 73 per cent. He attributes this increase to: (1) the growth of industry in the State; (2) the extension of the metropolitan area of New York City into northern New Jersey and the consequent increase of the wealthy banking population; and (3) the growth of banking in the playground sections of the State with the development of summer and winter resorts. He also observes that the relative decline of agriculture stemmed from the competition of Western lands and that New Jersey agriculture, then as now, was concerned largely with poultry growing, dairy farming, and truck farming.* These basic observations regarding

* E. W. Kemmerer, "New Jersey Banking," *Journal of Industry and Finance,* May, 1928.

the growth of New Jersey are still generally valid but to them has been added a further increase of population, the growth in the period after World War II of the chemical and electronics industries, and the fact that New Jersey is becoming more and more a research center where vast sums are being spent both by private corporations and governmental bodies. The growth trend noted by Professor Kemmerer from 1902 to 1927 has continued to date and the postwar growth in the resources of New Jersey banks of all kinds and descriptions has been unprecedented. While the number of institutions has not materially increased, the growth in the existing institutions is readily apparent by examining the financial statements at length of New Jersey banks as their assets and deposits have increased year by year. In part, of course, this reflects the inflationary trend of the period, but to a large degree it reflects the general prosperity of the State and the confidence of the people of the State in their financial institutions.

While the New Jersey banking system in 1964 reflects a long-term growth cycle apparent in 1927, this growth has not occurred without interruption—the most dramatic instance was, of course, the Great Depression following the stock market crash of October, 1929. The period of the 1920's for banks in New Jersey was generally prosperous. The price of bank stocks had risen to new highs and dividends were generally well maintained. The price, for example, of the Trenton Banking Company's stock in 1929 was $300 a share and the directors of that bank in December authorized an 8 per cent dividend, plus 2 per cent extra, or 10 per cent.

In spite of optimistic statements by Secretary of the Treasury Andrew Mellon at the end of 1929, to the effect that the economy of the United States was unaffected by the stock market crash, business conditions deteriorated substantially in 1930, 1931, and 1932, with widespread unemployment; and the culmination was the bank crisis of March, 1933, when all banks of the country, including those in New Jersey, were closed. Everywhere, bank earnings were wiped out by the decline in value of securities pledged as collateral for bank loans and to a lesser degree by the decline in value of real estate secured by mortgages. The situation was further complicated by enormous withdrawals of gold from the Federal Reserve Banks by foreign accounts. New Jersey banks were failing here and there although there was considerably more confidence among New Jersey bank customers in New Jersey banks than was evidenced in Philadelphia and New York. On March 4, Governor A. Harry Moore declared a "bank Holiday" that included Saturday, March 4, and the following Monday, March 6. The banks, of course, did not reopen on March 7 because meanwhile President Roosevelt had declared a national Bank Holiday beginning on the sixth. Many of the banks were reopened by the Commissioner on Tuesday, March 14.

Meanwhile hoarding was banned, gold was embargoed and called in, and Roosevelt broadcast his first fireside chat. A great many of the banks of the State were able to carry on with aid from the Reconstruction Finance Corporation based on loans secured by assets of the banks as well as through the issuance of preferred stock.

Attempts at reform at the national level were contained in four statutes: The Emergency Banking Act of March 9, 1933; The Banking Act of June 16, 1933 (which, among other things, separated commercial and investment banking); The Federal Deposit Insurance Act of June 16, 1934 (which guaranteed individual accounts up to $5000 per account—later raised to $10,000 per account); and The Banking Act of August 23, 1935.

Between March, 1933, and December, 1936, on the national level, nearly 15,500 national and state Banks were re-established on a going basis largely due to restored popular confidence, RFC aid, and recovery of bond prices. However, in this period, there were 8000 fewer banks than in 1929 and banking capital had been reduced by $2.5 billion. The establishment of the Home Owners Loan Corporation by the federal government also eased the situation by refinancing over $3 billion worth of home mortgages, thereby preventing foreclosures and freeing the accounts of banks from their worst risks in this type of investment.

The economy slowly recovered from its low of 1933, weathered the sharp recession of 1937-1938, and was stimulated by the outbreak of World War II in Europe in 1939. Since the entry of the United States into the War in 1941, the economy as a whole has enjoyed one of its longest sustained periods of prosperity with relatively minor recessions affecting limited portions of the economy in the postwar era. One of the most significant developments in this period was the growth in the United States Government debt to a figure presently approximating $300 billion. At the end of World War II this debt had reached $286 billion, with approximately $100 billion of the increase in government obligations having been taken by the banks as assets offset by deposits credited to the United States Government. This inflationary method of financing that portion of the debt largely accounts for what is sometimes called the inflationary gap which existed from 1946 to 1950, by which time increased production and increased prices had fairly well closed the gap. In 1950-1951, the Korean War caused one of the sharpest price rises in our history as we attempted to superimpose a war economy on top of a fully employed peacetime economy with limited controls over allocation of materials, public consumption, and prices. Price rises continued through the 1950's with some evidence of leveling off in the early sixties. The avoidance of further inflation may in part depend upon balanced federal budgets and the financing of such deficits as may occur by sale of government obligations to holders of existing savings rather than to the banks in the manner followed during World War II.

The fiscal policy of the war and postwar years has had the effect of making United States Government obligations the major asset of United States banks—New Jersey banks included, so long as the government bond market was "pegged." During World War II and the immediate postwar period, the policy of the Open Market Committee of the Federal Reserve System was to sustain the price of all United States obligations at par or above, thereby inducing artificially low interest rates and also providing a ready source of cash for banks which chose to sell United States Government obligations. This situation was itself conducive to inflation, although the banks generally behaved with restraint, partly because for many of them their reserves were adequate without having to resort to dumping federal obligations. A change in Federal Reserve policy occurred in 1951 at which time government obligations were "unpegged." Shortly thereafter, William McChesney Martin became Chairman of the Board of Governors. Then the prices of government obligations were permitted to find their normal levels with a consequent increase in interest rates and the incidental effect of forcing the banks to hold the government obligations on a cost basis or take losses reflected in earnings upon sale at the new lower prices.

With so large a portion of their investments in United States Government obligations, the question of interest rates on such obligations was a major factor in the earnings of banks. In 1964 loans and mortgages accounted for 51.6 per cent of assets as compared with 20.4 per cent in United States Government obligations. Fortunately the higher yield on government obligations in recent years is reflected in higher interest rates on commercial loans and mortgages, which themselves have increased and reflect the general prosperity of the economy. Like other businesses, banks in the United States and in New Jersey have faced the problem of rising costs in doing business, particularly with respect to personnel costs. The larger banks have escaped some of the impact of higher wage and salary scales by automation and the introduction of labor-saving equipment. The economies involved in this process are not as readily available to small banks, however, although service companies are now offering electronics systems to small banks. It seems likely that the need for automation may well contribute to an increased number of bank mergers and to increased pressure for change in New Jersey law, which at present forbids state-chartered banks to establish branches outside county lines. A number of plans have been put forward to facilitate branch banking in the State. While there are at this time many legal obstacles to mergers of banks and to branch banking, economic forces would seem to dictate that future banks in New Jersey will be fewer and larger. As of December 31, 1963, New Jersey had 145 national banks with 333 branches; 88 state banks and trust companies with 215 branches; and 21 mutual savings banks with 24 branches.

The prohibition against New Jersey banks having branches beyond county lines and other regulations which have curtailed branch banking have no doubt retarded the growth of individual banks in New Jersey. However, these prohibitions against branch banking do not of themselves explain why so many New Jersey corporations have done their banking in New York and Philadelphia. It is true that New Jersey's largest bank, Fidelity Union Trust Company, Newark, with total assets of $593 million can lend to an individual borrower only $4.5 million. By contrast, Chase Manhattan Bank, New York City, can lend as much as $67,459,000 to one borrower and First National City Bank, New York City, can lend approximately the same amount to one borrower. It is interesting to note in this connection that the total assets of each of these New York banks is $12,118,000,000 and $11,797,000,000, exceeding the total assets of *all* the banks in New Jersey which, as of December 31, 1963, amounted to $11,724,000,000.

To some degree New Jersey banks, through their large correspondent banks in New York and Philadelphia, have been able to make arrangements for large loans and to participate in them. However, many of the major corporations, including those located entirely in New Jersey, have seen fit to make direct bank loans outside the state. This may be partly because of locations of national headquarters, general counsel, etc. in major financial centers.

In recent years, because of mergers and general growth in assets of New Jersey banks, there is increasing evidence of their being able to take care of many loans of intermediate size, which a decade ago might also have gone to New York or Philadelphia. It is reasonable to believe that legal changes facilitating branch banking cannot help but increase the ability of New Jersey banks to compete with their larger and more aggressive out-of-state competitors.

VIII

ACTIVITIES OF BANKERS' ASSOCIATIONS

THE NEW JERSEY Bankers Association was organized on January 10, 1903, when 64 New Jersey bankers met at Newark. At that time banks had very little contact with one another and New Jersey bankers even in neighboring areas were not acquainted with each other. The Association was established to advance the welfare and usefulness of banks in whatever way was consistent with the public interest; to collect, analyze, and distribute information; to educate the public with regard to banks; to improve banking services; and to protest against adverse legislation.

The New Jersey Bankers Association in 1962 erected a new headquarters building at 499 North Harrison Street Princeton. Membership in 1964 was composed of 249 of New Jersey's 250 commercial banks and 16 of New Jersey's 21 mutual savings banks. Numerous out-of-state banks are associate members, as are the Federal Reserve Banks of New York and Philadelphia. The work of the Association, apart from that done by a small full-time staff, is performed on a voluntary basis by 230 New Jersey bankers operating through 33 committees. These committees, among other things, plan some 22 annual meetings where bankers get together to hear authorities discuss subjects of particular interest to the group. The Association also holds an annual convention and administers a group retirement plan and four group insurance plans of particular value to the medium-sized and smaller banks. The Association also keeps its members apprised of changes in the banking laws and publishes a quarterly called *New Jersey Banker.*

There is also a Savings Banks' Association of New Jersey, with headquarters at 1180 Raymond Boulevard, Newark. It was organized in 1908.

The American Bankers Association has been active through its American Institute of Banking in providing special training for bankers. It has provided local chapters scattered throughout New Jersey with a substantial number of students, all employed by banks and seeking the technical knowledge necessary to raise their standards of performance and value to their employers.

In 1935 the American Bankers Association organized the Graduate School of Banking at Rutgers as a means of extending the work of the American Institute of Banking. The Graduate School of Banking, which has its headquarters in New York City, was established in order to provide, for bank officers who have already had training in the elementary courses of the American Institute of Banking or other university or college training, specialized courses of an advanced character in the fields of their professional interest. In general, candidates must be officers of banks which are members of the American Bankers Association, must be at least thirty years old, and must have had no less than eight years of banking experience or the equivalent.

A diploma, issued jointly by Rutgers, The State University and the Graduate School of Banking is given to those who have attended three resident sessions; have satisfactorily completed the courses (including written extension work) in one of several specialties, (1) commercial banking, (2) savings management and real estate, (3) trusts; and have submitted and orally defended an acceptable thesis.

The resident sessions are held in June on the Rutgers campus at New Brunswick—in recent years in Stonier Hall, a building erected for this purpose by the Graduate

School of Banking in memory of Dr. Harold Stonier, the first director of the School.

The broad outlines for the School were submitted to the authorities at Rutgers University by Dr. Eugene E. Agger in a letter dated December 24, 1934. Dr. Agger became the first associate director, representing Rutgers in policy and planning matters. Through the years, thousands of bank officers from all over the United States have attended and been graduated from the School, some of them returning for nine successive years in order to receive certificates in all three major fields.

Directors have been: Dr. Harold Stonier, Dr. E. Sherman Adams, and Dr. Murray G. Lee. Associate Directors representing Rutgers have been: Dr. Eugene E. Agger, Dr. William A. Irwin, Dr. Audley H. F. Stephan, and Dr. Ernest E. McMahon.

IX

SAVINGS AND LOAN ASSOCIATIONS

OF GREAT IMPORTANCE among financial institutions in New Jersey are the mutual associations which accept the savings of the public and invest the major portion in first mortgages on homes. They must also maintain liquidity reserves. These institutions are commonly referred to as savings and loan associations or building and loan associations. These associations are local in character, normally receiving savings from the immediate area and placing mortgages exclusively in that area. Historically, because of this localization and also because of the specialized type of investment made, these institutions have been particularly vulnerable to adverse business conditions involving decline in real estate values. These institutions also frequently borrow money when necessary for additional lending purposes.

The first savings and loan institutions began as the Friendly Societies of England. In 1831, the first American association was organized in Frankford, Pennsylvania, as the Oxford Provident Building and Loan Association. Sixteen years later, in 1847, the first such association was founded in New Jersey after the passage by the New Jersey Legislature of "an act to encourage the establishment of mutual savings associations." There was in this early period, however, no general code or law regulating them, nor were they subject to supervision. Each association operated under its own constitution. After the economic difficulties of the 1890's, however, a Building and

Loan Act of 1903 was passed giving the Department of Banking and Insurance supervisory responsibility over these institutions.

During the boom period of the early 1920's, and essentially because of the laxity of the statute and of the Department of Banking and Insurance, hundreds of new savings and loan associations were created—often by young attorneys seeking the related legal work involved in the mortgages granted.

By 1930 New Jersey had chartered as many as 1563 associations, with peak assets of about $1.2 billion. Thereafter, a combination of heavy withdrawals of savings and declining real estate values caused a great many failures, mergers, and reorganizations in the early 1930's. As of December 31, 1963, there were 375 associations operating under state charter, with 111 branches and with total assets approximating $3.5 billion.

In 1932 Congress established the Federal Home Loan Bank System to serve as a reserve system for savings and loan associations. It provides long-term credit for them through 12 regional banks, each with its own board of directors. This system, as well as the Federal Savings and Loan Insurance Corporation, established by Congress in 1934, is administered by the Federal Home Loan Bank Board. New Jersey associations may apply for and obtain insurance by the Federal Savings and Loan Insurance Corporation on accounts up to $10,000. As of December 31, 1963, two hundred New Jersey associations with assets of $3.4 billion had obtained such insurance for their depositors.

Apart from the state-chartered savings and loan institutions, there are 26 federally-chartered savings and loan associations in New Jersey operating under the Federal Home Loan Bank Board. Of these, 23 have converted from state charter to federal charter. As of December 31, 1963, the assets of federally-chartered savings and loans institutions were $517 million. Supervision of the state-chartered savings and loan institutions has long been under the Department of Banking and Insurance, which has a division concerned with them and publishes an annual report pertaining to savings and loan associations. However, the 1903 Act, under which early supervision was carried out, provided for virtually no reserves against future loss. All earnings were commonly distributed each year. In 1935 remedial legislation was passed, strengthening in many ways the operations of savings and loan associations. One object of legislation has been to limit savings and loan institutions' mortgages to real estate used wholly or partially for dwelling purposes. Mortgage loans normally may not exceed 80 per cent of the value of the real estate mortgaged. Recent legislation has also introduced an open-end feature insofar as repairs, alterations, or improvements are concerned, provided the same shall not exceed $3500.

The savings and loan associations set up in 1909 the New Jersey Savings and Loan League, the purpose of which is to foster, protect, and promote the interests of the various savings and loan and building and loan associations which are members, and to encourage sound business methods among them. The League celebrated its fiftieth anniversary in 1959 and published a review of the problems faced by the members through the years. As of that date, the League pointed out that 192 of these institutions provided insurance up to $10,000 on each saver's funds and that these insured accounts represented 95 per cent of the total resources of the savings and loan business in the State of New Jersey. At that time, however, there were still 175 associations which were uninsured and which held about 5 per cent of the total assets. As of December 31, 1963, however, the percentage of resources in covered associations had risen to 97.65 per cent and the uninsured associations held only 2.35 per cent of such resources. As deposits and mortgage loans have both grown extensively, a large proportion of the savings and loan associations in the State have had to expand their physical facilities. Many new main offices have been built and in some communities branch offices have been opened. The New Jersey Savings

Loan League has also created a corporation, known as Central Corporation, to provide member associations with facilities to participate in financing too large for a single institution, to warehouse home mortgage loans, and to buy or sell mortgages as may be necessary. Judging by the growth in deposits in New Jersey savings and loan associations, both state and federally chartered, these associations will play an ever-increasing role in home financing.

X

FIRE, CASUALTY, AND MISCELLANEOUS INSURANCE

INSURANCE COMPANIES, as we now know them, are of comparatively recent origin. Their purpose is to provide compensation against loss by death, accident, fire, and all other untoward happenings in life. New Jersey is an important state in terms of numbers of insurance companies incorporated here and in terms of the size of many of the New Jersey-based companies. Since the largest ones, however, are national or international in their operations, their size and growth are not so much reflections of the economy of New Jersey as of the nation as a whole.

Early Origins

In Colonial days, the need for formal insurance was less apparent because it was common practice in small communities and in rural areas for relatives and neighbors to help a family which had lost a parent or a building. It was the custom, for example, when a barn burned for neighbors for miles around to contribute labor toward its rebuilding. The materials, of course, were ready at hand in the forests. Even given this neighborly spirit and the quickness of relatives to take in and raise orphaned children, there must have been many hardships against which there was no protection.

The basic principle of insurance is that for the most common hazards of life, including that of dying, it is statistically possible to predict under ordinary circumstances the number of losses and the extent of the losses which may reasonably be faced within a specified time and area. Thus with respect to death the American Experience Table of Mortality has been devised indicating that of each 1000 persons aged 35, 8.95 persons are expected to die in one year. Thus, to insure each of these 1000 persons, it would be necessary to charge a premium of $8.95 per person in order to pay $1000 on each of the deaths occurring that year. In addition to the $8.95 per person for each $1000 of insurance, there would have to be an additional charge for expenses of operating the insurance company. This type of coverage is known as term insurance and is the least expensive type of coverage except for the fact that, as the age of the individual advances, the number of persons in the higher age groups who will die increases: for example, out of every 1000 persons, 9.79 persons would die at age 40, 13.78 at age 50, 26.69 at age 60, and 40.13 persons at age 65. Thus the cost of term insurance increases with age and the greater probability of death. Most policies, of course, cost more than term insurance because other types of policies include, beyond the mere insurance factor, a savings feature on which cash surrender value of the policy is based, and for which excess premiums are charged. Dividends are paid on these excess payments in amounts depending on such factors as income earned by the insurance company on its investments and loans, the efficiency of operation, preferred risks covered by the company, etc.

Determining premiums for all types of insurance is essentially a statistical or actuarial process in which an effort is made to determine for each type of insurable loss the probability of such loss and the cost which thereby must be attributed to the policy by reason of the probability of loss. Obviously, such predictions must be based on experience. Since experience itself changes with changing circumstances, the probability tables have to be revised periodically. For example, in recent years the increasing longevity of Americans has reduced the probability of death in the earlier years, thereby lessening somewhat the cost of life insurance per annum, and at the same time increasing the costs of annuities, which are contracts to pay a certain sum each and every month during the life of an individual.

Since the life insurance companies sell comparatively little term insurance and have become major savings institutions, receiving millions of dollars per day in premiums from their insureds, the question of interest rates and the return on investments which these companies are permitted by law to make become important factors in the ultimate value of the insurance policy to its holder. Thus, the life insurance companies have become for all practical purposes institutions which combine insurance with banking functions since insurance companies are increasingly involved in making loans of intermediate duration directly to industry, thereby, to some extent, competing with commercial banks and, perhaps to a greater extent, with investment banking houses.

Stock And Mutual Companies

Insurance companies fall into two broad classifications: stock companies, the stock of which is owned by stockholders to whom profits are distributed in the form of dividends; and mutual companies, which are owned by the policyholders, to whom all profits are distributed in relation to the policies held. Generally cash premiums paid to stock companies are somewhat less than those paid to mutual companies. The net cost, however, on mutual policies, after deducting dividends received from premiums paid may ultimately be less over the years than for stock companies because of the sharing of profits among the policyholders instead of among stockholders as in stock companies. On the other hand, particularly in small fire and casualty companies operating on a mutual basis, there is a distinct possibility of assessment of the policy holders in the event of extraordinary losses.

For purposes of this brief history of insurance in New Jersey, it is proposed to cover, first, fire, casualty, and miscellaneous insurance and, second, life insurance.

Early Fire Insurance Companies

The first fire insurance company in the United States was founded by Charles Pinckney, later Chief Justice of South Carolina, and Joseph Motte, a financier and Public Treasurer of that Province. This insurance company was known as the Friendly Society and the Articles of Agreement for its establishment were published in the *South Carolina Gazette* on January 3, 1736. They read as follows:

ARTICLES OF AGREEMENT, indented, had, made, concluded and agreed upon, by and between the several Persons, Freeholders and Owners of Houses, Messuages and Tenements in Charles-Town in Berkeley County in the Province of South Carolina, whose Names are hereunto subscribed, for a mutual Insurance of their houses and Tenements from Loss of Fire.

Whereas the Insurance of Houses against Fire hath by experience been found to be of very great service to many Persons, who would otherwise have been reduced to Poverty and Want. And, whereas, by reason of our Distance from Great-Britain, no Insurance Office there, will upon any Terms or Conditions, Insure any Houses in this Town from Loss by Fire; and it being natural for men to form themselves into Companies and Societies, in order to guard against those Evils and Mischiefs, which separately and in their distinct capacities they would not be able to avoid.

We Therefore, whose names are hereunto subscribed, Freeholders and Owners of Houses, Messuages and Tenements in Charles Town taking the Premises into Consideration, Do by these presents freely and voluntarily, and for our mutual Benefit and Advantage, covenant, promise, conclude and agree, for ourselves and our respective Heirs, Executors and Administrators, to and with each the other of us, in manner and form following, that is to say, Imprimis, We do covenant, promise, conclude and agree, That we will, and we do by these Presents form ourselves (as far as by Law we may) into a Society for the mutual Insurance of our respective Messuages and Tenements in Charles Town (which shall be entered in Books of the Directors of the Society to be insured) from Losses by Fire, and do name and call ourselves the FRIENDLY SOCIETY.*

It is reasonable to assume that the conditions described above as existing in Charleston were similar to those prevailing in New Jersey in the early eighteenth century.

This company was ruined within a few years when a fire on November 18, 1740, destroyed an entire area of Charleston, including over three hundred houses, stores, wharves, etc.

A successful Colonial effort at establishing a fire insurance company was that led by Benjamin Franklin in 1752. This was called "The Philadelphia Contributionship." This company required that its seal, which was a hand-in-hand symbol together with the policy number, be affixed to the insured property. These shields were cast from lead, and many of them during the Revolutionary War were melted down for bullets to be used by Washington's Army.

Other companies rapidly followed, in Philadelphia, Baltimore, Charleston, and elsewhere. It was common practice for the later fire insurance companies to adopt a distinctive seal and have it placed on the chimney of the house which was covered by the particular company.

The first fire insurance company in New Jersey was the Newark Mutual Fire Assurance Company, organized in February, 1810. (To the extent that buildings had been

* Alwin E. Bulan, *Footprints of Assurance* (New York, 1953), 20, 21.

insured against fire prior to that date, they were insured with Pennsylvania or New York companies.) The Secretary of this first company was Joseph C. Hornblower, a young lawyer who carried on the business from his own office. This company was later taken over by the Royal Insurance Company of London.

Other early fire insurance companies organized in New Jersey were: New Brunswick Fire Insurance Company, 1826; Camden Fire Insurance Company, 1826; Camden Fire Insurance Association, 1841; American Mutual Insurance Company of Newark, 1846; The Merchants and Manufacturing Fire Insurance Company of Newark, 1849; The National Fire and Marine Insurance Company of Elizabeth, 1865; Standard Fire Insurance Company of New Jersey, 1868; and the Firemens Mutual Insurance Company of Newark, 1885. This last company originally organized in 1855 and known as Newark Firemens Insurance Company was one of the few insurance companies in New Jersey to use the fire plate or shield. All of these early companies, as many as were organized in the nineteenth century, were mutual companies. The persons insured were required to deposit in addition to the premium paid a specified sum for every hundred dollars insured. This was in the nature of a reserve fund in case the premiums were exhausted and was returned to the person insured if not required at the end of the policy term.

Later many of these companies were converted to stock companies. Like the banks, the early companies were chartered by the legislature. At the end of 1963, there were 21 stock companies incorporated in New Jersey writing fire and casualty insurance, but there were 383 companies of other states authorized to write fire and casualty insurance within the State. The largest of these 21 were: Firemens Insurance Company of Newark, New Jersey, incorporated in 1855; American Insurance Company, incorporated in 1846; and Federal Insurance Company, incorporated in 1901. At the same time there were 14 mutual fire and casualty insurance companies operating in New Jersey on a relatively much smaller scale. The oldest of the mutual fire and casualty insurance companies organized in New Jersey are: The New Jersey Association, located at Crosswicks, organized in 1838; the Shrewsbury Mutual Fire Insurance Company at Eatontown, organized the same year; and the Sussex Mutual Insurance Company at Newton, organized in 1840.

Miscellaneous Insurance Companies

A report of the Commissioner of Banking and Insurance of December 31, 1962, indicates that a list of fraternal benefit societies organized in New Jersey and elsewhere but doing business in New Jersey numbered 77. (Most of these were organized in the period from 1880 to 1910.) These societies doing business in New Jersey had insurance in force in excess of $10 billion, of which, however, only $266.5 million was written in New Jersey.

Hospital and Medical Insurance

Beginning in 1932, three hospital service plans were developed in New Jersey. These were: Hospital Service Plan of New Jersey, with headquarters in Newark, incorporated December 7, 1932; Hospital Service Corporation of Perth Amboy, incorporated February 11, 1939; and Hospital Service Corporation of Rahway, incorporated March 20, 1939. The largest of these and greatly overshadowing the others is the Hospital Service Plan of New Jersey, which in 1962 received over $87 million from members and paid benefits slightly in excess of $83 million. In 1963, Hospital Service or "Blue Cross" had outstanding over a million policies covering more than 2,600,000 persons.

The Medical-Surgical Plan of New Jersey, with headquarters in Newark, was incorporated March 24, 1942, it received in 1960 from members almost $41 million and paid out in benefits over $37 million. The purpose of these companies is to provide hospital insurance and surgical insurance—for the most part under group plans. They represent an important development in the insurance field in recent decades; their rates are regulated by the Commissioner of Banking and Insurance and have been the subject of some controversy as inflationary pressures and increasing costs of hospital and medical services have led to repeated requests for increased rates.

In 1964, the Commissioner of Banking and Insurance, in granting an increase in hospitalization and medical/surgical rates issued a warning to the insurance companies involved that they must make every effort to control rising costs, which are the subject of an increasing number of public complaints, inasmuch as the rising costs are reflected in rising insurance rates.

Title Insurance Companies

As of December 31, 1960, there were twenty-two title insurance companies doing business in New Jersey, seven of which were New Jersey corporations. The four largest New Jersey companies are: New Jersey Realty Title Insurance Company, Chelsea Title and Guaranty Company, West Jersey Title and Guaranty Company, and Lawyers Clinton Title Insurance Company of New Jersey.

The title insurance companies' services consist in providing searches of realty titles and of insuring on a single-premium basis titles to real estate. The ratio of losses paid to premiums paid tends to be low while costs of operations tend to be high. Nonetheless, the statistics indicate consistent profits and substantial surpluses.

XI

LIFE INSURANCE IN NEW JERSEY

IN THE YEAR 1964, there were 145 insurance companies writing life insurance in the State of New Jersey. Of these, eleven are companies incorporated in New Jersey. These eleven, with their dates of incorporation, are as follows: Mutual Benefit Life Insurance Company, Newark, 1845; Prudential Insurance Company of America, Newark, 1873; Colonial Life Insurance Company of America, East Orange, 1897; Bankers National Life Insurance Company, Verona, 1927; Progressive Life Insurance Company, Red Bank, 1934; Eastern Mutual Life Insurance Company, Newark, 1935; Paramount Mutual Life Insurance Company, Newark, 1957; and Great American Life Insurance Company, Newark, 1959; Pension Life Insurance Company of America, Newark, 1964; Firemens and America Life Insurance Company, Newark, 1964, Garden State Life Insurance Company, Newark, 1964.

The total of all ordinary life insurance in force in New Jersey as of December 31, 1963, was $19,197,587,755—of which New Jersey companies had written $6,247,-301,392—or just under a third.

Of the eleven New Jersey life insurance companies, the Prudential is the largest and is, in fact, the third largest private company of any kind in the world in terms of assets, coming after American Telephone and Telegraph Company and the Metropolitan Life Insurance Company in New York. In 1963, Prudential sold more life insurance than any other company. Its history and its recent achievements are particularly worthy of note since it is the second largest life insurance company in the United States, having, in 1963, $19.8 billions of assets, $96.6 billion of life insurance in force, and annual sales of $9.7 billion.

Prudential Insurance Company was incorporated by special charter of the New Jersey Legislature in 1873 as the Widows and Orphans Friendly Society. Two years later the name was changed to the Prudential Friendly Society, and in 1877 the name was changed to its present one. The man instrumental in its founding was John Fairfield Dryden, who was president of the company from 1881 to 1911. He had become interested in life insurance as it had developed in England, beginning about 1853, through the sale of small policies to wage earners. Dryden went to England and studied the operations of the Prudential Assurance Company of London, later taking the name for his own American company. Other presidents of this company to date have been: Allan L. Bassett, 1875-1879; Noah F. Blanchard, 1879-1881; Forrest F. Dryden, 1912-1922; Edward D. Duffield, 1922-1938; Franklin D'Olier, 1938-1946; Carrol M. Shanks, 1946-1961; Louis R. Menagh, 1961-1962; and since 1962, Orville E. Beal.

Prior to 1886 nothing but industrial insurance (often thought of as burial insurance) was issued by the Prudential. These were small policies with very low face values (rarely exceeding $500), paid for by industrial workers from whom the premiums were collected personally by Prudential agents, often on the basis of a few pennies per week. This type of insurance was long basic to Prudential's operations and under its modern debit system development remains an important part of its insurance coverage. The company originally was incorporated as a stock company but with the aid of special legislation in 1913 and the appointment of a policyholders' trustee, to whom was transferred 92 per cent of the stock, the company became a mutual company owned by its policyholders. The balance of the stock was finally purchased in 1942 and the company became completely a mutual company at that time.

Total life insurance in force as of the end of 1963 was $96.6 billion and in recent years Prudential has sold more life insurance than any other life insurance company in the country. In 1963 it had 37 million life insurance policyholders. Its assets as of the end of 1963 were $19.8 billion, and it received in that year over $2.5 billion in premiums; it distributed $500 million in dividends, paid out $1.2 billion in benefits, and was required to invest $2.4 billion that year. The dramatic nature of this financial institution is ably presented in an article in the January, 1964, issue of *Fortune* by Robert Sheehan called, "That Mighty Pump, Prudential." In his article Mr. Sheehan points out that the company in recent years, beginning with the presidency of Carrol M. Shanks, has created, apart from its Newark Home Office, seven regional home offices, headed by regional vice-presidents, with considerable autonomy, in Los Angeles, Toronto, Houston, Jacksonville, Minneapolis, Chicago, and Boston. In each instance Prudential has built monumental office buildings which have tremendously rejuvenated the areas in which they have been built. It is apparent that the business of Prudential is twofold—one part is its responsibility as a salesman of financial security, the other as an investor. Sheehan points out that Prudential has 23,651 insurance agents, who have succeeded in signing up roughly one out of every five Americans with the company, including employees covered by group policies.

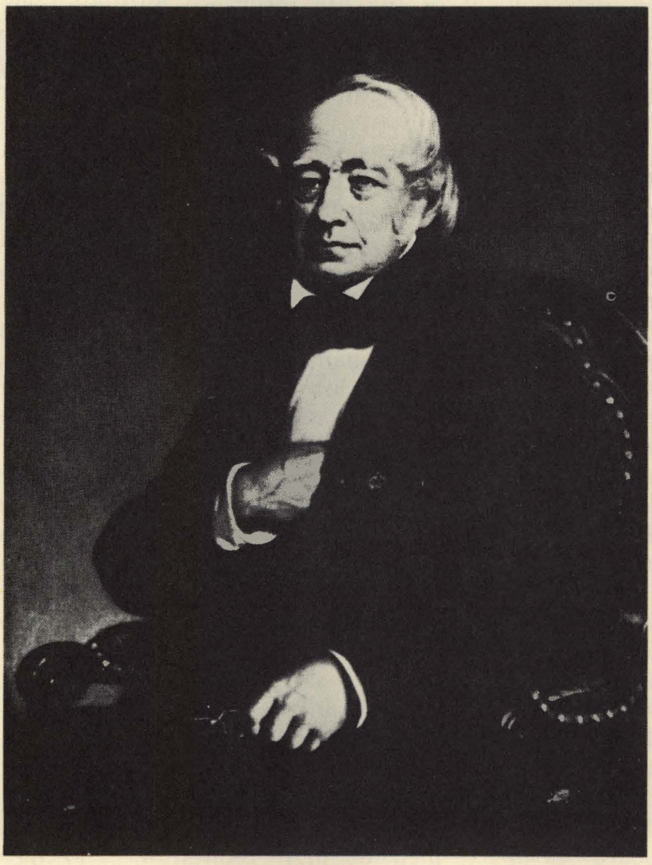
With respect to investments, Prudential holds mortgages on over 517,000 homes, 43,000 farms, 3640 apartment houses, and 5243 industrial and commercial properties, virtually all of these mortgages have been individually secured, appraised, and serviced by the company's own mortgage loan offices. In addition, the company has made direct investments by outright ownership of many well-known pieces of real estate. It has made direct loans to United States industry of approximately $7 billion, numbering among its customers more than a thousand separate corporations, dozens of them nationally known.

The decentralization program not only took the pressure off the Newark labor market but increased sales and built local prestige. The success of its program is reflected in its record sales and its higher rate of return on investments. Before taxes, this rate of return was 4.65 per cent as against the average rate of return on all United States life insurance companies of 4.29 per cent. This high rate of return has, of course, an excellent sales appeal because of the benefits accruing to mutual policyholders therefrom.

The Prudential Insurance Company took a leading role in eliminating in 1959 the federal tax discrimination against insured pension plans. State legislation also permitted, with respect to corporate pension business, the use of current yield on new investments against average yield, thus permitting the insurance companies to compete with banks for the pension business. More recently, the Prudential Insurance Company has led the effort to obtain permission for insurance companies to issue variable annuities, thereby permitting its policyholders to obtain some hedge against inflation. An act was passed by the New Jersey Legislature in 1959 permitting the company to issue variable annuities but the Securities and Exchange Commission, in January, 1963, held that variable annuities to individuals came within the scope of the Investment Company Act of 1940 and that it would grant no substantial exemption from the Act to state-regulated life insurance companies. Early in 1964 the Third Circuit Court of Appeals upheld the Securities and Exchange Commission. It is expected, however, that Prudential will continue its efforts to secure the right to sell variable annuities by seeking an appeal to the United States Supreme Court. Approval of the variable annuity would render policyholders less vulnerable to inflationary forces.

The size and growth of Prudential Insurance Company has made it, of course, an institution of national significance but it is still a New Jersey corporation and its basic policy is determined from its Home Office in Newark.

The oldest life insurance company in New Jersey and



Robert Livingston Patterson
Courtesy of Mutual Benefit Life Insurance Company

today the second largest in the state is the Mutual Benefit Life Insurance Company. The founder of this company was Robert Livingston Patterson. Patterson was born in 1776 and as a merchant was concerned with exporting and importing in New York City. He was impressed by the necessity for insurance, particularly life insurance, and in his sixties went to England to study the development of the life insurance business there. Upon his return to the United States, due to his inability to obtain a charter in New York because of a competing group, he incorporated the Mutual Benefit Life Insurance Company in Newark.

Within nine months of its founding in 1845, Mutual Benefit Life Insurance Company had issued nearly $2.5 million of insurance and had assets of over $55,000. From the first it had been organized as a mutual company. As of December 31, 1963, it had insurance in force in the amount of $7,179,782,690 and, although far behind Prudential in size, it is clearly a major financial institution in New Jersey. Its management through the years has been characterized by integrity, and its survival and growth are in marked contrast to the numerous failures through the years of other life insurance companies which from time to time followed unsound policies and floundered during periodic depressions. For example, the tontine scheme became popular with certain life insurance companies in the late 1860's. Under this plan, all accumulated reserves were ultimately paid to that person who lived longest. Mutual Benefit Life Insurance Company, under the presidency of Amzi Dodd, looked upon the entire reserve as a sacred trust belonging to all policyholders, and initiated and deferred dividend plan—thereby steering clear of the tontine system which had its brief period of popularity but eventually brought discredit upon the whole system of insurance. Mutual Benefit has been noted for the quality of its officers and Board members—men of high reputation who have through the years made great public contributions to their communities and to the State.

The Colonial Life Insurance Company

The Colonial Life Insurance Company of America was founded in November, 1897, by an enterprising group of prominent New Jersey business and professional men. Since its founding, Colonial has continued to grow until today it is one of the leading stock legal reserve life insurance companies doing an ordinary and weekly premium business. The company also writes personal health insurance and group protection. From the start, Colonial's life insurance policies were sold on a guaranteed cost basis. By 1927, thirty years after its founding, Colonial reached its first $100 million of insurance in force. In 1963, the company had over $750 million in force.

In 1941, and for the third time in its history, the Board of Directors of the company voted to pay all war claims in full on existing policies, although not obligated to do so legally under the terms of its policy contracts.

In 1946 Colonial was one of the first companies to adopt a revised Mortality Table. Again, in 1958, Colonial was one of the leaders in putting into practice the new Commissioners' Standard Ordinary 1958 Mortality Table. The company also adopted a new Industrial Mortality Table which was based on the improved nation-wide experience of 18 leading industrial companies and which covered a five-year period, from 1954 to 1958 inclusive.

In 1957, Colonial became associated with the Federal Insurance Company, a highly respected fire and casualty company managed by Chubb & Son, Inc. The Federal Insurance Company, also incorporated under the laws of New Jersey, began doing business on March 2, 1901. The affiliation of Colonial was effected through the acquisition of over 97 per cent of Colonial stock by Federal.

As a result of the association with Federal, a company with total assets of over $246,692,770 and total capital and surplus of over $131,086,514, Colonial initiated an expansion program in order to be able to offer its facilities and services in additional areas. Today, Colonial is a nation-wide company and is licensed to do business in 40 states, the District of Columbia, and Puerto Rico.

The mutual advantages of such an association have already become apparent. Federal agents and producers have been provided with complete life insurance, group and personal health insurance facilities to enable them to serve their clients better. Similarly Colonial has been able to augment its own sales staff with agents and brokers who represent Federal.

In 1962, Colonial received over $6 million in premiums on New Jersey life insurance and annuity contracts; while it paid out over $2,288,000 in benefits on life policies to New Jersey policyholders and beneficiaries. As of December 31, 1962, over $250 million, or approximately one-third of its total life insurance in force, was owned by New Jersey residents.

Life insurance sales in New Jersey by all companies have been comparable with those in other states and the growth of life insurance in force reflects the general prosperity of the State. Today, life insurance represents the greatest aggregation of personal savings in the United States, the rate of growth of life insurance savings during the past decade being 33 per cent. During the same period, however, in the United States generally savings through Savings and Loan Associations rose 222 per cent, uninsured corporate pension funds 141 per cent, government retirement funds 167 per cent, and investment companies 176 per cent.*

The possible cause of this is the trend toward more term and group insurance involving little in the way of savings payments. This trend, in turn, may be due to the increasing realization that, unless insurance company investment policies are liberalized and variable annuities encouraged by appropriate government action, inflation will deprive the policyholders, where substantial savings are involved, of a portion of these savings.

* Robert Sheehan, "The Mighty Pump, Prudential," *Fortune*, January, 1964, 188.

XII

STATE REGULATION OF INSURANCE

THE EARLIEST EFFORT to pass laws and regulations pertaining to life insurance in New Jersey was in 1826 when the legislature required foreign corporations to furnish a bond, to make an annual report on business transacted in New Jersey, and to pay a 5 per cent tax on such collections. Meanwhile, and as late as 1876, insurance companies were incorporated by special charter of the legislature except that after 1852 a general law was passed for the incorporation of domestic companies. This applied to all types of insurance companies. Under the Act of 1852, the Secretary of State became the ex officio Insurance Commissioner. His powers were extended in 1876 and, as previously noted with respect to banking, on February 10, 1891, a Department of Banking and Insurance was created, which took over the responsibility for the regulation of insurance companies. In 1902 a Code of General Insurance Laws was passed, and in 1958 the Department of Banking and Insurance published a pamphlet entitled "Insurance Laws of New Jersey," which is a compilation of all the provisions contained in the Revised Statutes adopted in 1937 and in the laws of succeeding years, up to and including the Legislative Session of 1958, covering the conduct of the insurance business in the State of New Jersey.

It can hardly be said that the early control by the state over the insurance companies was adequate. It would be more correct to say that, prior to 1902, the soundness of life insurance companies was a result of their own self-restraint rather than public regulation. A conspicuous failure, accompanied by fraud and dishonesty, was that of the New Jersey Mutual Life Insurance Company, organized in 1863 and in receivership in 1877. While the losses were total, they were not great in size.* Of 30 companies incorporated by special act prior to July, 1875, there is nothing remaining in the records to indicate their final destiny.

Following the dramatic investigation conducted in New York by Charles Evans Hughes, the New Jersey Legislature conducted an investigation of life insurance in New Jersey. John S. Thompson, in his article, "The Business of Insurance in New Jersey," has written:

> Public hearings were commenced on June 1, 1906, and were held thereafter in Trenton, Newark and Jersey City. The New Jersey State Commissioner of Banking and Insurance was examined, and his assistants were among those questioned.
>
> The chief recommendations of the committee may be summarized as follows:
>
> (1) Standard provisions for life insurance policies.
>
> (2) The requirement that forms of policies be filed with the Commissioner of Insurance before being put into use.
>
> (3) Some provisions with respect to vouchers for disbursement of money, compensation to officers, agents and employees, misrepresentation in contracts, the status of agents or solicitors of insurance, and limitation of the amount of insurance which may be written on the lives of children.
>
> (4) A temporary capital for a newly-formed mutual company so that it will have some guaranty to policyholders before its surplus accumulates sufficiently for their security.
>
> (5) Further regulation of the investments of the funds of life policies.
>
> (6) The amendment of the laws relative to the valuation of policies.

* John S. Thompson, "The Business of Insurance in New Jersey," in William Starr Myers (ed.), *The Story of New Jersey* (5 vols.; New York, 1945), II, 216.

(7) Improved annual statements regarding operations and changed regulations affecting periodical examinations by the insurance companies.

(8) Prohibition of political contributions by life insurance companies.

(9) Domestic companies not to write both participating and non-participating business, and companies of other states to pay the same rate of commission to agents for participating and non-participating business.

(10) The amount of capital of a stock life company to be limited to two million dollars, and the dividends to ten per cent, thereon, so long as insurance is issued on the participating basis.

Bills embodying these recommendations were appended to the committee's report, and, for the most part, ultimately became part of New Jersey Law. *

Today New Jersey is generally recognized as one of the leading insurance states of the country. Until such time as the United States Supreme Court may reverse its decision in *Paul* v. *Virginia,* the regulation of insurance everywhere in the Union remains basically the responsibility of the individual states. In general, and in New Jersey in particular, there is some favoritism shown toward home insurance companies, i.e., those incorporated in the state.

The regulation of insurance in New Jersey is the responsibility of the Commissioner of Banking and Insurance with the assistance of the Deputy Commissioner in charge of the Insurance Bureau. The activities of the Actuarial Bureau, added to the Department in 1951, are also related, of course, to insurance. Since the appointment of Eugene E. Agger as Commissioner of Banking and Insurance in 1942, it has been increasingly apparent that the position of Commissioner, in view of his heavy responsibilities in several directions, is a full-time job. The responsibilities of the Department of Banking and

* Thompson, "The Business of Insurance in New Jersey," in William Starr Myers (ed.), *The Story of New Jersey* (5 vols.; New York, 1945), II, 524-525.

Insurance in the direction of insurance were recently recognized by the legislature by the creation of an Insurance Law Revision Commission. This Commission consists of nine members, and it is charged with the responsibility of revising the entire body of laws dealing with all facets of insurance in New Jersey. Three members of the Commission represent the public, three represent the Senate, and three the Assembly. It is contemplated that this Commission will require several years to complete its study and make its recommendations. The insurance laws of the state were last codified in 1950.

Through the years there has been no evidence of corruption within the Department of Banking and Insurance. A politically inspired accusation was made during the Meyner-Forbes campaign of 1957 that Commissioner Charles R. Howell had not publicized soon enough an embezzlement by an officer of the Firemens Insurance Company in Newark. This matter had been thoroughly investigated and appropriate action was taken by the Commissioner. Remedial legislation, strengthening the administrative procedures available to the companies in such instances, was also passed.

Under an act of 1958 the Department was given extended authority to administer the granting of licenses to persons involved in insurance. Under this act, an effort was made to raise professional standards for insurance brokers and general agents, requiring 96 hours of formal training and the passing of an examination in the kind of insurance sold. As of the end of 1963, more than 70,000 individual licenses had been issued under this authority. Many persons, of course, were issued licenses of several types.

Although for many years the Department had been informally investigating complaints from the public regarding insurance matters, beginning about 1960 there was formal organization of a Division of Investigation and Complaint to handle such matters. In 1960 also, extraordinary forms of insurance coverage called "surplus lines" became subject to effective regulation and taxation. This insurance involves risks such as Lloyds of London might underwrite.

The Department has recently been concerned with the tendency of life insurance salesmen to "switch" clients from one life insurance policy to another. This sort of thing, which is largely motivated by a desire to earn commissions on new insurance, is discouraged by a requirement that the agent involved must send a written document to the insured contemplating a "switch" setting forth the disadvantages as well as the advantages of such a change.

As of March 1, 1964, under the leadership of Commissioner Charles Howell, New Jersey became the first state to prohibit the inclusion in application forms used by any company selling insurance in the state (almost seven hundred) of any reference to race, color, or creed.

With the minor exception of the Eastern Underwriters Case in 1944, the United States Supreme Court has tended to leave insurance companies under state regulatory control. Presumably this policy will remain so long as the states perform their regulatory functions adequately. In recent years New Jersey seems to be fulfilling its responsibilities in this direction and apparently intends to continue to do so through the current study being made by the Insurance Law Revision Commission. Future federal policy unfortunately does not depend on what New Jersey alone does in this regard.

EPILOGUE

It is easy to state that a bank or an insurance company has successfully survived a century or more of operations. It is hardly possible, however, to more than hint at, in a book of this length, the trials and tribulations which these institutions have faced and the hundreds of resultant policy decisions which have made their institutional survival possible. Such institutions have had to survive the collapse of state government finances in the 1840's, the panics of 1857, 1873, 1893, 1907, 1921, 1929-1933, the War of 1812, the Mexican War, the Civil War, the long period of deflation from 1870 to 1898, the Spanish-American War, World War I, the influenza epidemics of 1918-1919, World War II, the Korean War, the postwar adjustments in each case, and the long period of inflation from 1942 to the present date.

The problems which these events call to mind were faced to a greater or lesser degree by virtually all of the older financial institutions in New Jersey. The survival of so many of these institutions for a period of more than a century, or at least for many decades, is a tribute to the cumulative wisdom of the officers and directors who have guided their fortunes through periods of prosperity, of adversity, and of suspense and doubt, all so obviously a part of our history. Vital to their survival also has been the body of law and officials, on federal and state levels, which has determined regulatory policy and its day-to-day enforcement.

APPENDIX I

BANKING AND INSURANCE COMMISSIONERS

1891—George B. M. Harvey
1891-1896—George S. Duryee
1896-1897—George Wurts
1897-1903—William Bettle
1903-1909—David O. Watkins
1909-1912—Vivian M. Lewis
1912 —Henry J. Ford
1912-1917—George M. LaMonte
1917-1921—Frank H. Smith
1921-1923—William E. Tuttle, Jr.
1923-1929—E. Edward Maxson
1929-1932—Frank H. Smith
1932-1935—William H. Kelly
1935-1938—Carl K. Withers
1938-1942—Louis A. Reilly
1942-1945—Eugene E. Agger
1945-1948—Lawrence B. Carey
1948 —Christopher A. Gough (acting)
1948-1949—John J. Dickerson
1949 —Christopher A. Gough (acting)
1950-1954—Warren N. Gaffney
1954-1955—Jerome B. McKenna (acting)
1955 —Charles R. Howell

APPENDIX II

Presidents of the New Jersey Bankers Association

1903-1904—Edward C. Stokes
1904-1905—Uzal H. McCarter
1905-1906—Edward S. Campbell
1906-1907—Carlton Godfrey
1907-1908—Henry G. Parker
1908-1909—William C. Heppenheimer
1909-1910—Edward L. Howe
1910-1911—Adrian Lyon
1911-1912—Harry H. Pond
1912-1913—Walter M. Van Deusen
1913-1914—Bloomfield M. Minch
1914-1915—I. Snowden Haines
1915-1916—Edward S. Pierson
1916-1917—John D. Everitt
1917-1918—William Chambers
1918-1919—Elwood S. Bartlett
1919-1920—Walter P. Gardner
1920-1921—Robert D. Foote
1921-1922—Charles H. Laird, Jr.
1922-1923—Rufus Keisler, Jr.
1923-1924—Frederick F. Schock
1924-1925—Spencer S. Marsh
1925-1926—Frank C. Ferguson
1926-1927—Walter E. Robb
1927-1928—F. Morse Archer
1928-1929—William J. Field

1929-1930—William J. Couse
1930-1931—Levi H. Morris
1931-1932—Robert W. Harden
1932-1933—Charles H. Plenty
1933-1934—Carl K. Withers
1934-1935—Julius S. Rippel
1935-1936—Leslies G. McDouall
1936-1937—Garrett A. Denise
1937-1938—Ferd. I. Collins
1938-1939—George Letterhouse
1939-1940—Joseph F. Hammond
1940-1941—H. Douglas Davis
1941-1942—L. A. Chambliss
1942-1943—F. Palmer Armstrong
1943-1944—Joseph G. Parr
1944-1945—Frank D. Abell
1945-1946—Harrison M. Thomas
1946-1947—F. Raymond Peterson
1947-1948—Frank W. Sutton, Jr.
1948-1949—Frank F. Allen
1949-1950—Howard S. Lyon
1950-1951—Clarence G. Meeks
1951-1952—Elwood F. Kirkman
1952-1953—Arthur M. Mueller
1953-1954—John P. Poe
1954-1955—Frank A. Weber
1955-1956—William J. Kinnamon
1956-1957—Charles A. Eaton, Jr.
1957-1958—George Munsick
1958 —Henry Knepper
1958-1959—Brice A. Eldridge
1959-1960—J. Milton Featherer
1960-1961—Richard G. Macgill
1961-1962—William H. Keith
1962-1963—Joseph G. Mark
1963-1964—Harold J. Curry

BIBLIOGRAPHICAL NOTE

Prior to this publication, there has been no book devoted exclusively to the history of either banking or insurance in New Jersey. A few other states have had books written on the history of banking or insurance in those states. For example, Connecticut, under the jurisdiction of its Tercentenary Commission and with the cooperation of the Yale University Press, published in 1935 a small volume by Francis Parson entitled *A History of Banking in Connecticut*, and a similar volume by Archibald Ashley Welch called *A History of Insurance in Connecticut*. These books are each approximately thirty pages long and are non-technical in character. A more technical publication containing many lists and statistics is William F. Hasse, Jr.'s small volume, *A History of Money and Banking in Connecticut* (New Haven, 1957). A fairly technical book by Theodore A. Andersen, *A Century of Banking in Wisconsin* (Madison, Wisconsin, 1954), was published by the Wisconsin Historical Society. Other state histories have been written, many of which contain an abundance of statistics indicating the growth of banks and insurance companies.

In New Jersey, there are a number of articles on banking and insurance which appear as parts of larger histories of the State. Particularly helpful in the preparation of this volume were the following: Irving S. Kull (ed.), *New Jersey—A History* (5 vols.; New York, 1930), IV, Chapter LVIII, "Banking in New Jersey," by Eugene E. Agger, and Chapter LXV, "History of Insurance," by

B. H. Goldsmith. In William Starr Myers (ed.), *The History of New Jersey* (5 vols.; New York, 1945), II, Chapter VI, "Banking," by Carl K. Withers, and Chapter VII, "The Business of Insurance in New Jersey," by John S. Thompson. To Withers' article Judge Fred G. Stickel, Jr. and Emil A. Gallman have appended a brief history of savings and loan associations in New Jersey. Reprinted from the May, 1928 issue of *Journal of Industry and Finance* is a small volume by the late Edwin Walter Kemmerer entitled "New Jersey Banking 1902-1927." It is a very scholarly one of a technical nature containing a great many statistical tables. It is, of course, limited to a period of twenty-five years.

The most recent article on these subjects appeared as a chapter in Salomon J. Flink (ed.), *The Economy of New Jersey* (New Brunswick, 1958. The pertinent article, which covers both banking and insurance, is Chapter XIII, "The Financial Community," by Eugene E. Agger. Two small books provided historical information: one of these was William H. Dillistin (comp.), *Directory of New Jersey Banks—1804-1942;* the other was D. C. Wismer, *Descriptive List of Obsolete Paper Money Issued in New Jersey* (n.p., 1928). Current information on statistics of New Jersey and other banks of the United States is available in *Polk's Bankers Directory, 1964.*

The basic statutory law pertaining to banks and insurance companies in New Jersey is contained in New Jersey Statutes Annotated, Title 17:1 to 17:52. This consists of three volumes under the general heading of *Corporations and Institutions for Finance and Insurance.* These volumes are published at St. Paul, Minnesota, and are revised annually by pocket parts.

A number of general works on financial history provided the necessary background material for this volume: M. R. Knox, *A History of Banking in the United States* (New York, 1903); William J. Shultz and M. R. Caine, *Financial Development of the United States* (New York, 1937); James B. Smith, *Trust Companies in the United States* (New York, 1928); Studenski & Krooss, *Financial*

History of the United States (New York, 1963); Chandler, *The Economics of Money and Banking* (New York, 1964); and Trescott, *Financing American Enterprise* (New York, 1963). This last is a readable and accurate story of commercial banking published under the auspices of the American Bankers Association. Other readable background material is contained in Harry Scherman, *The Promises Men Live By* (New York, 1938) and Lanier, *A Century of Banking in New York—1822-1922* (New York, 1922). This last, although basically a history of the Farmers Loan and Trust Company, is a fascinating account of New York's role through the years as the financial center of the country.

With respect to background material in the insurance field, beyond the standard textbooks the author found extremely interesting and readable Dunshee, *As You Pass By* (New York, 1952). This is a beautifully illustrated interweaving of the development of protection against fire and the overall history of the City of New York. There are innumerable illustrations of historical buildings, historical fires (of which New York had many), and of the kinds of fire-fighting equipment available. Bulau, *Footprints of Assurance* (New York, 1953) is another illustrated volume giving a detailed history of the development of fire insurance in the United States and containing a encyclopaedic and illustrated list of American fire marks; there is also a section of this book on parallel developments in foreign countries.

Since other volumes of the New Jersey Historical Series contain bibliographies of early histories of the State which were helpful in the preparation of this volume, I will not repeat them.

While there are no volumes on the general history of banking or insurance in New Jersey, there are innumerable publications on the history of individual institutions. Some of these are largely statistical indicating growth of assets, deposits, etc. Others contain long lists of names of directors and officers through the years but a number of them contain much historical information of an interesting nature not only with regard to the banks themselves but also with respect to the communities in which the institutions are located. While this list is by no means complete, the author read and utilized material from the following such publications. Some of these were formal books, others mere pamphlets. Most were privately printed. With regard to banks, the following items are of interest: A four-page reproduction of *The First Camden Whig,* dated February 12, 1959, a newspaper article devoted to the history of The First Camden National Bank and Trust Company; *Serving Hunterdon One Hundred Years,* published 1955 by the Hunterdon County National Bank; "One Hundred Years of Service" published in 1937 by the Burlington County National Bank of Medford; three publications of the Howard Savings Institution, Newark—the first a pamphlet commemorating the semi-centennial anniversay in 1907, the second entitled "Seventy Years, a History of Howard Savings Institution" (1932), and *Gateway of Progress, 1857-1957* published upon the occasion of its one-hundreth anniversary; "The Farmers and Merchants National Bank of Matawan" (1957); a newspaper form of commemoration published July 24, 1954, by Salem National Bank and Trust Company; "Salem County Handbook—1924" published by the Salem National Banking Company; the Orange Savings Bank's Centennial Anniversary pamphlet (1954); pamphlet entitled "125 Years of Service" (1941) by the Cumberland National Bank of Bridgeton; a book, *New Brunswick Savings Institution,* published in 1951 on the occasion of the Bank's one hundredth anniversary; a similar volume entitled *Down Through the Years, 1812-1937,* published by the National State Bank of Elizabeth, New Jersey; three illustrated brochures published by National Newark and Essex Banking Company in 1929, 1931 and 1954; an illustrated book, *The History of Hackettstown, 1754-1955,* published by the Hackettstown National Bank; "A

Century of Service," a pamphlet published by The Princeton Bank and Trust Company (1934); an illustrated pamphlet, "Forty Nine Feet on Broad," published in 1962 upon the occasion of its one hundred fiftieth anniversary by the National State Bank of Newark; another publication by the same bank, *The History of a Bank* (Newark, 1937); a pamphlet on the occasion of its one-hundredth anniversary, "Farmers National Bank" (Sussex); an illustrated pamphlet called "Historic Morris County," by the First National Iron Bank of Morristown (1955); Paul G. Tomlinson, *A History of the Trenton Banking Company, 1804-1929 (Princeton)* Carlos E. Godfrey, *The Mechanics Bank, 1834-1919;* and Sydney G. Stevens, "One of the Nation's Oldest Banking Houses, The Trenton Banking Company—1804-1954" (1954); "A Brief History of The First National Bank of Princeton" a pamphlet written by Paul S. Smith, 1962.

With respect to insurance companies, specific complete histories which were of particular interest were: *Down the Years, a History of the Mutual Benefit Life Insurance Company, 1845-1932* by Ward, published by the company; Marsh, *An American Portrait,* a history of the American Insurance Company (Newark, 1946); Stone, *A History of the Mutual Benefit Life Insurance Company* (Newark, 1957); Frederick L. Hoffman, *History of Prudential Insurance Company of America, 1875-1900;* and William Starr Myers, *Fifty Years of the Prudential, 1875-1925;* and Robert Sheehan, "That Mighty Pump—Prudential," *Fortune,* January, 1964, 99.

An article by Charles R. Howell, Commissioner of Banking and Insurance, New Jersey, "New Jersey's Contribution to the Evolution of Banking," *New Jersey Savings Bank Journal,* L (1958), is an interesting account. The Annual Reports with respect to banking, savings and loan institutions, and insurance in the State of New Jersey, published by the Department of Banking and Insurance were a source of much information, as were New Jersey newspapers such as the *Newark News* and the *Trenton Evening Times.* The Tercentenary Edition of March 8, 1964, of the *Trenton Sunday Times Advertiser* contained a great deal of interesting historical information concerning the State of New Jersey in general and had articles on the importance of banking and insurance in the State.

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