Chapter 11

central bank, a government institution that has responsibility for the amount of money and credit supplied in the economy as a whole. Furthermore, their distrust of moneyed interests int the big cities led them political pressure in an effort to eliminate the bank of the U.S.

To eliminate the abuses of the state-character banks (called state banks), the National Bank Act of 1863 (called national banks), supervised by the Office of the Comptroller of the Currency, a department of the U.S. Treasury. This legislation was originally intended to dry up sources of funds to state banks by imposing a prohibitive tax on their banknotes while leaving the banknotes of the federally charatered banks untaxed.

Dual banking system in which banks chartered by the federal government and banks chartered by the states operate side by side.

Federal Reserve System was created in 1913 to promote an even safer banking system. All national banks were require to become members of the Federal Reserve System and become members of the Federal Reserve System and became subject to a new set of regulations issued by the Fed. State banks could choose (but were not require) to become members of the system, and most did not because of the high costs of membership stemming from the Fed’s regulations.

Because the investment banking activities of the commercial banks were blamed for many bank failures, provisions in the banking legislation in 1933 (also known as the Glass-Steagall Act) prohibited commercial banks from underwriting or dealing in corporate securities and limited banks to the purchase of debt securities approved by the bank regulatory agencies. Likewise, this regulation prohibited investment banks from engaging in commercial bank activities.

The Fed also has regulatory responsibility over companies that own one or more banks (called bank holding companies) ad secondary responsibility for the national banks.

The FDIC and the state banking authorities jointly supervise state banks that have FDIC insurance but are not members of the Federal Reserve System. The state banking authorities have sole jurisdiction over state banks without FDIC insurance.

The Gramm-Leach-Bliley Financial Services Modernization Act of 1999, allows securities firms and insurance companies to purchase banks, and allows banks to underwrite insurance and securities and engage in real estate activities. Under this legislation, state retain regulatory authority over insurance activities, while the Securities and Exchange Commission continues to have oversight of securities activities.

The first framework is universal banking, which exists in Germany, the Netherlands, and Switzerland. It provides no separation at all between the banking and securities industries.

In a universal banking system, commercial banks provide a full range of banking, securities, real estate, and insurance services, all within a single legal entity. Banks are allowed to own sizable equity shares in commercial firms, and often they do.