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ARTICLE

Trade Acceptances, Financial Reform, and the Culture of Commercial Credit in the United States, 1915–1920

Jamieson G. Myles

This article examines the nationwide campaign by financial reformers in the 1910s to convince businesses across the United States to abandon established commercial credit practices and use trade acceptances—the quintessential "real bill"—in their stead. The creation of the Federal Reserve System (Fed) and the outbreak of World War I offered a powerful coalition of campaigners the opportunity to forcefully argue that by capitalizing open account credit, trade acceptances fostered good business practices and stabilized the banking and financial systems. These campaigners relied on trade associations to disseminate, and the federal government to legitimize, their message. While some firms obliged, many businesses and banks criticized the campaigners' arguments, casting trade acceptances as a means of financial centralization and as being contrary to the American culture of credit. Trade acceptances did not supplant promissory notes or trade in the open market and were rarely used by banks to access Fed liquidity. Instead, their legacy lies in their adoption by finance companies in the hope of securing financing for the distribution and mass consumption of consumer durables.

Keywords: business and culture, trade finance, bills of exchange, Federal Reserve System

Introduction

In her seminal book *Insider Lending*, Naomi Lamoreaux analyzed the late nineteenth-century shift from relationship to impersonal lending by New England banks. This shift, which resulted from a combination of structural economic change, the increasing interdependence of banks due to the rise of deposit banking, and a new class alliance between conservative bankers and middle-class professionals, meant manufacturing entrepreneurs could no longer depend on bank credit to finance investments in plant and equipment.[1]

Central to Lamoreaux's narrative is the claim that banking reformers invoked orthodox banking principles to legitimize this shift.[2] Modern commercial banks, the reformers

1. Lamoreaux, *Insider Lending.*
2. Lamoreaux, "'No Arbitrary Discretion.'"

stipulated, should specialize in buying "real" commercial paper in the form of short-term bills of exchange used to fund the production and circulation of commodities. Because these bills were based on "real wealth" and could be settled at maturity using the proceeds of the underlying transaction, the theory considered them to be self-liquidating and, as such, an ideal, impersonal asset in which banks should primarily invest to ensure that individual banks could pay deposits on demand and increase banking system stability.

There was just one problem. These so-called real bills were in short supply in the late nineteenth century due to structural changes and innovations in firms' commercial credit practices. In their stead, another type of commercial paper, the unsecured promissory note based on the borrower's general credit, had come to dominate. In this context, New England banking reformers concentrated on disciplining lending decisions by shortening loan maturities and developing objective lending criteria to prevent bank managers from using "arbitrary discretion". In practice, this meant evaluating creditworthiness based on strict norms about what proportion of a borrower's assets should be convertible into cash at short notice.

Lamoreaux's work has been influential in shaping our understanding of how New England's financial institutions assumed the characteristics associated with banks in market-based financial systems in which long-term investment is left to the capital markets. However, her focus on how the shift to impersonal lending affected the accumulation of fixed capital and the dynamics of modern economic growth means we are left wondering whether and how it affected the provision of working capital. This is important, because many industrial firms' external financing requirements stemmed from their working capital rather than fixed capital needs.[3] Furthermore, long-term trade credit—an important category of working capital—was the lifeblood linking firms along distribution chains.[4] Thus, there are good reasons why shifts in the duration and nature of bank lending might affect how the circulation of goods is financed.

This article explores the little-known efforts undertaken by financial reformers in the 1910s to accomplish what New England banking reformers had not even attempted: to orchestrate a vast national campaign to overturn U.S. businesses' established commercial credit practices with a view to generating real bills in the form of "trade acceptances" (i.e., commercial bills of exchange) and providing the nation's banking system with a steady supply of liquid commercial paper in which to invest. In doing so, it asks how the campaign relates to Lamoreaux's story of bank specialization and what it reveals about the relationship between business, banking, and the financial system.

Given the scale and audacity of the trade acceptance campaign exhibited in this article, it is striking that scholars have neglected it for so long. One notable exception is Rowena Olegario, whose work shows how early twentieth-century credit professionals came to favor trade acceptances because they "formalized book debts…, forced debtors to adhere more strictly to payment terms" and "in turn allowed the instruments to circulate and release the value that would otherwise have been tied up in creditors' accounts receivable."[5] Nevertheless, because

3. Pollard, "Fixed Capital"; Sokoloff, "Investment in Fixed and Working Capital"; Hudson, *Genesis of Industrial Capital*; O'Sullivan, "Living with the U.S. Financial System."

4. Olegario, *Culture of Credit.*

5. Olegario, *Culture of Credit*, 174–175.

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she spends little more than a paragraph on the topic, the context and significance of the campaign remain unclear. The most detailed existing accounts of the campaign date back to the 1920s.[6] Yet despite connecting trade acceptances to the broader financial reforms underway in the early twentieth century, those accounts are based on official Fed publications, so they reveal little about the discursive features of arguments for and against their adoption.

It is therefore relevant to document the origins, arguments, and significance of the trade acceptance campaign based on an analysis of previously unexploited internal documents and correspondence from the Federal Reserve Bank of New York (FRBNY) and the U.S. Treasury. In doing so, this study draws inspiration from economic and business historians who use the concept of culture, which is here assumed to mean "the attitudes and expectations shared within economic communities," as an analytical means of highlighting how cultures of credit can vary within ostensibly homogenous geographic units.[7] Furthermore, by simultaneously paying heed to institutional features and actors' narratives, the article assumes that both the structural-material and cultural-subjective dimensions of economic life are essential to understanding the historical evolution of capitalism and the role of enterprises within it.[8]

The article reveals that despite early twentieth century financial reformers' preoccupation with commercial credit discipline and the liquidity of bank assets, it was only after the creation of the Federal Reserve System (Fed) and the outbreak of World War I threatened to destabilize the South's banking system that a small but powerful set of actors started an informal campaign for trade acceptances. Rather than addressing banks directly to galvanize demand for these instruments, they focused on stimulating their supply by overturning businesses' established trade financing practices. When the United States entered the war, an institutionalized coalition actively argued that trade acceptances would both foster good business practices and stabilize the banking and financial systems, relying on trade associations and the federal government to disseminate their message. Some businesses obliged, but many vehemently opposed trade acceptances, casting them as antithetical to the American culture of credit. Trade acceptances did not supplant the promissory note, did not trade in the open market, and were decried by most banks which, moreover, did not use them to unlock Fed liquidity. Instead, the legacy of trade acceptances lies in their association with the finance companies involved in the credit revolution of the 1920s, which hoped to adopt them as collateral to secure financing for the distribution and mass consumption of durable goods.

These insights are relevant for at least two different strands of the business and economic history literature. Many historians attribute unique characteristics to U.S. financial, credit, and risk mitigation institutions and practices, and some writing in this journal have documented the implications of everyday business transactions for broader historical processes like financialization.[9] This article sheds light on a hitherto neglected aspect of that story by exploring how businesses' commercial credit preferences fit into the broader histories of banking and finance. Indeed, as Stephen Mihm has argued, finance binds production and

6. Silver, *Commercial Banking and Credits*; Mathewson, *Acceptances*; Parchmann, *Entwicklung des Wechselverkehrs.*

7. Smail, "Culture of Credit," 302.

8. Macekura et al., "Relationship of Morals and Markets"; Kocka, "Introduction," 6.

9. See Vanatta, "Charge Account Banking."

circulation together within capitalism, and yet many questions remain unanswered about how commercial credit instruments relate to the banking and financial systems more broadly.[10] In the event, despite trade acceptances' seeming inscrutability, this article postulates that these instruments, and trade finance in general, offer business historians a novel means of exploring how everyday business activities relate to macro-level structures.

This study also speaks directly to recent work arguing that the creation of an acceptance market became a central feature of early twentieth century financial reforms and documents the Fed's role in its development. While some scholars show how the acceptance market helped transform New York into a global financial center and made the U.S. dollar a world currency almost overnight, others attempt to balance that narrative with the reform's domestic dimensions, reminding us that broad and liquid domestic financial markets are essential for global monetary hegemony.[11] Because the most detailed study of the domestic significance of this new money market after the Fed's creation concentrates on reformers' struggles to bolster *demand* for acceptances among investors, new insights into the *supply* side of that story seem particularly germane.[12]

The article begins by providing some definitions and historical context. Then it examines the campaign for and resistance against trade acceptances. Finally, it evaluates the campaign's legacy before offering some concluding remarks.

Context

A trade acceptance is the term used in the United States to refer to a commercial bill of exchange like the one shown in Figure 1.[13] Its specific characteristics are compared with other common types of negotiable instruments in Table 1. Much like the better-known banker's acceptance, trade acceptances carried two names—that of the drawer and the acceptor who were jointly liable for its settlement—so contemporaries referred to acceptances generically as "two-name paper." In contrast, they referred to promissory notes—essentially unilateral promises to pay—as "single-name paper." As market operators bought and sold (or "negotiated") acceptances, they endorsed them by adding their signature on the reverse side.

While historians still debate their origin, bills of exchange were increasingly used by European merchants in the late medieval period and played a crucial role in the Commercial Revolution and the rise of merchant capitalism.[14] In the early modern period, they constituted

10. Mihm, "Follow the Money," 784, 797–798.

11. Eichengreen and Flandreau, "Rise and Fall of the Dollar"; Eichengreen and Flandreau, "Federal Reserve, Bank of England, and the Rise of the Dollar"; Broz, *International Origins*; Broz, "Origins."

12. O'Sullivan, *Past Meets Present.*

13. A trade acceptance was a "bill of exchange … drawn to order, having a definite maturity and payable in dollars in the United States, the obligation to pay which has been accepted by an acknowledgment, written or stamped, and signed across the face of the instrument by the company, firm, corporation, or person upon whom it is drawn; such agreement to be to the effect that the acceptor will pay at maturity, according to its tenor, such draft or bill without qualifying conditions." See Regulation P, *Federal Reserve Bulletin*, August 1915, 217, FRASER.

14. De Roover, "The Commercial Revolution"; Reinert and Fredona, "Merchants and the Origins of Capitalism."

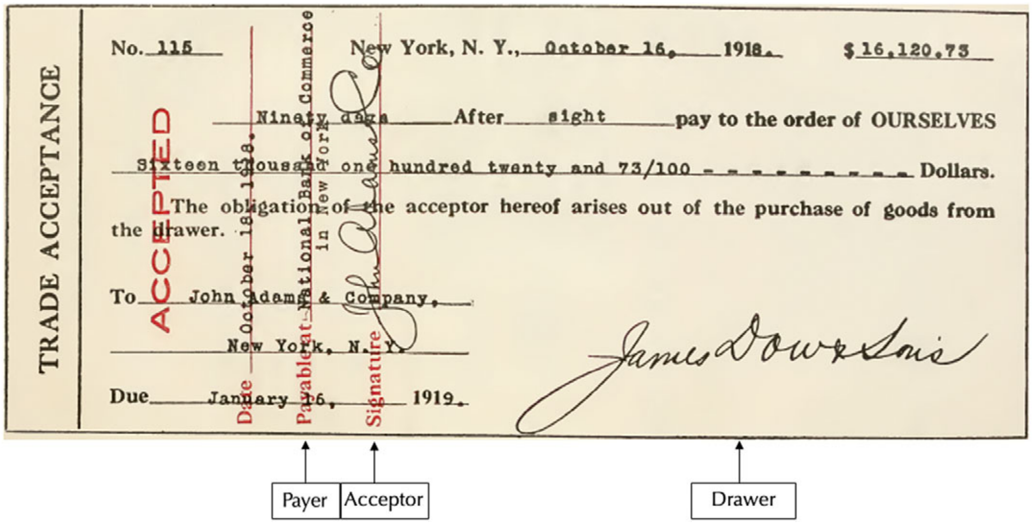

Figure 1. Example of a trade acceptance, ca. 1918. *Source*: National Bank of Commerce, *Commercial Banking Practice Under the Federal Reserve Act* (New York, 1918), 5, BLSC KBFF N277c.

"the lifeblood of European and colonial commerce" and remained at the heart of international trade and finance until the early twentieth century.[15] As such, they were ubiquitous in both the Atlantic slave trade and U.S. domestic commerce.[16] However, the financial, monetary, and trade fallout from the Civil War, combined with concurrent regulatory and structural changes, led to a drastic reduction in the use of bills of exchange by U.S. businesses to make payments and finance the domestic circulation of commodities.[17] By the early twentieth century, they represented just 3 percent of U.S. domestic credit transactions.[18]

In the postbellum decades, U.S. businesses widely adopted the "cash discount system." Under this dual pricing system, merchants offered a discount if buyers paid cash within ten days at a rate determined by the seller (typically between 2 and 5 percent) rather than prevailing market interest rates.[19] Retailers unable to pay cash received goods on credit and were expected to pay in thirty or sixty days; however, open account mercantile credits of this type were often rolled over, meaning that wholesalers often "carried" retailers, effectively providing them with a permanent source of working capital and acting as crucial credit intermediaries in many communities.[20] In parts of the country where banks were rare, such as the Cotton South, retail merchants relied on mercantile credit chains to exploit local credit and distribution monopolies.[21]

15. Trivellato, *Promise and Peril of Credit*, 1.

16. Morgan, "Remittance Procedures"; Morgan, "Merchant Networks"; Sheridan, "Commercial and Financial Organization"; Bodenhorn, *State Banking in Early America.*

17. West, *Banking Reform*, 156.

18. Agger, "Commercial Paper Debate"; Myers, *The New York Money Market*, 316.

19. Kniffin, *Commercial Paper*; Committee on Trade Acceptances, Commercial Law League of America, August 18, 1919, U.S. National Archives College Park (hereafter NACP), RG 56/191/1.

20. Olegario, *Culture of Credit.*

21. Ransom and Sutch, "Debt Peonage."

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Table 1. Negotiable instruments used in U.S. commerce

Instrument	Type	Payable on…	Procedure	Contingent liability of…	Collateral	Use in United States	Common name[a]
Trade acceptance	Order to pay	demand or time	Draft drawn by firm A (drawer) on, and accepted by, firm B (drawee/acceptor)	Acceptor, drawer, and endorsers	Unsecured ("clean") or documentary	Absent since Civil War	Two-name paper
Banker's acceptance	Order to pay	demand or time	Draft drawn by a firm on, and accepted by, Bank A	Acceptor, drawer, and endorsers	Documentary	Absent since Civil War	Two-name paper
Promissory note	Promise to pay	demand or time	Note made unilaterally by firm A	Maker and endorsers	Unsecured	Ubiquitous since Civil War	Single-name paper
Check	Order to pay	demand	Draft on bank deposit by firm A	Drawer and endorsers	Unsecured	Ubiquitous since 1890s	Check/draft

To qualify as a negotiable instrument, all four instruments had to be payable either to order or to bearer.
[a]Endorsed promissory notes became two-name paper; similarly, endorsed acceptances became three-name paper. However, contemporaries used the terms "one-" and "two-name paper" to differentiate between acceptances and promissory notes.Note: Author's elaboration. Based in part on Geva, *Payment Order*, 680; James and Weiman, "From Drafts to Checks"; James, *Money and Capital*.

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To fund discounted cash purchases, buyers could use their own capital or obtain a general working capital loan from a bank based on their overall creditworthiness. This they did either by discounting their unsecured promissory note at the bank (i.e., selling their note outright at a slight discount on its face value) or using it as collateral to obtain an interest-bearing loan.[22] Because promissory notes only directly involved one party, they could easily be rolled over at maturity. By the turn of the twentieth century, single-name promissory notes were ubiquitous and were "always presumed to be issued for the purpose of taking advantage of cash discounts."[23] By 1914, a $2 billion commercial paper market had emerged, but only companies with a capital stock above $200,000 could sell their notes in this way, meaning that just 1,000 to 1,200 of all U.S. firms could access it.[24] Due to the idiosyncratic character of most firms' promissory notes, they were "poorly adapted to the purposes of an 'elastic' open market."[25] As a result, the most liquid money market available for banks to invest their liquid reserves was New York's call loan market based on stock exchange collateral. However, insofar as this market created a direct link between money and capital markets, large variations in liquidity demand stemming from the vast and highly seasonal agricultural sector caused securities market volatility and, in some cases, full-blown financial crises.[26]

Following one such crisis—the Panic of 1893—bankers, academics, and professional organizations began advocating for improved commercial credit practices and national financial and banking reform. For members of the National Association of Credit Men (NACM), founded in 1896, the Panic had revealed how "mercantile credit bound every segment of the economy together" and how retailers were the weakest link in the credit chains that "made American capitalism run." Subsequently, the NACM focused on restricting "unworthy" retailers' access to credit by increasing discipline.[27] In parallel, monetary conferences organized in 1894 and 1897 in Baltimore and Indianapolis—usually considered the origins of the financial reform movement that culminated in the creation of the Federal Reserve—led to discussions about creating an asset-backed currency designed to alleviate financial instability by giving more flexibility to the monetary and credit systems.[28]

"Sound money" and "scientific banking" were at the core of the financial reform movement. According to historian James Livingston, these principles precluded a credit system based on promissory notes, open accounts, and cash discounts; instead, they favored a narrow definition of bank assets designed to prevent businesses from using ostensibly short-term commercial credit instruments to fund permanent investments in fixed or working capital. Financial reformers therefore sought "to dismantle, by means of banking reform, the financial foundations of the entrepreneurial, individualistic system of production and distribution which had made the American industrial revolution of the late nineteenth century." As many reformers came to believe, a central bank was "critical to the development of [an open]

22. James, *Money and Capital Markets*, 54, 57.

23. Foulke, *Commercial Paper Market*, 11, 13.

24. Greef, *Commercial Paper House.* Quoted in Goodhart, *New York Money Market*, 24; Foulke, *Commercial Paper Market*, 24.

25. Palyi, *Chicago Credit Market*, 110.

26. James and Weiman, "From Drafts to Checks"; Goodhart, *New York Money Market.*

27. Smith, "Elimination of the Unworthy," 203, 198.

28. West, *Banking Reform*; O'Sullivan, "Past Meets Present."

discount market and thereby to the restriction of 'unproductive' capital investment." Such a restriction was "a *sine qua non* to making American commercial paper as liquid an asset as negotiable securities—and therefore to stabilizing the money and capital markets by shifting the burden of collateral in the money market from securities to bills of exchange."[29]

According to some scholars, the real bills doctrine constituted the theoretical framework underpinning the Fed.[30] At its core was the notion that if bank lending was limited to investments in real bills such as acceptances, then the money supply would naturally adapt to the needs of trade without influencing the price level, obviating the need for a central bank responsible for actively managing credit conditions entirely.[31] A monetary system that did not require centralized management inevitably appealed to those who perpetuated the Jacksonian rhetoric of resistance to efforts to make the Second Bank of the United States the nation's first government-regulated central bank.[32] However, the doctrine was "roundly criticized and ridiculed by the theorists who were most influential in outlining the rationale for central banking."[33] Still, as Joseph Schumpeter observed, despite being a "faulty theory," it generated "wise advice" by encouraging bankers to monitor their cash positions and limit loan maturities.[34]

The notion that a European-style acceptance market was key to making financial reformers' broader aims a reality was only formulated in explicit terms by investment banker and prominent financial reformer Paul M. Warburg in 1910. This formulation became the basis of concrete proposals to replace the call loan market with a money market based on acceptances.[35] But there is no known evidence that he or anyone else planned to compel businesses to adopt trade acceptances in their domestic trading operations. In fact, Warburg himself observed that trade acceptances did not circulate in Europe's open acceptance markets.[36] Nevertheless, the domestic supply of real bills became a point of contention during the congressional hearings that preceded the passage of the Federal Reserve Act. The most zealous adherents to the real bills doctrine insisted on outlawing domestic acceptances altogether. Just as they had been subject to abuse in the past, they might again be misused, thus triggering inflationary pressures. Some country bankers announced that if their New York correspondent banks began accepting customers' bills, they would "transfer their balances to more conservative banks." Yet as one senator queried: "Is it not the case that the aggregate of all the acceptances in this country would not begin to furnish enough securities to issue money against?" Meanwhile, Samuel Untermyer, the lawyer of the infamous Pujo Committee that had accused the "money trust" of exerting undue control over the securities market, applauded the prospect of replacing illiquid open account credits and promissory notes with domestic acceptances and establishing a national acceptance market overseen by a government-controlled central bank capable of influencing the cost of credit. This was the best way to

29. Livingston, *Origins of the Federal Reserve System*, 21, 171, 201–202.
30. West, *Banking Reform*, chap. 7.
31. Mehrling, "Retrospectives," 209.
32. Mihm, "The Fog of War."
33. Livingston, *Origins of the Federal Reserve System*, 25.
34. Schumpeter, *History of Economic Analysis*, 699.
35. O'Sullivan, "Past Meets Present"; Wicker, *Great Debate*, chap. 7.
36. Warburg, *Discount System in Europe*, 14.

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stop "large bankers" from dominating the acceptance business and the market that underpinned it.[37] In this light, the real bills doctrine's "rhetorical success" therefore lay in the notion that it insulated the financial system from the control of both "big government" and "big finance."[38]

When President Woodrow Wilson signed the Federal Reserve Act into law on December 23, 1913, questions remained about the proper definition and role of real bills in the banking and financial systems.[39] Nevertheless, section 13 of the act clearly stated that, in addition to a mandatory 40 percent gold backing, reserve banks would only issue lawful money (i.e., Federal Reserve notes and reserves) against commercial paper "arising out of actual commercial transactions," with maturities limited to ninety days.[40] This vindicated NACM demands made during congressional hearings that "rigorous standards" be imposed on the types of commercial paper the Fed could deal in so as to "dissuade bankers from purchasing the notes of unworthy retailers."[41]

Although the Fed considered acceptances as "*prima facie* evidence of the [commercial] character of the transaction from which it arose," they were almost nonexistent. Because of the dangers associated with domestic acceptances, the Fed's regulations initially limited its rediscounting of, and open market operations in, acceptances—and the acceptance privileges of its members—to those arising out of international trade only.[42] In this context, the Fed had little choice but to extend discount window eligibility to single-name promissory notes and develop strict rules differentiating between borrowers' fixed, slow, and quick assets to ensure such notes were indeed self-liquidating and not being used to finance investments "of a permanent or speculative nature."[43] If the member banks discounting such notes signed an affidavit outlining "the nature of the business, the balance sheet, and the profit and loss account" of the ultimate debtors, the notes were stamped as "eligible" to facilitate their negotiation.[44]

Despite Fed officials' efforts to make single-name commercial paper resemble self-liquidating paper, much like New England reformers before them, most of the paper in the banking system could not meet the Fed's standards. Bankers also complained that the new rules constrained their business decisions and reported that customers resisted disclosing the required information.[45] The financial shock caused by the outbreak of World War I served as a stark reminder of the potential benefits of the Fed's lender of last resort capabilities.[46] Yet

37. *Committee on Banking and Currency*, S. 2639, vol. 1, 1913, 529, 732, 488, 808–811, FRASER. On the Pujo Committee and its effect on financial reforms, see Orian Peer, "Negotiating the Lender-of-Last-Resort," 395–399; O'Sullivan, *Dividends of Development*, chap. 6.

38. Mehrling, "Retrospectives," 209.

39. Eichengreen, "Doctrinal Determinants."

40. Federal Reserve Act, December 23, 1913. It also extended eligibility to agricultural paper with maturities of up to six months.

41. Smith, "Elimination of the Unworthy," 218.

42. Federal Reserve Board, Regulation no. 13, November 10, 1914; Sect. 14, Federal Reserve Act; Federal Reserve Bank of St. Louis, Online (hereafter FRASER).

43. The Fed stated that notes "should represent in every case some distinct step or stage in the productive or distributive process—the progression of goods from producer to consumer." Federal Reserve Board, Circular no. 13, November 10, 1914, 2–3, FRASER.

44. The Fed also reserved the right to request access to detailed credit reports at any time.

45. Willis, *Federal Reserve System*, 918. Quoted in Parchmann, *Entwicklung des Wechselverkehrs*, 59.

46. O'Sullivan, *Dividends of Development*, chap. 8.1.

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despite having $18 million available in paid-in capital and some $285 million in total assets at the end of 1914, the Fed held just $9,909,999 in promissory notes (and $0 in bankers' acceptances) in its portfolio.[47] A central reserve system capable of influencing lending practices using regulatory adjustments had come into being, but the liquid commercial paper necessary for the emergence of an acceptance market was still lacking.

Campaign

In August 1914, just after war erupted in Europe, there were murmurs about liberalizing Fed restrictions on domestic acceptances. Those most adamantly wedded to a classical interpretation of the real bills doctrine described this proposal as "the climax of absurdity" and denounced it as yet another "inflationary scheme" proposed by "a certain class of bankers [who] are doing all they can to take advantage of the war situation as a pretext to get changes in the reserve law."[48] By the spring of 1915, the Fed itself was considering authorizing Federal Reserve banks to deal in domestic trade acceptances. Paul Warburg—now a Fed board member—feared such a policy change would generate "heated controversy" and cause "dangerous complications at a moment when confidence and good will were of the highest importance for the quick and successful development of the system."[49] Despite these hesitations, however, the board announced just a few months later that reserve banks could thenceforth rediscount trade acceptances. With just a stroke of the pen, trade acceptances were now nearly as good as lawful money. To justify its decision, the Fed cited the collapse of European demand for raw cotton following the eruption of World War I and its effect on the South's banking system.[50] As Fed governor Charles Hamlin noted, it was "clearly in the common interest" of producers, manufacturers, consumers, and bankers alike "that credits based upon [cotton] be protected as far as possible from the danger of demoralization" and he suspected that trade acceptances might "aid materially" in that endeavor.[51]

The Fed adjusted its rules and practices to encourage banks to invest in trade acceptances. First, it established a preferential discount rate above that applied to bankers' acceptances but "somewhat lower than that applicable to other commercial paper."[52] In doing so, it expected to "considerably enlarge the scope of service of Federal reserve banks" and encourage banks to favor two-name paper. Then, in March 1917, the Fed made trade acceptances drawn *after* the shipment or delivery of goods eligible for rediscount.[53] Notwithstanding this support, some observers noted that the "practical disappearance" of trade acceptances from the U.S. banking system was the "result of conditions that have not been materially changed by the Federal

47. Parchmann, *Entwicklung des Wechselverkehrs*, 59.
48. Willis to Glass, August 28, 1914, Carter Glass Papers, University of Virginia, MSS 2913/174/6.
49. Warburg, History of the Development of the Acceptance Regulation, October 5, 1915, Paul M. Warburg Papers, Yale University Archives (YUA), MS 535/9/116.
50. Myles, "Steering the Wheels of Commerce," 4.
51. Hamlin to Jay, August 3, 1915, Federal Reserve Bank of New York Archives (hereafter FRBNYA), 432.
52. Regulation P, *Federal Reserve Bulletin*, August 1915, 216–217.
53. *Federal Reserve Bulletin*, March 1917, 197.

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Reserve Act" and asked: "Why try to revive a custom evidently unfitted to serve the peculiar needs of the business system?"[54]

From early on, therefore, those who favored the widespread adoption of trade acceptances knew that the transformation of the existing commercial credits system constituted a "herculean task" and would require more than a few interest rate and regulatory adjustments.[55] As the Fed noted in 1916: "The change proposed … is fundamentally a change of business rather than a change of banking." Accordingly, many bankers believed "that the change, if it comes at all, will come very slowly" and as such "it will probably be necessary to have a situation exist whereby the merchants of the country can secure their required accommodation in no other way."[56] Notwithstanding the scale of the task, Paul Warburg remained "profoundly convinced that if we all keep on preaching [the trade acceptance] gospel we shall succeed in advancing its use."[57]

So began a remarkable campaign involving both trade associations and the U.S. federal government to convince U.S. businesses to adopt trade acceptances in their regular commercial dealings. The campaign's exact origin is obscure, but the NACM appears to have been the first institutional actor to get involved, undertaking a "very active campaign of education."[58] It soon became clear that trade associations were the ideal channel through which to promote trade acceptances. Manufacturers reported that "no firm or combinations of firms could afford to make so fundamental a change without the concerted action of all other firms in the same line unless they had a monopoly of their product."[59] As the secretary of the American Association of Wholesale Opticians wrote in 1918: "Trade associations are the boot-straps of our business" so there was "no more fertile field in which to work for the adoption of the trade acceptance," especially because it was "usually the most progressive men of an industry who compose such organizations."[60] Conscious of the advantages of working through trade associations, bankers recognized that they should "aim … to induce the various trade organizations to study the question with the view of having their members uniformly adopt the system."[61] There were some worries about the antitrust implications of coordinating trade credit practices across state lines, so the American Bankers Association's Special Committee on Trade Acceptances asked its legal counsel to write a brief on the issue. Its counsel concluded that trade association involvement in promoting trade acceptances was lawful, because trade acceptances "tend to promote rather than restrain interstate trade."[62] Although this legal opinion did not completely allay their fears, campaigners continued to rely on trade associations to disseminate their message in the years that followed.

54. Unknown to Strong, August 16, 1915, FRBNYA, 434.
55. Beckhart, *The New York Money Market*, 263.
56. "Commercial Paper Market," *Federal Reserve Bulletin*, September 2016, 451–452.
57. Warburg to Jay, February 14, 1916, FRBNYA, 434.
58. Warburg to Jay.
59. Orr Shoe Company to Atlanta Stove Works, May 29, 1916, FRBNYA, 434.
60. Storms, "Trade Associations and the Trade Acceptance," *Trade Acceptance Journal*, May 1918, Baker Library Special Collections (hereafter BLSC), JAJM.9 A51.
61. "Reserve Bankers Discuss Acceptances," *Journal of Commerce* [May 12, 1918], FRBNYA, 434A.
62. Judge Paton, "Trade Acceptances and the Anti-Trust Act," October 25, 1917, FRBNYA, 434. See Hopkins v. United States (171 U.S. 578).

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As well as relying on specialized trade associations, campaigners also created their own formal organizations to promote trade acceptances. In the autumn of 1917, after the United States had entered World War I, trade acceptances were on the agenda of the Business War Conference in Atlantic City. Delegates from the American Bankers Association, the U.S. Chamber of Commerce, and the NACM formed a committee to promote trade acceptances that subsequently became the American Trade Acceptance Council.[63] It set out to mount a comprehensive campaign and promised that "no section of the country will be overlooked—no class of industry left out—no effort or expense will be spared … to convince business men and bankers … that the best interests of their business and of their country will be served" by its intention of introducing "a better national commercial credit condition."[64]

In addition to trade organizations and dedicated bodies, trade acceptance campaigners identified the federal government as a powerful potential partner. As they noted: "So long as this new method of doing business is made to appear to the benefit of only the creditor class, we may expect strong opposition from the debtor class." In this regard, Federal Trade Commission support might help to create a "great public movement" and ensure that retailers in particular "would not look so wooly and wild-eyes [*sic*] when this sort of settlement was asked or required."[65] Efforts to leverage government support only increased after the United States entered the war. To set a positive example for businesses and bolster the supply of trade acceptances carrying recognizable names, one New York banker suggested that the secretary of the Treasury might have the railroads, which at the time were under government control, adopt trade acceptances in their daily operations.[66] Following a request from the American Trade Acceptance Council, the War Credits Board intimated that if government-paid contractors used trade acceptances, this would "set an admirable example to private industry."[67] Trade acceptances accepted by government entities would provide an "excellent line of super-prime paper" that, moreover, would be an "excellent basis for issues of currency."[68]

How did campaigners frame the advantages of the trade acceptance plan? Based on a January 1917 *Federal Reserve Bulletin* article, their arguments can be classified into two main categories: the benefits from the perspective of businesses, and those affecting the banking and financial systems.[69] The first category claimed that trade acceptances were the proper choice for "progressive houses" dedicated to the improvement of business practices.[70] If adopted, they would "[eliminate] the overdue accounts" that reportedly represented 30 percent of wholesalers' sales and leave little doubt about the volume of quick assets on their balance sheets. Their use would "educate the retailer" by ending his reliance on jobbers and manufacturers for working capital credit, which he used in turn to finance inventories and sales on

63. "A Survey of Trade Acceptance Progress," *Trade Acceptance Progress*, Irving National Bank, December 1920, New York Public Library (hereafter NYPL); Mathewson, *Acceptances*, 310.

64. "Mission of the American Trade Acceptance Council," *Trade Acceptance Progress*, Irving National Bank, January 1918, NYPL.

65. Jones to Choate, May 29, 1916, FRBNYA, 434.

66. Coal & Iron National Bank to McAdoo, March 1, 1918, FRBNYA, 434.

67. Thompson, War Credits Board, July 1918, NACP, RG 56/191/274.

68. Thompson.

69. "Trade Acceptances," *Federal Reserve Bulletin*, January 1917, 9–10.

70. Treman to Varney Electrical Supply Company, December 31, 1917, FRBNYA, 434.

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credit to consumers. If he learned to do business using his own capital resources instead of relying on mercantile credit, he would also have more skin in the game. The systemic adoption of trade acceptances would therefore result in "a great improvement in the whole merchandising system" and "make the untrained and unsystematic tradesman of less menace" to competitors operating under "sound methods." Finally, trade acceptances would be a boon for the economy overall, because "every time that [the businessman] turns his capital and makes a profit it is producing wealth."[71]

The second category of argument highlighted trade acceptances' positive impact on banking and financial stability. As the safest basis for credit expansion, they would be good for the financial system, because they transformed "dead capital" (i.e., nonnegotiable open book credits) into "live capital." After endorsing them, banks could use these standardized, short-term credit instruments to obtain liquidity in the acceptance market—or indeed at the Fed—at any time. As Paul Warburg noted, his "deep" interest in the widespread use of these instruments stemmed from his belief that "the entire banking system … will be safer, for the member banks would purchase a larger amount of trade acceptances and a smaller amount of promissory notes."[72]

In the context of World War I, campaigners doubled down on this second category of arguments, billing the adoption of trade acceptances as a "patriotic duty."[73] The Fed began advocating the "widest possible use of trade acceptances" in order to "mobilize all the financial resources of the country so that we can win the war."[74] Using them would help to "expand the credit structure of the nation," as they were not subject to Section 5200 of the banking code, which barred banks from lending more than 10 percent of their capital to a single borrower, and virtually unlimited quantities of them could be rediscounted at Federal Reserve banks.[75] The "essentially self-liquidating character of trade acceptances" meant they constituted a superior alternative to promissory notes, which represented "more or less permanent capital" and were "unresponsive to control through discount rates."[76] As the U.S. Chamber of Commerce insisted, replacing mercantile credit with trade acceptances was desirable, because unlike government Treasuries—which represented the single largest asset class on the Fed's balance sheet during the conflict—they provided a noninflationary backing to the note issue.

Using its discretionary powers, the Fed instrumentalized the cotton crisis to give trade acceptances preferential access to its discount window. Conscious of the scale of the proposed credit revolution, campaigners solicited the aid of trade associations and the federal government and eventually created bespoke advocacy organizations to promote and expand the use of trade acceptances by "progressive" businesses. The "dead/live capital" framing suggests campaigners believed that by capitalizing trust-based mercantile credits and ensuring their

71. Silver, *Commercial Banking and Credits*, 169.

72. Warburg to Farwell, February 11, 1916, FRBNYA, 434.

73. Lewin, "The Use of Trade Acceptances a Patriotic Duty" [October 23, 1917]; Warburg, Address to American Trade Acceptance Council, June 17, 1918, FRBNYA, 434, 434A.

74. Callender & Co., Ltd. Memo, n.d. [1917], FRBNYA, 434.

75. Agger, "Commercial Paper Debate," 665; Foulke, *Commercial Paper Market*, 21; Brown, "Bankers' Acceptances," 104; "Trade Acceptances," *Federal Reserve Bulletin*, January 1917, 9–10.

76. U.S. Chamber of Commerce. Quoted in Kenzel to Treman, June 5, 1918, FRBNYA, 434.

convertibility into money, they would increase business profitability, reduce the cost of borrowing, and make bank lending and business activity adjust to fluctuations in money market conditions.[77] Notwithstanding its appeal to national solidarity during the war, however, resistance to the trade acceptance campaign remained strong.

Resistance

Despite their arguments in favor of trade acceptances and the considerable means invested in promoting them, campaigners faced a difficult task. Their growing frustration is palpable in a speech given by Paul Warburg to the American Trade Acceptance Council in 1918:

> After the automobile made its appearance there were still men and women who argued passionately that the people who used them were snobs and murderers.… [But they] were still dealing with the automobile as with a theory; they did not realize that … the automobile had already proven its worth, had been definitely adopted and had begun to gain an ever-growing importance in the economic life of all nations.… Similar discussion took place concerning the Federal Reserve System during the first year or two of its operation. People were still urging that it was an impossible system conceived by theorists and doing violence to old banking practices.… A similar condition prevails at present with respect to the trade acceptance.[78]

The arguments against trade acceptances that Warburg alluded to came in three main categories.[79] The first related to the practical challenges that their adoption raised. Merchants complained that as an unconditional promise to pay, the trade acceptances made it difficult for them to purchase unfamiliar lines of goods because they wanted to inspect merchandise before accepting bills relating to them.[80] Many also reportedly struggled to grasp the technicalities of trade acceptances. One city banker spoke of the "woeful ignorance" of many small merchants and insisted that if the "[trade acceptance] was to be used at all by the 'sansculotte', it must … be extra plain in its terms."[81] Meanwhile, country bankers argued that widespread use of trade acceptances would generate vast quantities of paper that were likely to be misplaced and require a costly increase in clerical staff.

A second category of criticism was that trade acceptances were incompatible with the competitive dynamics of U.S. mercantile enterprise. Even if smaller merchants adopted trade acceptances, critics claimed, the stronger merchant houses would use their large financial resources to continue providing working capital to retailers "to the detriment of their competitor." Critics of the trade acceptance claimed that merchants' customers "may not, at

77. On the concept of capitalization, see Cook, *Pricing of Progress*; Levy, "Capital as Process." On convertibility as a basic attribute of capital's legal code, see Pistor, *Code of Capital.*

78. Warburg, Address to American Trade Acceptance Council, FRBNYA, 434A.

79. Based on "Trade Acceptances," *Federal Reserve Bulletin*, January 1, 1917, 9–10.

80. The prevailing system of implied warranties "[stood] in the way of any fixed and definite settlement of the amount due." Kniffin, *Commercial Paper*, 9.

81. Industrial Bank of New York to Jay, August 11, 1920, FRBNYA, 434.

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first, take kindly to the change to definite maturities." After all, because of the close contact with retailers through their collections and sales departments, jobbing houses could carry retailers through the year and avoid their "annihilation" in case of crisis far better than a bank dealing in trade acceptances could.[82]

Finally, many country bankers argued that switching to trade acceptances would squeeze their profits insofar as they were expected to command lower rates than promissory notes. While interest rates in the country's interior were higher than in the main money centers, they tended to be more stable because country bankers often preferred to refuse loans rather than adjust their rates to a level that allowed them to profitably refinance them.[83] In this light, it is not surprising that so many bankers resisted a reform specifically designed to make local rates on commercial paper fluctuate in line with money market conditions determined by supply and demand and the Fed's monetary policy decisions.[84]

The arguments against trade acceptances based on their practical constraints were numerous and varied, but there were also more fundamental issues at play. Documents collected by the Fed but not published in its official documents suggest that two issues in particular fueled resistance to the campaign: confusion about the trade acceptance plan's effect on the cash discount system and how trade acceptances related to bankers' acceptances and the acceptance market more broadly.

There was considerable ambiguity about whether trade acceptances were compatible with the cash discount system. The American Trade Acceptance Council's castigation of the "open book-cash-discount-single name paper system" in its publications is emblematic of campaigners' desire to eradicate a system it deemed "wasteful, archaic, non-liquid, and attended to by many abuses and disadvantages."[85] Campaigners considered the system undesirable and inefficient, because the rates of discount offered on cash payments did not reflect "the real value of money."[86] As Paul Warburg remarked: "If the trade acceptance can be developed the exorbitant cash discount will, in a great many cases, be reduced, and as the exorbitant cash discount ceases to exist, there will in turn be a greater tendency on the part of the businessmen to give an opportunity to the trade acceptance."[87] Yet some academics and merchants rejected the notion that trade acceptances were safer and more desirable than cash discounts. Harvard economist Oliver Sprague asserted that ninety-day trade acceptances constituted a "backward step."[88] The president of the Western Grocer Company argued that such "long and easy credit" would make people "live beyond their incomes" and in the end this would "keep many a man from getting ahead financially."[89] Many critics believed that a businessman using trade acceptances "publishes the fact that he has not taken advantage of this cash discount" and

82. Hathaway, Smith, Folds & Co. to Webster & Atlas National Bank, November 16, 2015, FRBNYA, 434.

83. Goodhart, *New York Money Market*, chap. 3.

84. Local banks sometimes refused to discount trade acceptances below the 6 percent rate they were accustomed to receiving on promissory notes. See Varney Electrical Supply Co. to Treman, December 17, 1917, FRBNYA, 434.

85. Holdsworth, *Trade Acceptance Catechism*, American Trade Acceptance Council, 1918, 6.

86. Ellis, *The Trade Acceptance and Cash Discount*, October 1918, HathiTrust Digital Library, Online.

87. Warburg to Treman, September 20, 1917, FRBNYA, 434.

88. Kemmerer to Treman, December 2, 1916; Ohio Retail Dry Goods Association. Quoted in Treman to Tregoe, May 16, 1917; "Trade Acceptance Plan," March 12, 1918, FRBNYA, 434.

89. Letts, "Long, Easy Credit Terms: Is It Practicable to Shorten Them?," [n.d.], NACP, RG 56/191/1.

is therefore a "poor business man"; as a result, "such a buyer's acceptance is without the support of qualities essential to sound credit."[90] Thus, while trade acceptance campaigners argued that two-name paper increased confidence in their self-liquidating nature, detractors insisted that "the needed duplication of names is an evidence of weakness in both." Some even questioned whether trade acceptances and promissory notes were really any different, suggesting the proposed change could "no more change the credit features of a transaction than can a sheep-skin change the nature of a wolf."[91]

Campaigners soon became wary of the dangers of framing the trade acceptance plan in terms of its effect on the cash discount system. Following a July 1917 *Wall Street Journal* article stating that the Fed favored the cash discount system's abolishment, the FRBNY's deputy governor characterized the statement as "very unfortunate and misleading" and insisted it be taken seriously because of its possible negative effect on the "small bankers and others whom we are trying to educate … but whose natural position is one of reluctance to take up anything new even if it is better." Beverly Harris of National City Bank immediately penned a public riposte stating that it was "not at all the case" that trade acceptances would have this effect or that the board thought it should be so. Sound business meant encouraging cash payments or short credit periods, Harris contended, and "as a means to this end a properly adjusted system of cash discounts is not objectionable." After all, "no process of evolution will ever bring banking and trade interest to the point where the encouragement of cash payments in our system of doing business will not be considered fundamental." The priority should therefore be on reducing the use of open account credit (which was "expensive," "economically wrong," and laid "an undue tax on the ultimate consumer") and, for wholesalers who did offer cash discounts, adjusting the discounts in line with the prevailing interest rate.[92]

Campaigners had good reason to fear this potential confusion. Alabama attorney Claude D. Ritter's speech before the Commercial Law League of America's 1919 annual meeting was emblematic of how critics instrumentalized this issue. The very suggestion that trade acceptances and cash discounts were compatible constituted proof, he insisted, that campaigners were "disingenuous" and "willing to argue or promise almost anything to put over their precious trade acceptance plan."[93] Others, such as Wallace D. Simmons of the Simmons Hardware Company, went even further, framing it as a blatant attack on the prevailing "American credit system."[94] That system represented "one of the basic ideals of our country" and "one of the prime assets of American citizenship—the chance to prosper and progress to whatever extent each man has in him the requisite capacity, energy and business ability to take advantage of the opportunities which abound in this great Republic."[95] In the past, Simmons argued, the scarcity of capital in the American interior had meant that the "close and cooperative relationship" between wholesalers and retailers had been central to the

90. Wetherill, "Trade Acceptances Embody Inferior Credit," March 27, 1919, NACP, RG 56/191/1.
91. Paine for Briggs, March 22, 2017, FRBNYA, 434.
92. Treman to Warburg, July 26, 1917. See also Harris to Treman, September 25, 1917, FRBNYA, 434.
93. Ritter, "Condemning Trade Acceptances," August 18, 1919, NACP, RG 56/191/1.
94. Quoted in Treman to Jenks, April 11,1919, FRBNYA, 434.
95. Simmons, "The Importance of the Cash Discount System in the American Credit System," January 15, 1919, NACP, RG 56/191/1.

country's economic and geographic expansion.[96] The country's commercial centers represented "monuments to the business acumen of the men who built up our domestic trade under our own credit system, by knowing how far to follow academic theory and where to leave it." As he went on to state:

> There are those who by their criticisms of the average run of people as they are turned out by the Almighty Creator appear to think that they could have done very much better than He, and who consequently assume the role of repairers and correctors of the Almighty's mistakes. Their method is usually to lay down inflexible rules to which all must conform. In some parts of the world, they call that sort of thing Kultur.[97]

Simmons' use of the term "Kultur" was characteristic of critics' efforts to suggest trade acceptances were "foreign." At the time it was widely reported that domestic trade in Britain no longer relied on trade acceptances.[98] The bills in the London discount market, which financial reformers often invoked as the model of the American acceptance market, were indeed overwhelmingly *bankers'* acceptances generated through international trade.[99] The suggestion that the United States should emulate Britain therefore provided critics with additional evidence that the underlying aims of the trade acceptance scheme must lie elsewhere. Germany, in contrast, reportedly did still use trade acceptance in domestic trade.[100] Yet as Claude Ritter declared before the Commercial Law League to rapturous applause: "If the system advocated by our propagandist [the previous speaker] is copied from the German as suggested…then, Gentlemen of the Convention, what more do you require to eternally damn it?"[101]

The ambiguity about what effect trade acceptances would have on cash discounts and the flexibility of the "American credit system" was instrumentalized by opponents as proof of campaigners' disingenuousness and the unsuitability of these foreign practices in the United States. However, another fundamental feature of the campaign also opened the door to criticism: the confusion surrounding the difference between the trade acceptance and the domestic banker's acceptance. While dealings in trade acceptances were authorized in August 1915, domestic bankers' acceptances were only authorized the following September.[102] Statutorily, bankers' acceptances had to be secured by shipping documents conveying or securing title to merchandise or agricultural staples. They were, therefore, the commodity credit *par excellence*, and because they carried the guarantee of a first-class bank, they commanded the lowest rates available in the money market. Trade acceptances, conversely, still depended on the general creditworthiness of the two parties—essentially any conceivable U.S. business—that signed them. For this reason, Paul Warburg suggested that first-class commercial banks should

96. Simmons, "The Importance of the Cash Discount System in the American Credit System," *Hardware Dealers' Magazine*, 53, February 1920, BLSC, SVRP.9 H266.

97. Simmons, "The Importance of the Cash Discount System in the American Credit System."

98. "British Use Overdrafts—These and Advances Replace Trade Acceptances," *New York Times*, July 27, 1919, NACP, RG 56/191/1.

99. Wetherill, "Trade Acceptances Embody Inferior Credit," March 27, 1919, NACP, RG 56/191/1.

100. Domestic trade acceptances were particularly common in France at the time. See Plessis, "La révolution de l'escompte."

101. Ritter, "Condemning Trade Acceptances."

102. Logan, "Amendments to the Federal Reserve Act"; Beckhart, *The New York Money Market*, 267–268.

endorse trade acceptances on a commission basis to improve their negotiability and that reserve banks should purchase such paper to support the development of an open market for these instruments "much in the same way as they are standing back of the open market in bankers' acceptances."[103] A stylized visual representation of what Warburg had in mind can be seen in Figure 2.

Despite these efforts to make trade acceptances look more like bankers' acceptances, campaigners voiced their frustration regarding this confusion. As early trade acceptance supporter John Jenks wrote in a letter to the FRBNY: "Do you not find that most people through their confusion of 'trade acceptances' with 'bank acceptances' [attribute] qualities to the 'trade acceptance' which do not belong to it?"[104] A 1918 *Bankers' Magazine* piece quoted a Fed official as saying that outside the main money centers there were "thousands of bankers who cannot tell you the difference between a banker's acceptance and a trade acceptance—who have made no study of the acceptance system, and who know practically nothing about it."[105] Even those in favor of trade acceptances spoke interchangeably of domestic trade acceptances and bankers' acceptances generated through international trade:

> The trade acceptance is well known to be one of the great instrumentalities for the extension of commerce. It is an instrumentality that has enabled Germany and England as our two greatest trade rivals to go into the markets of the world and do business on credit. That is, they can use the trade acceptance instead of money…. By using the trade acceptances [*sic*] the credits may be multiplied perhaps ten times.… If we want the ability and financial strength of this country to be multiplied in the markets of the world, we should by all means adopt the trade acceptance.[106]

Thus, when the American Trade Acceptance Council became the American Acceptance Council in 1919, its committee on trade acceptances noted that "the same circumstances have militated against [the development of an open market for both trade and bankers' acceptances]."[107] For this reason, its founders insisted that these two instruments should be treated separately in its promotional material.

Campaigners' associating of trade acceptances with broader financial reforms might have been a viable strategy had there not been such deeply ingrained fears that Wall Street banks would dominate the Fed and centralize the control of credit. Merchants had long voiced fears that a switch to trade acceptances would place business decisions in the hands of the banker.[108] The notion that "some discount company in New York" might have a better idea of the "habits" and "financial and moral worth" of a local borrower than his local bank and the district Reserve Bank was preposterous. So why were campaigners pushing the trade acceptance? In Ritter's words:

103. Quoted in Kenzel to FRBNY Officers' Committee, 25 June 1918, FRBNYA, 434.
104. Jenks to Treman, March 30, 1917, FRBNYA, 434.
105. Mathewson, "Trade Acceptances—How They Benefit the Bank," *Bankers' Magazine*, May 1918.
106. Committee on Trade Acceptances, Commercial Law League of America, August 18, 1919, NACP, RG 56/191/1.
107. First Annual Report, American Trade Acceptance Council, December 4, 1919, YUA, MS 535/9/121.
108. Memorandum on Discussion with Ohio Retail Dry Goods Association, May 16, 1917, FRBNYA, 434.

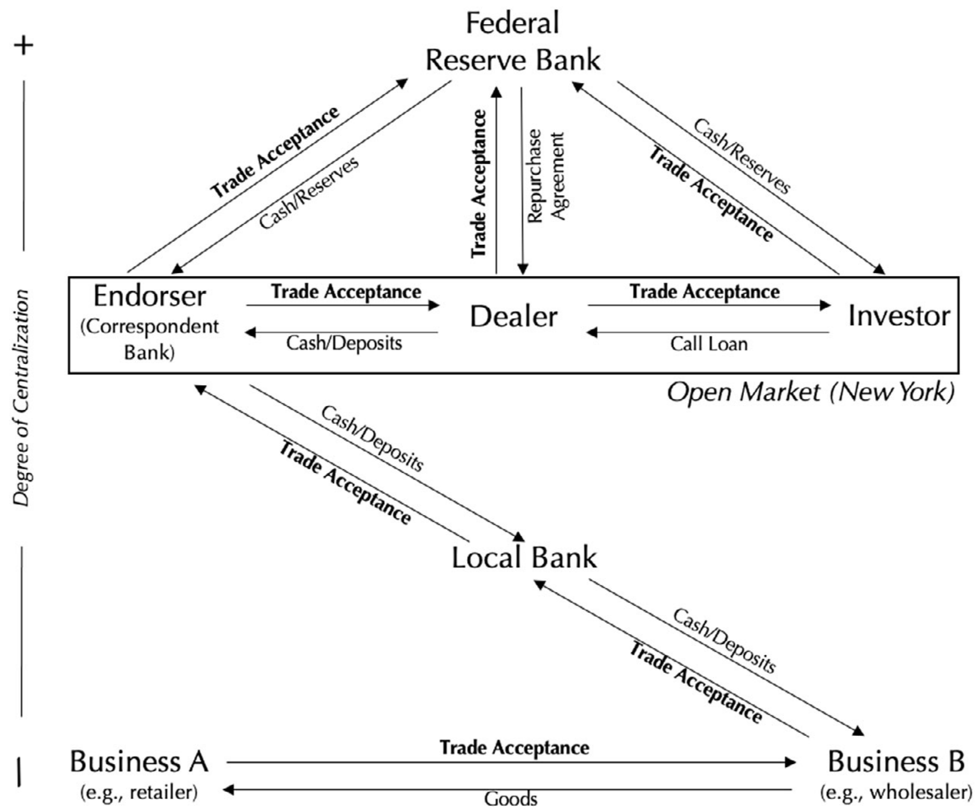

Figure 2. Trade acceptances and the acceptance market, ca. 1918. Upon reception of goods, Business A accepted the bill that Business B had drawn on it. If Business B did not want to hold the resulting trade acceptance, it discounted it at the local bank. After endorsing it, the local bank then rediscounted the trade acceptance at its correspondent bank located in a money center like New York. The correspondent bank either held the trade acceptance as an investment or, after endorsing it, rediscounted it at a dealer (or "discount house") or at the Fed to obtain liquidity. Discount houses "made the market" by holding inventories of trade (and bankers') acceptances and quoting bid and ask prices for them. The Federal Reserve Act did not allow reserve banks to make collateral loans. Thus, to ensure dealers could always meet their demand obligations without having to liquidate their inventories, a system of repurchase agreements was developed in 1918. Under this system, dealers could sell their bills to the Fed under the condition that they would buy them back up to fifteen days later. The diagram shows discounts (i.e., outright sales) of trade acceptances, as well as their use as collateral to secure call loans or serve as the basis for repurchase agreements. Upon maturity, the bearer presented the trade acceptance to the acceptor for payment. *Note*: Own elaboration. Broadly based on Warburg's comments as well as Discount Houses to FRBNY, 29.01.1918; Discount Houses to FRBNY, March 19, 1918; Discount Houses to Benjamin Strong, June 14, 1918; Treman to Thralls, May 16, 1918, FRBNYA, 440 and 434.

> The real beneficiary, profiteers who would reap a harvest from the adoption of trade acceptances, are the old crowd down on Wall Street, who, prior to the Federal Reserve Act, controlled the money and credits of the country and created a panic by withholding both when they wanted to buy up a steel corporation or by some other means fleece the lambs as they called us—the general public.… [If] this crowd … succeed in obtaining the general use of

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> trade acceptances, they will again gain control of the credits of the country, defeat the purposes of the Federal Reserve Act and set us back fifty years from a commercial standpoint.[109]

The previous paragraphs have outlined how practical and pecuniary issues made some businesspeople and bankers resist the trade acceptance. Despite promoters' invocation of Europe's past commercial and financial success and the progressive nature of the trade acceptance plan, their opponents actively condemned it as antithetical to the American culture of credit. The ambiguity about the relationship between trade acceptances and the cash discount system, and the confusion about the difference between trade and bankers' acceptances, opened the door to critics ready to stir up deeply ingrained fears of financial centralization. If such fears were as widespread as they appeared to have been, it is not surprising that efforts to establish them as U.S. firms' preferred credit instrument and the ideal basis for bank lending were so laborious.

Although campaigners claimed that trade acceptances would increase the resilience of the country's fragmented banking system, this was called into question by critics like Ritter. He even insisted that "large trust companies organized for the discounting of trade acceptances" for the purpose of financing consumer purchases of pianos, automobiles, and other goods were charging extortionate rates of interest so "once in the toils of these discount companies, the discounter rarely gets out except through the bankrupt court."[110] Rather than increase financial stability, therefore, this critic suggested that the main outcome of the campaign for trade acceptances was to generate windfall profits for a powerful emerging breed of finance companies. Interestingly, it appears that this assessment of the trade acceptance campaign's significance was a more prescient estimation of its legacy than one might initially suspect.

Legacy

Trade acceptances remained a topic of discussion in the 1920s. A 1924 letter from the Trade Acceptance League to the FRBNY continued to criticize the fact that firms persisted in discounting their promissory notes to fund open account receivables and that trade acceptances were the best means of ensuring their "liquefaction."[111] Transactions using trade acceptances carried on being litigated, and two state supreme court decisions in 1927 and 1929 regarding the negotiability of these instruments led the Fed to update its definition of their legal form.[112] Even in 1932, in the middle of the Great Depression, top Fed officials were considering the reintroduction of the long-abandoned preferential discount rate on trade acceptances to encourage their use by U.S. businesses.[113] Nevertheless, the campaign promoting trade acceptances appears to have lost steam around 1921. So, to what degree did it succeed in shifting in

109. Ritter, "Condemning Trade Acceptances."
110. Ritter, "Condemning Trade Acceptances."
111. Trade Acceptance League to Kenzel, June 10, 1924, FRBNYA, 434.
112. *Federal Reserve Bulletin*, July 1927, 510; *Federal Reserve Bulletin*, February 1929, 157.
113. "Cooperation by Federal Reserve Banks in Furthering the Movement for the More General Use of Trade Acceptances," Kenzel to Harrison, November 7, 1932, FRBNYA, 434.

U.S. commercial credit practices, stabilizing the financial system, and transforming bank lending?

While systematic quantitative data are lacking, anecdotal evidence suggests that some businesses did indeed adopt the trade acceptance. In October 1916, campaigners reported that there was "a growing understanding" among merchants and bankers "that merchandise of demonstrated prompt saleability … is the equal of gold for credit purposes and less of a burden" and that "[paid-for] standardized merchandise stored in a merchant's warehouse is the equivalent to gold stored in a stocking."[114] During the postwar boom, trade acceptances were widely used by dry goods jobbers and middlemen to finance the speculative accumulation of inventories, particularly those of textiles and raw silk.[115] In 1920, more than twenty thousand companies reportedly used trade acceptances. In 1921, trade acceptances were being were used "in practically every line of business," and not a single national trade organization had taken "any adverse action" against them—unlike in previous years when retail clothing, hardware, and grocery trade associations had all openly criticized their adoption.[116] The campaigners' promotional strategy appears to have been vindicated insofar as trade acceptances were most prevalent in those sectors whose trade associations had most actively promoted their use.[117]

Firms in the wholesaling and retail trades were not alone in using trade acceptances. Early on, campaigners assumed that only the largest corporations' trade acceptances would circulate freely in the open market; but while bankers were eager to buy them, this was "just the kind they cannot get because there is no object to be gained by the large corporation in giving an acceptance."[118] As one observer opined at the start of the campaign in 1915: the "great joint stock companies have acquired a large percentage of the whole trade of the country," but it was fruitless to "dictate terms to them."[119] After the United States entered World War I, officials from the FRBNY drew up a list of large industrial corporations in the New York City area that were "large purchasers of merchandise and supplies," had a "high credit standing," and might therefore be "[called upon] with propriety in the endeavor to interest them in the use of trade acceptances."[120] As Warburg noted, if they adopted trade acceptances, they would not only "[render] a distinct service to the national interest" but would increase their borrowing power.[121] However, at the time, commercial paper brokers were reportedly warning major manufacturers that they would not distribute their promissory notes if they used trade acceptances.[122] The Fed therefore actively encouraged large industrial corporations to examine

114. Jenks to Treman, October 28, 1916, FRBNYA, 434.

115. Jay to Austin, January 28, 1921, FRBNYA, 434.

116. Bean to Kenzel, October 7, 1921, FRBNYA, 434; "Progress in the Development of the American Acceptance," *Acceptance Bulletin*, October 1921, BLSC, JAJM.9 A169.

117. Mathewson, *Acceptances*, 116–118.

118. Coal & Iron National Bank to McAdoo, March 1, 1918, FRBNYA, 434.

119. Unknown to Strong, August 16, 1915, FRBNYA, 434.

120. Among them were Standard Oil, U.S. Rubber Co., International Paper Co., American Sugar Refining Co., Western Electric Co., New York Edison Co., Remington Typewriter Co., and New York Steel Corporation. See Kenzel to Treman, December 21, 1917, FRBNYA, 434.

121. Warburg, American Acceptance Council, June 17, 1918, FRBNYA, 434A.

122. "Trade Acceptances Referring to the Open Discount Market," *Trade Acceptance Progress*, Irving National Bank, January 1918, NYPL.

"whether it would not be possible for many of them to avail themselves of the facilities of the Federal Reserve banks by financing some of their purchases and sales in the form of trade acceptances." Some obliged, and by the early 1920s manufacturers in various sectors, from bottle manufacturing to hardware production and wire manufacturing, were using trade acceptances.[123] In 1920, the Firestone Tire and Rubber Company was "reported to handle a larger volume of sales on a trade acceptance basis than any other concern in the country."[124]

What effect did the campaign for trade acceptances have on stabilizing the financial system? Here, too, the overall evidence is weak, but we do have some statistics from the Fed on their use as a means of accessing the discount window. The value of rediscounts and open market purchases were greatest during World War I and the postwar boom, reaching respective highs of $14 million and $6 million in 1913 dollars; they then dropped during the postwar depression and remained below $2 million throughout the 1920s.[125] Of the $37 billion in total assets that the Fed discounted for member banks in 1926, trade acceptances accounted for just 0.05 percent of the total.[126] Nonetheless, although this indicates that trade acceptances were rarely used directly to access liquidity at the discount window, they may have been used indirectly insofar as member banks could use them to secure their collateral notes which represented 95 percent of the value of the assets used to obtain reserve bank accommodation that year.

Significantly, no open market for trade acceptances emerged. Outside of the main financial centers, trade acceptances only rarely circulated, while "the bills accepted by banks and bankers are freely sold and circulate freely in the open market."[127] Following the collapse of international trade during the depression of 1920–1921, bankers were eager to stimulate the supply of trade acceptances "to supplement the reduced volume of bankers' acceptances outstanding" and thereby ensure "an additional commercial outlet for surplus banking funds."[128] However, trade acceptances were "usually held in the receivables of the makers and put through as collections or discounted at local banks."[129] Despite commanding an interest rate between ¾ and 1 percent below that on single-name commercial paper, most trade acceptances remained in their locality due to "the expense of credit investigation on the small amounts and scattered names."[130] Trade acceptances may not have circulated to any considerable degree in the open market, but domestic bankers' acceptances came to represent between 13 and 20 percent of all the bankers' acceptances negotiated in the acceptance market between 1925 and 1931.[131]

123. "Various Lines of Business in which Trade Acceptances Are Used," American Acceptance Council [October 1921], FRBNYA, 434.

124. "Experience of Largest User of Trade Acceptances," *Acceptance Bulletin*, August 1920.

125. Author's calculations based on FRB annual reports, various years. Deflated using the Index of the General Price Level, NBER Macrohistory Database, series 04051.

126. Annual Report of the Federal Reserve Board, 1926 (Washington, DC, 1927), 85.

127. Jenks to Treman, March 30, 1917, FRBNYA, 434.

128. "Trade Acceptances and the Open Discount Market," *Acceptance Bulletin*, July 1922.

129. "Progress in the Development of the American Acceptance," *Acceptance Bulletin*, October 1921.

130. "All Lines of Business Favor Use of Trade Acceptances," *American Artisan and Hardware Record*, December 25, 1920, ProQuest.

131. Author's calculations. Based on Myles, "Steering the Wheels of Commerce," table 14.

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In the late 1920s, country bankers continued to resist trade acceptances. Despite distributing "more than a million pieces of trade acceptance educational matter" over the years outlining their advantages as "a prime negotiable instrument, enforceable under the law and upheld by the courts," the American Acceptance Council regretted that many bankers still advised firms against their use or refused outright to discount them. If only bankers would embrace trade acceptances and actively recommend them to their customers, then "a long step in advance would be taken and the criticism now so freely expressed would cease" and the estimated $4 billion still locked up in open accounts would be released.[132] Not only that, but the amount of eligible paper held by U.S. banks as a proportion of total assets had actually dropped from 25 percent in 1920 to 15 percent by the late 1920s, a development the council attributed to the tendency of banks to encourage firms to fund their working capital needs by issuing long-term securities.[133] Due to the persistence of strong, hierarchical correspondent relationships between country and city banks and the paucity of eligible paper in their portfolios, nonmember banks also resisted pressure from campaigners and Fed officials to become members. Thus, in 1929, 64 percent of U.S. banks, representing 25 percent of the country's total bank deposits, remained outside the system.[134]

Even if the evidence is patchy, there is little doubt that the trade acceptance campaign failed to achieve its original aims. The fact that most readers will never have heard of the trade acceptance campaign is also testament to this fact. Notwithstanding this disappointing performance, campaigners did catch the attention of the growing cohort of installment and industrial finance companies that became "big business" almost overnight following World War I and were part of the "credit revolution" of the 1920s.[135] That decade saw a proliferation of sales finance companies that specialized in discounting accounts receivable or lending on notes collateralized by them—a practice that the Fed had described as "undesirable" when it was pushing the trade acceptance in 1916 and that commercial banks still refused to finance in the 1920s because accounts receivable were not eligible at the Fed.[136] Nevertheless, finance companies transformed consumer culture, opening up access to social classes who previously struggled to access bank credit. By 1925, installment selling reached an estimated $6.5 billion, or 13 percent of total U.S. retail sales (including food); in 1923, between 60 and 80 percent of automobiles were sold using installment credit plans.[137]

It is therefore significant that finance companies identified trade acceptances as a desirable means of financing the sale and distribution of consumer goods. This is illustrated by two emblematic institutions involved in financing the mass consumption and distribution of durable goods in the 1920s: the so-called "Morris Plan" banks (MPBs) and the General Motors

132. Bean, "Concerning Trade Acceptances," *Acceptance Bulletin*, March 1929.

133. Burgess, "The Open Market Operations of the Federal Reserve System," *Acceptance Bulletin*, December 1928.

134. White, *Regulation and Reform*, 132–133.

135. Hyman, *Debtor Nation*, 3; Calder, *Financing the American Dream*, chaps. 3 and 4.

136. Moulton, *Financial Organization*, chap. 18; Olegario, *The Engine of Enterprise*, 157–158. "Commercial Paper Market," *Federal Reserve Bulletin*, September 2016, 451.

137. "The Instalment System in Retail Trade," *Acceptance Bulletin*, January 1928.

Acceptance Corporation (GMAC). First created in the early 1910s, MPBs were the brainchild of businessman Arthur J. Morris and served the purported purpose of eradicating loan sharks by improving workers' access to credit on a sound basis.[138] These banks, of which more than one hundred were in operation by 1918, offered small consumption credits on the personal security of the borrower and two endorsers willing to vouch for her character, enabling her to buy furniture, refrigerators, radios and, increasingly, automobiles. In 1919, the MPBs developed a scheme referred to as "the Morris Plan of retail trade acceptances." Under the plan, borrowers signed a conditional bill of sale with the seller, who retained a lien on the goods sold. Buyers made a sizable down payment and paid off the rest in twelve equal monthly installments. Crucially, the seller drew a twelve-month trade acceptance for the full amount of the sale on the buyer; once the buyer had accepted it, the seller discounted this trade acceptance at the local MPB, thereby obtaining an amount equal to the cash price minus the discount rate and avoiding a lockup of capital in an open account credit. In this manner, the retail trade acceptance plan allowed consumers to buy at the cash price while settling the payment over time.[139] In turn, MPBs rediscounted the acceptance at the Industrial Finance Corporation, a holding company created in 1914 that held shares in each of the notionally independent MPBs. This corporation funded its operations in various ways, including the sale of collateral trust notes secured by trade acceptances to retail investors or banking syndicates.[140]

As for GMAC, it was created in 1919 to finance the distribution of automobiles to dealers just as wartime demand began to dry up.[141] As General Motors director Alfred H. Swayne indicated: "The corporate title was, of course, designed to express as nearly as possible, the nature of its principle contemplated activities."[142] Traditionally, cars had been sold on a cash basis to independent dealers, but as demand grew the latter struggled to meet their large and highly seasonal credit needs with the resources available at local banks. In this context, by offering "evidence of acknowledged indebtedness," the trade acceptance "lent itself quite logically to the situation." Thanks to its "clean-cut and frank character" as a "quickly marketable or negotiable form of commercial paper," demand from banks for GMAC trade acceptances outstripped supply. As such, the trade acceptance "enabled [GMAC] to inject the stimulant of a supplementary credit element into the movement of the product, and so expand its distribution possibilities beyond that fixed by local banking facilities and limits." In the first nine months of 1923, GMAC advanced some $200 million to dealers under its wholesale stocking plan, and "a large part of this credit [involved] the use of the Trade Acceptance." Moreover, to finance its exports in the latter part of the 1920s, General Motors drew trade acceptances on overseas buyers that it then lodged with GMAC along with the titles to the

138. Herzog, *Morris Plan.*

139. Sheperdson, "A Time-Payment Plan at Cash Prices: the Morris Plan of Retail Trade Acceptances," *National Acceptance Journal*, May 1919, 27, BLSC, JAJM.9 A51.

140. Industrial Credit Corporation to Case & Kenzel, November 18, 1918, FRBNYA, 434; Herzog, *Morris Plan*, 32–33, 48–57.

141. Hyman, *Debtor Nation*, 48–49.

142. Swayne, "The Trade Acceptance in the Distribution of Automobiles," *Acceptance Bulletin*, September 1923, 11.

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goods. In turn, GMAC used these documentary export trade acceptances to collateralize drafts drawn under bankers' acceptance credits at major U.S. banks.[143]

From these finance companies' perspective, the trade acceptances were attractive, because the Fed recognized them as eligible collateral at the discount window. In 1918, Arthur Morris approached the FRBNY, "stoutly" contending that trade acceptances should be eligible as soon as they had less than ninety days left until maturity. Although the final decision lay with the board, FRBNY officers intimated that "however technically the paper might appear to be within the limitations of the Act and regulations of the Board, it was in essence not the kind of paper contemplated to be included in the definition of commercial paper."[144] The following year, GMAC approached the FRBNY to make a similar inquiry. This time, however, the FRBNY appeared to be more indulgent. Two officers from the FRBNY and its Buffalo branch reported that "the trade acceptances arising out of the sale of an automobile from a manufacturer or distributor to a dealer were eligible for rediscount" if they were accompanied by a "financial statement of either the drawer or acceptor [of the trade acceptance] which would show a reasonable excess of quick assets over current liabilities."[145]

Despite this apparently favorable response, finance companies faced a problem. Although member banks could rediscount their promissory notes at the Fed if secured by eligible paper like trade acceptances, the notes of finance companies were ineligible for rediscount whether secured by eligible paper or not.[146] Indeed, despite the National Association of Finance Companies' lobbying efforts throughout the 1920s, the Fed refused to rediscount finance companies' collateral trust notes because they arose through financial rather than real commercial transactions.[147] To overcome this issue, installment finance companies created the American Rediscount Corporation in 1926 as a means of refinancing their loans.[148] Yet without access to the Fed, the liquidity of finance company notes could evaporate during a crisis. According to some scholars, this is precisely what transpired in 1930, leading to a collapse in consumption of durable goods.[149] Thus, it was only in 1937 that the Fed changed its policy about installment paper eligibility, but even then it stated that when evaluating the asset-backed commercial paper that finance companies presented to it, Fed officials "should give preference to the acceptance as collateral of such loans."[150]

Conclusion

This article set out to document the little-known campaign for trade acceptances in the second half of the 1910s. By analyzing the arguments for and against this effort to overturn

143. O'Hara to Zurlinden, October 25, 1927, FRBNYA, 440. See also "Acceptance by National Banks Against Import and Export Bills," *Federal Reserve Bulletin*, December 1927, 854–855.

144. Kenzel, Memorandum, Morris Plan of Retail Acceptances, November 30, 1918, FRBNYA, 434.

145. Chapin to Gidney, July 12, 1919; Gidney to Chapin, July 11, 1919, FRBNYA, 434.

146. *Federal Reserve Bulletin*, March 1918, 197.

147. Olney, "Credit as a Production-smoothing Device," 388.

148. Geisst, *Collateral Damaged.* Quoted in Olegario, *The Engine of Enterprise*, 136.

149. Kubik, "Federal Reserve Policy."

150. Regulation A, *Federal Reserve Bulletin*, October 1937, 986, 990.

U.S. businesses' established commercial credit practices and ascertaining the campaign's legacy, it has sought to explore how this national campaign related to the earlier shift to impersonal lending and bank specialization in New England and what it teaches us about the relationship between business, banks, and the financial system as conceptualized by contemporaries.

Trade acceptance campaigners believed that long-term investment in working capital was as much a menace to the stability of the banking system as long-term investment in fixed capital. Trade acceptances offered an ideal means of disciplining interfirm trade credit practices by transforming billions of dollars in nonnegotiable open account receivables into capitalized, convertible assets whose discounted value would be determined by an impersonal, market-based pricing mechanism. However, unlike reformers in New England who had sought to discipline bank lending by praising real bills without fundamentally changing existing trade credit practices, reformers in the 1910s came to see the Fed as having both the means and the motive for doing just that. Although a revolution in commercial credit practices had not initially been on the cards, the detrimental effect of World War I on the raw cotton industry—and U.S. entry into the war three years later—provided powerful actors with an opportunity to pursue this audacious agenda of shifting trade credit provision out of merchant firms and into the banking system and in doing so stimulate both the supply and demand for this asset class nationwide.

The fact of the matter was, however, that some very active voices—disproportionately represented by wholesalers and retailers in the early years—resisted campaigners' efforts to redefine the relationship between business, banks, and the financial system. To that end, they developed powerful narratives that drew on an existing repertoire of contention surrounding monetary and financial monopolization to designate acceptances as an infringement of the fundamental right to flexible credit and a threat to economic growth—and therefore antithetical to the U.S. culture of credit. Although acceptances and the acceptance market may have initially been seen as a means of limiting the big New York banks' dominance over the money market, they subsequently came to see them as financial elites' preferred means of pursuing that very aim.

In her study of the shift to impersonal lending in nineteenth-century New England, Naomi Lamoreaux refrained from framing her story as a history of the Progressive movement. The story told here, however, suggests that the most conspicuous legacy of the trade acceptance campaign, which sought to reintroduce the centuries-old instrument of European merchant capital, was its espousal by finance companies like GMAC, the financing arm of one of the most emblematic large-scale industrial corporations active in a sector that shaped twentieth-century society and culture. In this light, it seems natural to ask whether the trade acceptance campaign was a classically "Progressive" movement or whether it is indicative of rising corporate dominance? On the one hand, campaigners themselves were wont to frame the trade acceptance as a credit instrument for "progressive" businesses. Yet we have also seen that the discipline campaigners sought to introduce through their use inextricably tied acceptances into a much bigger project of financial stabilization associated with the "corporate reconstruction" of business life.[151] The fact that campaigners assiduously outlined how trade

151. Sklar, *Corporate Reconstruction.*

acceptances would allow big business to access greater working capital resources from banks and the money market makes their adoption by industrial finance companies less surprising. Still, as the article has also shown, this was anything but inevitable. Indeed, finance companies' initial embrace of the trade acceptance was really the result of concurrent changes in consumer demand, modifications in corporate supply chain management, and opportunism. Moreover, actors actively mobilized culture to considerable effect, bolstering resistance to institutional changes imposed from above. Finally, the political pressure on the Fed was indeed significant enough to prevent finance companies from obtaining their desired regulatory amendments to facilitate access to the Fed's discount window before the 1930s.

In short, based on the analysis presented here, the answer to this question remains elusive. Nevertheless, the ambiguity surrounding this question and other aspects of the trade acceptance campaign suggest it would be worthwhile to learn more about it. Future empirical studies might explore regional and sectoral differences in the use of trade acceptances (including their reception in areas like the Cotton South where furnishing merchants still played a significant role); measure what determined the level of bank investment in them and the degree to which Fed member banks used them to secure the collateral trust notes they presented at the discount window; and examine how much finance companies relied on them in financing the distribution of automobiles. They should also pinpoint exactly when trade acceptances disappeared from use and how their demise was related to other phenomena, including the rise of invoice discounting and the gradual acceptance of short-term Treasury bills as the safest and most desirable asset in the money market.

In any event, despite being a story of policy failure, the campaign for trade acceptances provides a unique look into how domestic actors conceived of the relationship between business, banks, and the financial system during the years following the Fed's creation. It also demonstrates the analytical potential for business historians of studying the practice of trade finance and how it changed over time, through space, and between cultures as a useful means of shedding new light on macro-level financial institutions and structures. Finally, as debates surrounding the Fed's role in the U.S. political economy grow, it offers a timely reminder of a period when actors of all stripes were very much aware of the Fed's potential as a means of shaping business practices, for better or worse.

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