Borrowers, then, like lenders, sought and used available alternative sources of credit. These included out-of-state lenders, dealers who could discount credit they granted directly for merchandise, both bank and retail consumer credit card programs, and extensions of existing credit either through formal arrangements or delays in repayment. There is some indication that the alternatives failed to completely make up for the sharp decline in direct credit and that total spending in the state was lower than it otherwise would have been, but estimates of the amount of this impact are difficult.

Apparently, borrowers of small amounts, with lower incomes, without established credit, and with needs for nondurable goods or services were most often unable to get credit as a result of the 10-percent ceiling. The least risky customers of banks were generally able to get bank loans either directly under the 10-percent ceiling or through dealer paper. Durable goods buyers with established credit generally found financing available at the dealer; those with credit cards could use these up to their assigned credit limits, and less risky borrowers of large amounts in border areas could find out-of-state sources.

The Theory and Our Evidence. Our interviews and the available data are generally consistent with the predictions of economic theory about the effects of the August 1977 usury decision. That theory—and its predictions—is by no means novel. Indeed, economists have often (and almost unanimously) indicated that effective usury ceilings will redirect credit flows, will make credit more difficult to get, and will fail to produce their intended effect—to allow small borrowers credit at low rates. The Tennessee experience, then, constitutes additional support for these contentions.■

WORKING PAPER ABSTRACTS

The following articles summarize staff analyses that may interest those in the economics and banking professions as well as others. They are more technical than the typical Economic Review article. The analyses and conclusions are those of the authors. Studies of this kind do not necessarily reflect the views of the Federal Reserve Bank. Each complete study is available as part of a series of Federal Reserve Bank of Atlanta Working Papers. Single copies of these and other studies are available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.

SOUTHERN BANKS AND THE CONFEDERATE MONETARY EXPANSION

by John M. Godfrey

In the past, the role of southern banks in the Confederate monetary expansion was never adequately explained because researchers had not assembled the relevant data in a comprehensive and logical way. New and revised data, which fill in missing information and correct misinformation, have been compiled from U.S. Treasury reports, state documents, and surviving bank reports and records. An analysis of the new data reveals that banks contributed much less to the monetary expansion than has generally been reported. Even when bank notes and deposits were advancing most rapidly, the growth contributed only moderately to the Confederate monetary expansion. And after early 1862, the increase in bank

money had only a minor impact on aggregate monetary growth. However, earlier studies by John Christopher Schwab and Eugene Lerner generally misrepresented the role of southern banks and the impact of bank money on overall money supply growth. A particular fault was their failure to take into consideration banks' holdings of currency and other cash, which resulted in a double-counting of a portion of the money supply.

Based upon these new and revised data, this Working Paper examines the changes in bank-created money and bank-held money from 1860 through 1864 and investigates the reasons for these changes. The basic banking data are described, and the banking terms used are defined. The historical discussion is divided into three periods. Bank money in the South declined during 1860 because of developing political uncertainties but posted a strong advance the following year as a result of relatively rapid growth in war-related bank credit. From early 1862 through early 1864, smaller increases in bank credit and larger bank acquisitions of interest-bearing Treasury currency reduced the rate of bank money growth. When the Confederate government enacted a major currency reformation in February 1864, there was an immediate and massive impact on banks. Bank deposits dropped sharply, and a large portion of outstanding bank loans was repaid. ■

OF MONEY AND PRICES: SOME HISTORICAL PERSPECTIVES

by Robert E. Keleher

Recently, a number of economists have developed a "new" approach to analyzing the balance of payments and exchange rates. This approach emphasizes the importance of the demand and supply of money in determining the balance of payments and exchange rates. Accordingly, this view has come to be known as the monetary approach to the balance of payments and exchange rates. Elaborations of this view have established that in examining the causal relationship between money and prices, different models must be applied to the small, open economy (SOE) and the closed world aggregate. Moreover, in examining the relationship between money and prices in the individual small, open economy, the case of fixed exchange rates should be analyzed differently than the case of flexible exchanges. Thus, the monetary approach indicates that in examining the money-price causal relationship, three fundamental cases exist that must be clearly distinguished from one another, namely, the closed economy, the SOE under fixed exchange rates, and the SOE under flexible exchange rates. In this study, the relationship between money and prices in each of these three cases is briefly outlined. It is then demonstrated that all three of the above frameworks, as well as their implications for money and prices, were well recognized by earlier generations of economists.

Of the three frameworks, the fixed exchange rate model of the SOE frequently has been misrepresented and misunderstood. Moreover, its historical development has not been adequately documented. Consequently, this paper gives particular emphasis to this model. In discussing the development of these models, attention is generally given to major monetary writers in English thought beginning with Hume. In addition to Hume, the contributions of Smith, Ricardo, Tooke (and the Banking School), J. S. Mill, Wicksell, and Laughlin are discussed. Finally, some reasons are suggested for the demise of the SOE fixed exchange rate model before its recent revival in the modern monetary approach. ■