

Banking to World War I

The Panic of 1907 was triggered in large part by Standard Oil's devastating Wall Street ambush of F. Augustus Heinze, which in turn can be partially blamed on animosities generated in Montana's mine fields. But the panic itself had little permanent effect on the state's banks.

True, five banks went out of business in 1907, but the same number closed in 1906 and 1908. And overall, the total number of Montana banking institutions grew from 107 to 135 during that period — an increase of more than 25 percent in three years.

Yet the panic and its aftermath were to change banking in ways the members of the state's new Montana Bankers Association could hardly have foreseen. Back in Washington, federal control over much of the industry, assumed as a Civil War exigency half a century before, would be expanded to include central banking. And before long, Montana would be the least populous state, and Helena would be the smallest city, to boast a branch bank of the Federal Reserve System.

The collapse of 1907 had shocked the nation's financial community. Total disaster was averted when the federal government deposited funds in New York banks, and J.P. Morgan drew on his reputation — and his millions — to restore confidence. But bankers recognized essential weaknesses in the system: it lacked the ability to provide an elastic currency and mobile reserves. There had to be a better way for banks to pool their resources in times of stress.

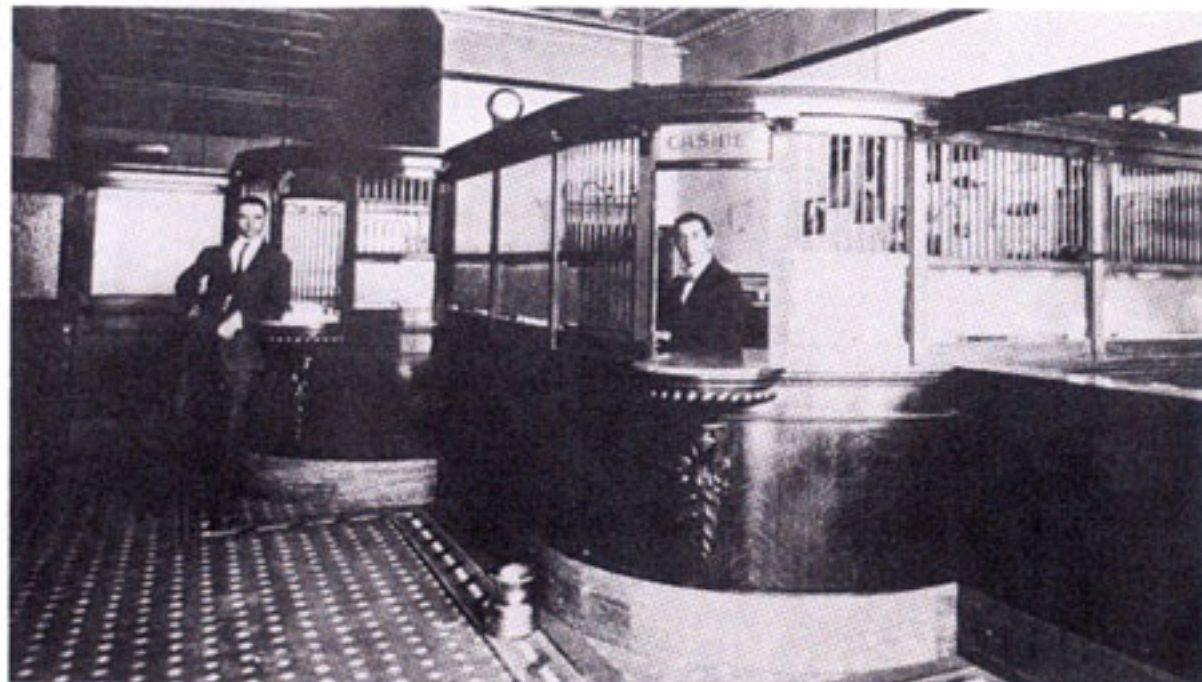
The following year, bankers pushed through the Aldrich-Vreeland Act. Enacted by a conservative Republican Congress, the bill provided for emergencies by allowing the issu-

A sodbuster, shown in this well-known L.H. Huffman photograph, uses four plow horses to turn the virgin Montana soil.

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ance of temporary currency and giving national banks the power to borrow up to 90 percent of their pooled assets from the government. The bill, which envisioned the establishment of a private central banking system such as those in Europe, was designed to bolster weakened banks with the power of the U.S. Treasury.

A National Monetary Commission was established, with Sen. Nelson Aldrich as chairman. In 1911 it presented a plan of re-



Bankers R.L. Lewis (left) and J.W. Geiger pose in the Citizens State Bank of Big Timber, 1912.