

Cashing a Cheque in the Third Millennium A.D.

by Robert E. Wright

Several years ago I exported some of my intellectual services to a small publisher in London. I thought nothing of contracting in pound sterling. After all, I reasoned, as early as 1700 A.D. I could have quickly sold a claim on a London bank at the going rate of exchange simply by standing on the corner of Second and Chestnut Streets in Philadelphia, or Broad and Wall in New York, or any number of other places in colonial America. How times change, and not always for the better!

In partial payment for my services to the publisher, I received a “cheque” for £2,000 in early November 2003. I knew that I was in trouble the moment my credit union refused to touch it. I was more than a little surprised that the teller had never seen a “funny L” before, and was stunned that his supervisor seemed only dimly aware that other nations use currencies other than the U.S. dollar. But don’t get me wrong, I still love my credit union. It is very good, and cheap, at what it does—accepting my dollar-denominated deposits and paying my drafts.

On the recommendation of a friend, I next went to a big commercial bank—one of those North Carolina banks that have

recently invaded the northeast. The tellers there were equally clueless, but the eyes of one of the bank’s 12,567 vice presidents lit up when I told her that I had sterling to sell. Until, that is, she learned that I didn’t have an account with her bank. I flirted with the idea of opening an account just to get her to cash my cheque. But then I learned that—get this—the bank charges a fee for closing an account! I was escorted to the door—literally—when I had the audacity to suggest that they cash the cheque anyway.

The reason? The bank claimed that it could not trust me because it could not discern the difference between a widely published business-school professor who lives a block away and a check-kiting miscreant. That line might have been easier to swallow had not this same bank regularly inundated my mailbox with pre-approved credit-card solicitations.

That line of thought, angry as it was, led me to approach my credit-card issuers. Though my total credit line was enough to buy a small country, not one of my sundry “gold” and “platinum” card issuers would accept the check on open account. If I were using my charge card in London those same companies would have sold me sterling at the best retail exchange rate available. But they wouldn’t buy sterling from me at any rate, though the credit risk was no higher than if I had purchased £2,000 of warm beer, fish, and chips in London pubs. (Were I the rogue the southern bank thought I

Robert Wright (rwright@stern.nyu.edu) is the author of six books about early U.S. financial history. He currently teaches business and financial history at the Stern School of Business, New York University.

might be, I should buy that small country, move there, and tell my card issuers to take a hike.)

My next idea, a “brilliant” one as the Brits would say, was to negotiate the cheque privately. I had a buyer, but he eventually balked at the size of the instrument. He wanted to have fun on his vacation to England, but not that much fun. I contemplated putting the thing up for auction on e-Bay but thought better of it because if the cheque happened to bounce, my e-Bay reputation rating would have been shot.

As Thanksgiving approached, I decided to tap a contact at the Federal Reserve. She said that she regularly sent people in my predicament to a firm called Thomas Cook. “But be careful,” she said, “because we [that is, the Fed] don’t regulate them.” “That’s just the ticket,” I thought to myself.

It took me some time to find Thomas Cook—it is now called Travelex. I left the place feeling like I had struck a deal with Mephistopheles himself. I endorsed the cheque to Travelex in return for its promise to pay me some unspecified number of dollars at some unspecified date in the future. But all’s well that ends well. I ended up receiving a check for \$3,196.65 in mid-December. The wholesale exchange rate in the first half of December ranged from about \$1.72 to \$1.745 per pound.¹ So I took a “haircut” of a couple of hundred bucks and was out my money about three weeks, but all in all it wasn’t so bad. More cheques are on the way, so I hope the Fed continues *not* regulating Travelex.

Overregulated Monstrosity

The entire frustrating incident reminded me that our unfettered early financial system

was in many ways superior to today’s overregulated monstrosity. Sure, we have computers now, but apparently financial institutions do not make very efficient use of them. Why, in the third millennium A.D., it still takes days—up to a week I am told—for nonlocal checks to clear is beyond my comprehension.

I suspect that ultimately the regulators are to blame. Regulations have a way of becoming minimum standards. As such, they are almost means of collusion, a way of shielding a race right to the bottom. Take, for instance, Fed Reg CC, which *allows* banks to hold checks deposited into new accounts for longer than the usual period.² (§229.19 (c) (1) stipulates that nothing in the regulation prohibits “a depository bank from making funds available to a customer for withdrawal in a shorter period of time than the time required by this subpart.”) Rather than state that, bank employees often tell new accountholders that regulations *mandate* that they hold checks deposited into new accounts. Truth be told, given the technology now available, banks should be able to clear checks, domestic if not international, the same day, be the account holder an old customer or not.

My fear is that regulations like CC stifle competition and innovation to such a degree that they will in the end prove more than just annoyances. The United States is rapidly losing jobs, now even good white-collar jobs, to foreigners. That ultimately will be a good thing, provided the U.S. economy is not regulated to the point that it cannot create even better jobs in advanced sectors like finance. □

1. www.oanda.com/convert/fxhistory.

2. www.federalreserve.gov/regulations/title12/sec229/12cfr229_01.htm.