THE

PHILOSOPHY

OF

JOINT STOCK BANKING.

BY

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AS

A SMALL TRIBUTE

OF

FRIENDSHIP AND ESTEEM,

THIS VOLUME

IS

RESPECTFULLY INSCRIBED

TO

JAMES WILLIAM GILBART, ESQUIRE.

GENERAL MANAGER OF THE

LONDON AND WESTMINSTER BANK.

PREFACE.

The observations scattered over the following pages are the result of fourteen years' practical experience of the system of Joint Stock Banking in Scotland and England, in the successive offices of cashier, accountant, branch manager, and sub-manager of different Joint Stock Banks. It is not presumed that they contain any new discoveries relative to the system of banking, nor is it for a moment imagined that any thing is advanced which is not already very well known to most persons at all acquainted with the subject. On the contrary, it is readily conceded that a much greater amount of information on the points touched upon could be furnished by other parties equally or better conversant with these matters. The writer has no wish to set himself forward as an authority on banking. Nearly the whole of these chapters have already appeared before the public, some of them as leading articles in one of the metropolitan journals.

The successive parliamentary enquiries and discussions on Joint Stock Banking, added to the reckless imprudence and subsequent stoppage of one or two banks of considerable magnitude, have brought the subject so repeatedly and fully under public consideration, that the laws and the principles which govern these establishments are no longer enveloped in mystery.

Whatever may be the different opinions that prevail with respect to the public advantage and security of Joint Stock Banks, and whatever may be the diversified sentiments with regard to the manner in which they ought to be regulated, every reflecting person must be well satisfied that the best possible, if not the only, guarantee, that can be afforded the public, as well as the proprietors, arises from having the banks placed under the management of practical men. The entire security and whole system of banking rests upon this one point—management. A bank is an establishment instituted by mutual agreement of certain parties for the purpose of trading in money, and, therefore, like every other trade or profession, those will be best conducted that are under the superintendence of experienced and practical men; and, of course, the longer and the more extensive the experience, the greater the prudence and success to be anticipated.

It only remains to be added, that in the following pages no allusion whatever is intended towards any existing establishment. The observations relating to the modes of bad banking, and what ought to be the conduct of directors, are founded upon the parliamentary evidence already before the public, which, it is deeply to be regretted, afford abundant materials for animadversion.

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CHAPTER I.

INTRODUCTORY SKETCH OF BANKING.

A Bank is an institution for receiving the money of individuals, to keep it in security, or improve it by trading in goods, bullion, or bills of exchange, and is either of a private or a public nature.

A Private Bank is merely a contract among a few individuals for carrying on a trade in money and bills, and the responsibility of the parties, who are limited to six in number, is the only security.

A Public Bank is composed of an unlimited number of partners, and is regulated by certain laws enacted by the government, which establish the rules by which it is to conduct its business.

The first establishment of banking in the regular form was at Venice in the middle of the 12th century, and arose from the necessities of the State. The Bank of Venice has served as a model to almost every similar bank in subsequent ages. From its good faith, and the regularity of its transactions, it has maintained a high character in Europe. In 1401 was established the Bank of Barcelona, in 1407 the Bank of Genoa, in 1609 the Bank of Amsterdam, in 1694 the Bank of England, and in 1695 the Bank of Scotland.

Both the Bank of England and the Bank of Scotland were projected by a Mr. William Patterson, a native of Dumfries-shire, who is said to have taken the Bank of St. George, in Genoa, for his model.

The Bank of England was, and ever has been, a State Bank, and owed its origin to the necessities of the State. The Act of Parliament by which it was established is entitled "An Act for granting to their Majesties several duties upon tonnage of ships and vessels, and upon beer, ale, and other liquors, for securing certain recompenses and advantages in the said act mentioned, to such persons as shall voluntarily advance the sum of fifteen hundred thousand pounds towards carrying on the war with France." This act authorised the raising of £1,200,000 by voluntary subscription, and the forming of the subscribers into a corporation, to be styled "The Governor and Company of the Bank of England." The whole capital was to be lent to Government at 8 per cent. interest per annum, with an allowance of £4000 per annum for management. The capital was subscribed in ten days, and the charter was granted on the 27th July, 1694. The present capital of the Bank is £14,686,800, and is lent to Government at three per cent. per annum, with the exception of one-fourth part which was paid off on the renewal of the charter in 1834.

The Bank of England, though the first Joint Stock Bank, was not the first bank established in England. The banking houses of Child and Co., of Temple Bar, Hoares of Fleet-street, and Snow and Co. in the Strand, were previously in existence.

In 1708 a clause was introduced into the charter of the Bank of England, prohibiting the establishment of any bank with more than six partners, and though the nation rose rapidly in wealth and commercial importance, and numerous private banks necessarily sprung up in different parts of the country, it was not until 1826 that an act was passed permitting the formation of banks with more than six partners at a greater distance than sixty-five miles from London; and even this privilege was clogged with the condition that such banks should not make their notes payable in London, nor draw bills on London for a smaller amount than £50. In the same year it was also suggested by government to the bank, and the privilege was engrossed in the Act 7 Geo. IV., c. 46, that the latter should open Branch Banks in the country, a suggestion which was soon adopted, by their opening, in succession, Branch Banks in all the principal towns, much to the dissatisfaction and annoyance of the country bankers who could not compete with them, either as to the lowness of their charges, or the other facilities which they enjoyed.

In 1833 the restriction of drawing on London for a less sum than £50 was rescinded, and the privilege granted of drawing on demand, or at a longer date, and of making their notes payable in the metropolis.

From 1826, the year in which the act permitting the establishment of Joint Stock Banks in England was passed, to 1835, there appear to have been 45 banks opened in different parts of the country, and by reference to the London Post Office Directory, the number of Joint Stock Banks existing in the present year, (1839,) in England and Wales, is 103 with 445 branches, making a total of 548 banking offices; while the number of private banks, with branches, barely exceeds 500. The first Joint Stock Bank established in London was in 1834. The total number of banking houses in London at present is nearly one hundred, including the branch offices.

The circulation of the Joint Stock Banks is by no means commensurate with their number, a circumstance readily to be accounted for on the score of that natural distrust which the public feel towards any innovation upon old-established use, and the length of time required to create that confidence in a new bank which must exist before its notes can obtain free and general circulation, and supplant those of its predecessor. It is, however, gratifying to observe, that the superior system and advantages of Joint Stock Banking are beginning to be fully appreciated by the Private Bankers, as upwards of one hundred and thirty Private Banks in England and Wales have already become incorporated with Joint Stock Banks, and there can be no doubt that in a very few years Private Banks will be as much unknown in England as they are in Scotland

CHAPTER II.

THE CONSTITUTION OF JOINT STOCK BANKS ONE OF INDEPENDENCE.

The Constitution of a Joint Stock Bank is virtually one of independence. This is not only clearly implied in its distinctive appellation, but is plainly intimated in all deeds of settlement, and ought to be practically exhibited in every operation.

The name Joint Stock Bank associates with it the idea of a large proprietary, who contribute capital adequate to the wants of the district in which the Bank is located, who severally bring all their influence and business to its support, and are individually responsible, to the whole extent of their fortunes, for the debts and liabilities of the establishment. This idea is fully evolved by the Act 7 Geo. IV. cap. 46, authorizing the formation of Joint Stock Banks in England, and no establishment could possibly be constituted on principles better adapted to secure safety to the public, and advantage to a district. This observation applies to the theory of the system; its practical and safe working must depend upon the ability and integrity of its managers.

The broad basis upon which the independence of a Joint Stock Bank rests, is its large capital and its numerous proprietary. Experience and reason combine to illustrate the position that every Joint Stock Bank should have a reserved capital, or, in other words, that no Joint Stock Bank should ever call up the whole amount of its subscribed capital. By having a nominal capital, much more than adequate to the wants of the district, and calling up only such portion of it as is required for the legitimate purposes of banking, the surplus or reserve, being at the call of the directors on any emergency, remains a powerful safeguard and guarantee for the stability of the Bank. For instance, a bank with a nominal or subscribed capital of £500,000, and whose operations have only rendered it necessary to have £250,000 paid up, presents to the public the additional guarantee of £250,000. On the other hand, a bank with a similar capital of £500,000, which the extension of its business has wholly absorbed, and which has not fortified itself by an additional issue of shares, must stand upon its own internal resources, can only be safe in the superior ability and caution of its manager, and is evidently limited to a certain sphere of action. The distinction in these two cases is that, in the first, capital can be called into action, when required, at a short notice; in the latter case, the shareholders are under no obligation to advance additional funds for carrying on the business of the bank, and could, therefore, be only reasoned with on the principle of expediency, which would appear a very questionable doctrine to be reserved for a moment of emergency. From these views the inference may safely be drawn, that it is imprudent for banks to have shares of too small a nominal value, whether they require to be called up in whole or in part. What may be deemed a safe and fair nominal value, has been, and still is, very much a matter of opinion with the most eminent and experienced bankers. All must be agreed, however, that shares should be of such a value as would combine the advantages of perfect safety and a respectable proprietary.

The independence of a bank is farther increased when a certain portion of its profits is periodically set aside for the purpose of accumulating a reserve fund. And a bank with a large reserve fund, and paying only a moderate dividend, will always hold a more safe and more respectable position than the bank that pays large dividends, and has little or no reserve fund. The reserve fund is, in fact, a sort of fortification which a well managed bank may be said to erect for itself.

Another grand source of the independence of a Joint Stock Bank, is the number and respectability of its shareholders. The more these shareholders abound in the locality of the bank, the more is the independence of the bank established. They operate in confirming this independence in a variety of ways—by transacting all their business with the bank—by circulating its paper—by bringing the weight of their influence with their commercial acquaintances to bear upon it—and by supporting the bank at the period of any run or panic. Distant shareholders, though useful in supplying capital to young establishments, are of little advantage to a bank, commercially speaking, as they contribute only one element of its independence, and abstract that share of its profits which might be more advantageously distributed in the district whence it is derived; while, at the period of a run, they can render no essential service, if any at all. The more, therefore, that the shareholders of a bank are confined to its own locality, so much more is the independence of the bank secured.

It being admitted that a Joint Stock Bank is in principle an independent establishment, it will be unhesitatingly conceded, that it is the duty of every Joint Stock Bank to endeavour, by all possible means, to maintain that independence. Whatever operates against this independence, either directly or indirectly, ought to be cautiously guarded against and resisted.

One formidable enemy to the independence of Joint Stock Banks in England, is the Bank of England. That mighty state engine has, in a variety of ways, been made instrumental in abridging and weakening the independence of Joint Stock Banks. It is, therefore, a monopoly which it is by no means the interest, nor can it be the policy, of Joint Stock Banks, to countenance or support. On the contrary, it would appear to be their imperative duty to stand firmly on the basis of their own independence, and to maintain themselves in a position at all times calculated to withstand the influence of the Bank, and by offering an invulnerable front to all her attacks, direct and sinister, resist, and, by consequence, weaken her power. For this purpose, Joint Stock Banks ought to be banded together by one common interest, and seek, by every legitimate means, the abolition of that most unjust, and most unreasonable principle, which would centre in one establishment the sole, irresponsive, power of regulating at will, the currency of this great country, with the assurance, when involved in difficulty, it may safely calculate upon the protection of the state.

A Joint Stock Bank injures its independence and respectability when it condescends to adopt any irregular means of promoting the issue of its notes, such as hawking them about at markets, or paying a commission to agents to push their circulation, or engaging to discount the paper of other banks as a consideration for issuing its notes.

A Joint Stock Bank also endangers its independence by conducting its business with too small a capital. The profits may be large, but the risk will always be fully commensurate, and a bank, whose resources are entirely dependent upon the discount market, must run a constant hazard of bringing its independence to the ground.

CHAPTER III.

ON THE MANAGEMENT OF JOINT STOCK BANKS.

What is understood by the Management of a Joint Stock Bank?

The phrase "Management of a Bank" is commonly applied in reference to a certain number of individuals chosen by the general body of shareholders from among themselves, upon whom is devolved the superintendence and control of the Bank's affairs. The distinguishing appellation of the party thus chosen, is that of "Directors." They are sometimes styled "The Board of Directors," and sometimes "The Court of Directors." It is in allusion to the conduct of this body that we most frequently meet with the phrases, "the Bank of England is badly managed,"—"the Bank has displayed the most gross mismanagement in regard to the regulation of the currency,"—"that Bank was brought to a stand still through ignorant management;"—and occasionally we meet with more direct allusion, such as "the Directors of that Bank were utterly unworthy of their office." Indeed, so far as the public necessity exists, of having some particular party against whom to launch forth the thunders of individual opinion and vituperation, "the Board of Directors" and "the Court of Directors" are very excellent adjuncts to banking companies. The public voice and indignation, and even private pique and displeasure, comes down upon the broad herculean shoulders of the "Directors" with an impetus which might for ever crush one individual, but which falling upon the "*board,*" is distributed among them without injury to any member. This is illustrated in the conduct of the Bank of England. How long, incessant, and loud, has been the charge and the proof of mismanagement;—with what energy and skill have the ablest writers demonstrated the mismanagement, and the public, writhing under its effects, demanded amendment, and yet, with what utter imbecility has their voice fallen upon the ears of "the board." How little obedient to the call of reason and sound sense has "the court" appeared; and what have been the effects to its individual members? One man could not have stood up a single day under the pressure of public opinion, but "the board" has borne up, and will bear up uninjured to the last; and therefore it seems clear that a board of directors is, in this light, a most indispensible and admirable arrangement.

It has been stated that the directors of a bank are chosen, at a general meeting, from among the shareholders. The principles which ought to regulate this choice are the following:—The directors to be chosen should be possessed of a large number of shares in the bank. The minimum amount by which any shareholder becomes eligible for the office, invariably forms one article in the constitution of a bank, and sometimes the maximum is also stipulated; but the greater the number of shares he holds, so much the greater will be the interest he feels in the establishment, and so much the more will his influence be exerted to promote its prosperity. It is desirable also, that a director should have a knowledge of business, and of the community, and business portion of the inhabitants of the district in which he resides; but it is not requisite, nor is it in some cases desirable, that he should be personally engaged in business; when practicable, men should be chosen, who are in some measure of pecuniary independence, and not likely to require undue accommodation from the bank. A large shareholder, possessing a knowledge of business, and of the district, and independent of pecuniary assistance, are important recommendations to the office of a director. There may also be other minor and local considerations peculiar to the individual and the bank, which do not exist alike in every district.

The requisite list of directors being made up, and composed of men of respectability, talent, and influence, the public and the shareholders have a sort of guarantee for the proper management of their affairs. But it must be obvious that these gentlemen being engaged in other pursuits, cannot give their time and attention exclusively to the bank; and that even if they could, it would be absurd to suppose that they should all be pensioned upon the profits of the establishment. It becomes necessary, therefore, to select from their number, an individual, or two if advisable, to attend constantly, or as much as possible, in the bank, and devote his attention exclusively to its affairs. This person is usually denominated "the managing director;" he is selected for his knowledge of the district, and his business habits. But still the management is not complete; and it becomes the duty and province of the board of directors to select a gentleman, capable from experience, and a thorough knowledge of banking, to act as manager of the bank. The prudent choice of a manager is of vital importance to the welfare of the bank. In addition to his knowledge and experience of banking, he should be of active business habits, and exclusively attentive to the affairs of the establishment. He is, of course, a director *ex officio,* and his appointment fills up "the management." He superintends, controls, and directs all the ordinary routine of business, and advises with the managing directors, as occasion requires, and with the board at every meeting, on all subjects affecting the interests of the establishment. He is generally the medium of communication between the bank and the public, and is in the strict application of the word, the *manager* of the bank. The directors are properly a *consulting committee*, but possessing certain powers delegated to them by the shareholders, in virtue of which they are entitled to know and control the whole affairs.

The management of a bank, practically speaking, is vested in the manager. His actions, however, are subject to the superintendence and control of the directors, by whose authority, and with whose sanction, his conduct is regulated. As he acts with their concurrence, and under their direction, he is generally understood to be guided by their decisions. By this means he is relieved from any unpleasant feeling of a personal nature, and cannot, where offence may be taken, be supposed to have given it. The board of management is thus a most excellent constitution, not only because "in a multitude of councillors there is wisdom," and hence reason to believe that the bank will be conducted with more wisdom than if it were entirely under the control of but one or two persons, but because the praise and blame of the public, as it can only be directed against a collective body, must fall innocuous upon each member.

It is necessary, however, to the prudent and safe management of a Joint Stock Bank, that the utmost harmony and good feeling should prevail among the parties to whom the management is committed, so that whatever is done be done with unanimity, and that no party influence be exercised which is not for the acknowledged and evident advantage of all. In the bank parlour, however, as well as in the senate, divisions will take place, and different views of the same points will stir up party feelings, jealousies, and disagreements; and when it is considered what multitudes of interested, and disinterested individuals, of all degrees of talent, have promulgated totally different views and opinions on the subject of banking and the currency, it is not to be wondered at that those having the immediate regulation of these matters should occasionally differ as to the best methods of acting.

The ordinary rules and generally admitted principles of Joint Stock Banking are presumed to be known at least by the manager of a bank, and taking these as their guide-posts, experience must be the next great teacher to whom the directors conform.

The materials for the management of a Joint Stock Bank being completed, the management must be either good, bad, or indifferent, as respects both the interest of the establishment, and the accommodation of the public.

Good management, as regards the bank, will be characterized by a judicious selection of active, industrious, and well principled clerks, an equal distribution of work, books neatly and regularly kept, and time properly and usefully employed. On the part of the manager and directors the utmost economy will be practised and enforced; the most lucrative source consistent with perfect safety will be sought for the profitable employment of the capital of the bank; every means necessary to secure its prosperity and respectability will be readily adopted, and their best attention cheerfully devoted to its interests.

As regards the public the good management of a bank will consist in a civil and obliging manner on the part of its officers, a promptness in transacting the business, a readiness to grant every facility and accommodation upon regular commercial transactions, to assist the industrious and honest tradesman, and to discountenance and reject all idle speculations, and hazardous or gambling enterprizes. Prudence will always be exercised in regulating the issue of notes, and a careful watchfulness of danger from depressions or unusual briskness of trade; and the relative operations upon the general currency of the country.

On the other hand, the bad management of a bank may be displayed more or less in a selection of slovenly, idle, and negligent persons, introduced from favour, and without any business qualifications; a discourteous and unaccommodating manner, a want of cordiality among the officers, a recklessness in the expenditure, the want of due caution in advances to the public, and the absence of any regular and uniform principle of action. The effect will be manifest to the public by a capriciousness in transacting their business, refusals to accommodate on undoubted security at one period, and an inconsiderate extension of undue accommodation at another; a pushing of business in quarters where it is not required, and reckless advances to individuals notoriously in discredit.

Indifferent management is that which cannot be styled either good or bad, and is sometimes the one and sometimes the other, without any strict alliance with either. It will exist where there is a want of experience on the part of the manager as well as of the board of directors. It will sometimes be good in following a good maxim, but it will as often be bad by being without both maxim and experience. It will sometimes be characterised by listlessness, or a want of energy and activity in conducting and endeavouring to extend the business, an unnecessary timidity that a large amount of discounts will involve the certainty of unavoidably large losses, or an extension of business necessarily outstrip the power of control. Where-ever this sort of management exists competition generally steps in to set it right, and it is only then that a lukewarm or indifferent manager and board of directors have their eyes fully opened to the fact that activity and circumspection are as indispensible to perfection in banking, as in any other art or science.

CHAPTER IV.

ON BRANCH BANKS.

One of the peculiarities of the system of Joint Stock Banking is, that the advantages arising out of its large capital, and its improved method of transacting the monetary affairs of the country, are not limited to the immediate locality of the principal banking house, but may be copiously diffused over an extended district. That capital which is furnished by one locality, may be usefully brought into employment at another; and the superior resources of one district applied to draw into active operation the latent advantages of another. These effects are accomplished by what has been called the district system of banking, which is simply the opening of Branch Banks in different towns in the country, or district where the chief bank is established.

Many of the Joint Stock Banks are distinguished by the name of District Banks, as the Manchester and Liverpool District Bank, the Yorkshire District Bank. These names indicate that those banks have been formed for the purpose of supplying the advantages of a good system of banking to the Manchester, and Liverpool, and Yorkshire districts, respectively; and that offices or branch banks are opened in subordination to the head bank, in different towns throughout those districts of country. Other banks are distinguished by the name of provincial, as the National Provincial Bank of England, and the Provincial Bank of Ireland, indicating that those establishments are severally for the purpose of diffusing a well organized system of banking throughout the provinces of England and Ireland. Other establishments, again, are designated by the different quarters of the kingdom in which they are located, as the East of England Bank, the North of England Joint Stock Bank, implying that their operations are limited to those quarters. It matters not, however, what names are assumed by Joint Stock Banks, so long as they are not liable to be confounded one with another, the system of business is essentially the same with the whole.

All Joint Stock Banks are in principle District Banks, that is, they are all organized with the privilege and power of opening Branch or District Banks wherever they may appear expedient. Branches are, in fact, local banks, so far as the public are concerned, but are in general conducted with much less expense, and the business transacted more economically to the public than can, in many cases, be done by local establishments.

Branches are of advantage to a bank in several points of view. They create capital for the bank, by inducing local shareholders, by attracting deposits, and by extending the circulation. They bring business in proportion to the local interest which can be enlisted in their favour, and profit, of course, in proportion to the business. A branch bank possesses, to a district, all the advantages of an independent bank, and superadds many facilities which a purely local bank could not enjoy. Parties resident in the vicinity of a branch bank have the privilege of becoming shareholders, and thus participating in the profits arising out of their own banking business, and the general trade of the district, as well as of the aggregate profits of the entire establishment. They are furnished with a substantial circulating medium, based upon a large paid-up capital, and a numerous and responsible proprietary; and are provided with unusual facilities in the safe transmission of money throughout the different towns in which the bank has opened branches. A bank situated in the principal town of a county or district, and opening branches throughout such towns in that county or district as are inadequately supplied with banks, throws a connecting chain of interest around these towns, which becomes rivetted by the facilities thereby afforded to commerce. A bank situated at Manchester, with branches in all the manufacturing towns of the thickly populated county of Lancaster, evidently presents great facilities to the commerce of the entire district, not only by the safe transmission of money from one branch to another, and from every branch to the head office at Manchester; but likewise in the negociation of bills and drafts upon the several towns, and in supplying a convenient and readily convertible circulating medium. It must be apparent that such facilities give a salutary and important stimulus to industry and enterprise. If we enlarge this idea, and place a great bank, with an adequate capital and competent management, in the metropolis, and suppose that it has a branch in every important town in the kingdom, and place those branches under the same superintendence, and invest them with the same privileges which have been supposed in the case of a bank at Manchester, it is evident that such a bank must be of great national, metropolitan, and provincial importance. A chain of connection is afforded to the commerce of the whole country, and advantages commensurate with its extent, held out to every manufacturing town in the kingdom. This is not an utopian scheme, it is one that has been in practical operation for many long years. In Scotland, this admirable system was first brought into activity. Banks of large capital, situated in Edinburgh, have branches throughout every important town in the kingdom; many of those branches having been extended into small and remote villages, where industry and great natural advantages had long remained dormant, from the want of the stimulus of wealth, those villages and remote districts, from the assistance afforded by the banks to honest and industrious people, have attained an importance and commercial character almost incredible. Those villages, like many small towns in England, were utterly incapable to support a local bank, and in their cases, the value and importance of the district system has been clearly demonstrated. The same admirable system has been introduced and managed with singular success and advantage in Ireland. The Provincial Bank of Ireland, with its principal board of management seated in London, has opened branches in every town of consequence throughout Ireland, and the chain of connection is thrown from Dublin round the whole island, uniting by extraordinary facilities each town with another, and the whole with London. In England a similar extended system is in operation by the National Provincial Bank of England. Companies are also established, having their chief board of direction in London, for the purpose of promoting this system of district banking in the colonies of Great Britain, such as the Bank of Australasia, the Bank of British North America, the Colonial Bank.

In the last report of the Committee on Joint Stock Banks, it was stated as a defect in the law authorising their constitution, that "the law does not limit the number of Branches, or the distance of such Branches from the Central Bank." If the fact that the law has omitted to restrict the number of branches, and to prescribe their distance from the head office, be actually a defect in legislation, it is one which it will be a very difficult, nay arbitrary matter, to remedy. As well might the legislature say that a merchant should confine himself to one place of business, or that a shipowner should trade only to one port. As well might they say that the manufacturer should deal only with one consumer, or send his goods only to one or two specified markets. But upon what principle could an act be passed to regulate the number and distance of branches? Such a law must either be general or particular. Suppose that a general law were to prescribe that no one bank should have more than three branches, and no branch should be beyond a distance of forty miles. A bank, with a capital of one million, situated at Manchester, might open one branch at Liverpool, another at Stockport, a third at Rochdale, while all the numerous surrounding towns of commercial importance in the district are left without the benefit and advantage of the distribution of this large capital, and of the system upon which this bank is founded. Another bank, also situated in Manchester, but with a capital of only one quarter of a million, has the like privilege of opening three branches within the same distance, and in this respect stands upon an equal footing with the bank of four times its magnitude. Here then, there would be gross injustice. If, however, the law were particular, and prescribed that a bank with a certain capital should have the privilege of opening a certain number of branches within a given distance, the principle of regulation would be interminable, and constantly requiring to be altered to meet the extended views and circumstances of every bank. No law, either prospective or retrospective, could be enacted on this subject which would not tend to fetter and cripple the operations of a Joint Stock Bank. It would be a most arbitrary and unjustifiable interference with the principles of free trade, and no legislative enactment could increase one whit the security of the bank, or the safety of the public. It is amusing to read over the evidence taken by the committee on these points. One banker is entirely opposed to branches, another considers that they ought to be within the distance of an easy day's ride to and from the parent bank ; a third is inclined to think that they should be limited to one, or, at most, two counties ; while a fourth asserts that they have no difficulty in managing branches at a distance of two hundred miles and upwards from the head office. The Bank of England, some of whose branches are at a distance of upwards of 200 miles from London, has always given to her shareholders a favourable account of her branches, and has never insinuated that their distance from the parent bank caused their being less effectively managed.

The superintendence of the branches of a well regulated bank is one of the most important departments of management, and is generally conducted in the most rigid and systematic manner. Of course different banks do not all adopt precisely the same method, but some of the best organised and most extensive establishments proceed upon one general system. The branch is placed under the management of a gentleman who gives security to the Directors for fidelity in his office. This gentleman has generally the co-operation and advice of one or more local directors, chosen annually from among the local shareholders. The manager is furnished by the head office from time to time with instructions for the regulation of his business ; and the local directors and manager, as well as the whole affairs of the branch, are entirely under the control of the head bank. To render this control more effective, and that the general directors may be able more successfully to regulate the working of the branch, a certified statement of each week's operations, with an abstract of every account, is transmitted weekly from the branch to the head office. By these means, and by the aid of the periodical reports of the Inspector of Branches, who should be a man of practical talent and strict integrity, the affairs and condition of each branch are as intimately known to the general manager and directors as if they were personally present.

Where such a correct system of management exists, where regular returns are made to the head bank, where rigid inspection is in constant operation, and where strict discipline is enforced, it is absurd to say that it shall not be competent for a Joint Stock Bank to have more than a certain number of branches, and that these shall be situated within certain limited distances. A regulation of this nature must be founded on the assumption, that Joint Stock Banks are incompetent to regulate and superintend the management of numerous and distant branches. But such a hypothesis must be assumed on particular or general facts. Now where are the facts and evidences upon which it can be founded? The only shadow of ground which the committee could have for such a theory, was unquestionably furnished by the cases of the Northern and Central Bank, and the Agricultural and Commercial Bank. Without saying one word as to the management, or mismanagement of those banks, the evidence itself may be safely appealed to, as showing clearly that there was no efficient nor systematic superintendence and control of the branches. But even admitting these cases to afford satisfactory evidence for the theory of the parliamentary committee, they are met by an overwhelming mass of evidence of a directly contrary description, in the cases of numberless other banks. If any dispassionate mind, not warped by prejudice or party interest, will for one moment consider the profitable and admirable manner with which the numerous and far extended branches of the Scottish banks are conducted, the Irish Provincial Bank, the National Provincial Bank of England, and numerous others less extended, it cannot but admit that the committee must have formed their theory upon very slender and insufficient evidence. The cases they have had in view are mere exceptions to the rule, and not for one moment to be considered as valid evidence against a system so long practised, so successfully extended, and at present working to great profit and advantage throughout the entire kingdom.

CHAPTER V.

ISSUES OF JOINT STOCK BANKS.

One of the functions of a Joint Stock Bank is that of supplying a convenient and secure circulating medium to the district in which it is located. The convenience of the paper consists in being made payable at the places where issued, and, (though this is not the case with some banks,) also in London, and its convertibility into coin at the will of the holder. A bank having branches will, out of courtesy, pay the notes of each branch at any of the other. The security of the paper is based on the magnitude of the capital, and the wealth and respectability of the shareholders. The extent of the issue will be regulated by the character of the establishment, and the credit obtained in the district; the amount of notes issued ought to be matter of careful internal management The circulation of a bank is adjusted by the legitimate wants of the district where it is situated, arising out of individual operations, which, so far as he is competent to judge, ought to be a subject of anxious study with the manager. The monied wants of a district fluctuate according to the state of trade and commerce, foreign and domestic. It is perfectly possible for a bank, through injudicious management, to create a superabundance of money and materially affect prices, by discounting too freely, and to improper parties, thereby stimulating speculation, and increasing the risk of bringing ruin alike upon the speculator, the honest tradesman, and the bank itself. This is an error in banking, which a new bank is more liable to fall into than one whose operations have been moderated by years of experience. The haste to get rich, which some banks evinced on their first formation in England and Ireland, fully supports this statement, and the result of their reckless inexperience stands recorded for the advantage of others. The immediate effects of the action of any bank are of course first felt in its own neighbourhood. By the counterworking of banks money may be at the same time plentiful in one district and scarce in another; of consequence, prices will be affected in a corresponding manner, and must necessarily vary in those districts. The first effect of an abundance of money is to promote speculation, and relatively occasion an unhealthy rise of prices.

It has been supposed that money cannot be too abundant, and that it is impossible for a bank to keep out more notes than are required by the legitimate wants of a district. This statement is wrong in fact, but correct as to ultimate results. A bank may push out a superabundance of paper by undue accommodation to improper parties, which, being embarked in all sorts of wild speculations, may be kept afloat until the revulsions of trade or the engagements of the bank, force its return. It is thus quite practicable for the circulation of a district to be in excess at particular periods, though it is impossible it can remain so for any length of time. The great obstacle to country bank paper becoming superabundant is its convertibility into coin at the will of the holder. There is a very marked distinction between the paper of the Bank of England and that of country banks in this respect, that the former is a legal tender, and hence may become superabundant, even though payment may legally be demanded in gold.

A paper which is convertible at will, and is a mere symbol of credit, will not readily become depreciated, or permanently superabundant. It must be otherwise, however, with that paper which is made a legal tender, and there cannot but be a tendency to superabundance. Strong attempts have been made to convince the government and the public, that much danger is to be feared from the privilege of issuing paper enjoyed by Joint Stock Banks, inasmuch as it has the effect of deranging the exchanges, and interfering with the policy of the Bank of England. This is a statement based upon no principle, and cannot be substantiated by any direct evidence. If the principle upon which the Bank of England professes to regulate her issues, and to controul the foreign exchanges, could be shown to be her uniform rule of action, and to have been adhered to during the recent embarrassments, some reason might exist for instituting an inquiry how far the operations of Joint Stock Banks could obstruct her policy. The outcry on this head is, however, only a part of that hostile system which the Bank of England has invariably pursued for crushing the usefulness, and, if possible, destroying the existence of Joint Stock Banks.

The word Exchange, in the sense now used, has its origin in the system of traffic and commerce practised among nations, of exchanging one description of goods for another. When the articles exchanged are estimated at equal value, or where the difference is made up in bills or money, the exchange is said to be at par, or equal. When one nation exchanges a larger or more valuable quantity of goods with another nation for a smaller or less valuable lot, the exchange or balance is in favour of the former, and against the latter. It follows that the nation against which the balance of trade stands must either remit goods, or the precious metals (which are the medium of traffic between all nations), to make up the difference.

Hence, when the exchanges are against England, the plain meaning is, that this nation has imported a larger quantity of goods than she has exported, and the foreigner must either be paid in goods or gold. Now it may happen that English goods are either not suited to the foreigner, or that he can get them cheaper from other quarters, or that he has already a sufficient supply of our manufactures. If one or any of these causes exist, the foreigner will necessarily demand gold, and gold must be remitted. The exchange in this case not only stands unfavourable, but an unfavourable action ensues—and the precious metals are withdrawn from the country.

It has been supposed that the constitution and privileges of the Bank of England are such as to invest it with the power of regulating and deranging the exchanges at will. That establishment has certainly taken credit to itself for much ability in influencing the exchanges, but when any serious derangement has taken place, it has not hesitated to shelter its manifest incapacity under a charge of counter action and bad banking on the part of the Joint Stock Banks.

It must be obvious to every person acquainted with commerce, that the regulation of the exchanges is a thing altogether foreign to the profession of bankers, and that the assumption of this office by the Bank of England is an illegitimate and unsafe interference with the trade of the country. The experience of the last four years has now clearly made out that the presumed ability of that establishment to regulate the exchanges is a mere chimera, the efforts to that effect having been altogether futile, and tending to no other result than great commercial distress and bankruptcy. It is a mistake to suppose that the Joint Stock Banks have the ability to counteract the operations of the Bank of England, and even although they had, it would be grossly unjust to presume that they would make money plentiful and cheap, at a period when it was manifestly for the safety of their proprietors and the country at large that it should be scarce and dear, or that they would persist in multiplying their issues during an efflux of bullion, thereby taking the very means of hastening their own ruin.

But the Joint Stock Banks have not the power, either of regulating the exchanges, or of counteracting the operations of the Bank of England. The Bank of England alone has the power of making money cheap and dear at will, and has long endeavoured to shield its own abuse of that power by unfounded insinuations and unjust charges against the Joint Stock Banks.

CHAPTER VI.

RECIPROCAL DUTIES OF DIRECTORS AND MANAGERS.

The prudent and satisfactory management of a Joint Stock Bank very materially depends upon the upright and consistent discharge of those social duties and reciprocal interchanges of confidence which ought to characterise the directors and manager.

The manager, from his experience and the importance of the office he fills, is entitled to the kind consideration and entire confidence of the directors. He is selected by them to occupy an arduous and highly responsible situation, and ought to be rewarded not merely by an adequate pecuniary remuneration, but with the respect and friendship of the directors, by whom he should be considered in every respect, so far as regards the bank, at least upon an equally elevated footing. Without the confidence and friendship of the directors, he can neither take his place at their meetings free from restraint, discuss with them matters relating to the welfare of the establishment with composure, nor appear before the customers with that satisfaction and independence which is required to the proper discharge of his duties. Having placed him in the position of manager of the bank, it is their duty always to contemplate him in that light, to respect and confide in his opinions and conduct, which in many cases have been formed by long years of active and arduous employment in the profession; and to speak well of him among their friends and acquaintances In the degree in which the manager is respected and well spoken of by the directors will respect and confidence be extended to him and consequently to the establishment by the public, and a good opinion entertained of their judgment and discernment in his selection.

The conduct of the manager ought to be characterised by great circumspection and uprightness. He ought, unquestionably, in every instance, to be chosen for his business qualifications, and not because he is a rich man, a gentleman, a man of fashion, or a man with an extensive circle of friends. To choose him on account of any one of these qualifications, and not principally from his practical experience of banking, would be similar to appointing a man to the care and management of a steam-engine who knew nothing of its mechanism nor the nature of its operation, but was recommended solely because he had a taste for travelling, or it would be like placing a man at the helm to pilot a vessel over quicksands and through a reef of rocks who knew nothing of a sea-faring life but was fond of contemplating the grandeur of the elements. The manager of a Joint Stock Bank ought to be chosen exclusively for his experience in banking, other qualifications are well enough in their own place, but ought never to be taken into consideration in choosing a person to act as manager of a bank. In this way a stimulus is given to persons of talent who may be looking forward to the reward of a life of toil, and drudgery; and thus merit is patronized and protected. In a well regulated office no one will be promoted over the head of another, but a prudent selection being made at the outset, a system of regular promotion should be uniformly practised.

The manager of a bank may be contemplated in three important points—in his intercourse with the customers and the public; with the directors; and with the subordinate officers of the bank. In each of these departments he has important duties to perform. He must be scrupulously diligent in his attention to the affairs of the bank, courteous in his interviews with the public, affable and unreserved in his communications with the directors, and kind and conciliating towards the subordinates of the bank; treating them as those who may be one day placed in a similar situation with himself. The days are now gone past when a man of business was considered in the light of a machine—a mere automaton for the purpose of forming figures and casting up accounts; but it is still necessary, enlarged as our views of the powers and capabilities of the human mind are, in order to the proper management of any business, that it be carefully attended to. The manager of a Joint Stock Bank being allowed a competent salary, cannot be justified in occupying his time with any other employment which may occasion his absence from the duties of the bank. But it is not intended to insinuate that he must be a man of one idea, and restrained from turning his mental acquirements to his own amusement or profit. This would be as absurd as it would be unreasonable. Nor is it meant that a man of business may not be also a man of great erudition, and it may happen, of literary and scientific eminence. On the contrary, it cannot be denied that, in the present day, this is often the case. What is contended for is, that the bank is entitled to, and ought to have, his close and chief attention.

As it is obvious that he cannot manage any other trade or profession, without sacrificing or delegating more or less the duties he owes to the bank; it seems also very doubtful whether he can be justified in taking a prominent part in public or political affairs. There are two arguments against his being a public character. The first is, that he may be drawn away during the hours of business; the second, that by becoming a partisan, he is certain of being more or less obnoxious to a portion of the inhabitants, and, it may be, of the bank's customers. A man whose mind is occupied in framing political speeches, in promoting political schemes, and whose time is partially given to political, magisterial, or other meetings, cannot possibly, from the exciting nature of such subjects, give that cool, deliberate, and uniform attention to the duties of the bank which they necessarily require. Whatever system of conduct tends to his being irregular in attendance at the office, will impair his usefulness as well as his influence. His domestic habits ought to be such as tend to increase the respectability of his public conduct.

Whatever condition of life tends to raise him in the scale of public and private worth, and to refine his sentiments, and liberalize his opinions, must be calculated to make him a more agreeable and acceptable man of business. It is not recommendable that he should be of retired, morose, and studious habits, any more than that he should be a man of great gaiety and fashion. In the one case he might be of narrow, bigotted ideas, and disobliging manners ; in the other, there might be a want of caution and that scrutinizing judgment, necessary to safe and prudent management.

Besides the mutual interchange of social duties arising out of the relations of the offices of directors, manager, and clerks, there are duties to be exercised towards the customers and shareholders of the bank of no inconsiderable importance, and which chiefly devolve upon the manager.

The customers ought always to be treated with civility and kindness, their business transacted promptly and cheerfully, and every inquiry regarding their accounts, or any matter of business, readily and satistorily explained. When an accommodation is to be declined, it ought to be done in as polite and inoffensive a manner as possible—the manner of a refusal being of paramount moment to the character of a manager.

The shareholders, being in other words the proprietors of the bank, are to be received with that freedom and confidence which is due to their character as such, but without compromising or revealing to them either the business and accounts of each other, or of the customers of the bank.

One objection to Joint Stock Banks arises out of the supposition that where there are so many proprietors and directors, the business of the customers is known to all, and that secrecy as to the accounts, which is presumed to be a leading characteristic of a private bank, is unknown in a Joint Stock Bank. This objection is altogether without foundation. The proprietors have no right to inspect a single book or account in the bank, and in most cases this privilege is restricted to the managing directors, and each clerk is required to sign a declaration of secrecy before entering upon his duties, and it is a matter of the utmost consequence that the strictest secrecy be observed regarding all accounts kept at the bank. If any director, manager, or clerk, makes any disclosure relating to the accounts or circumstances of a customer, he is clearly unworthy of his office, and is besides guilty of a moral offence in the betrayal of confidence.

Managers ought to be cautious of entering into conversation with persons unconnected with their establishment, as to the mode of conducting their business, or as to the means and resources of the bank, as they may be inadvertently led into disclosures alike disadvantageous to themselves and prejudicial to the interests of the company. Circumstances of this nature have sometimes operated in producing an unfavourable opinion of the capability of the manager, and been to himself a source of subsequent annoyance and regret.

Next to being secret and cautious, a manager ought to be prompt and decided in all his measures, free from party influence, and firm in his purpose. A habit of promptitude and decision is very essential to the proper regulation of the business of a bank, and acquired by forethought and circumspection. It is perhaps a constitutional virtue which cannot be enjoyed by every one in the same degree, but it is nevertheless a virtue which every one may acquire by proper attention. Nothing makes a manager look more silly and contemptible than a hesitating, dubious, and capricious manner. His answer ought to be prompt and satisfactory; he should be sufficiently acquainted with business to say at once whether an act can be done or not, and should appear free from restraint, and not disposed to alter an opinion when once formed.

CHAPTER VII.

A VIEW OF JOINT STOCK BANKS AS MORAL AND RELIGIOUS INSTITUTIONS.

Joint Stock Banks being constituted by the combined wealth, and supported by the extended and diversified business and commercial resources of a numerous proprietary, assume the character of public institutions possessing various powers of benefiting the commerce and industry of the country, as well as of individuals. Their character as public institutions is recognized by the importance which the legislature has attached to their existence, as well as by the acts authorizing their constitution, and is admitted in the unnecessary and idle apprehensions with which the public mind has been occasionally excited with respect to their operations.

Being public institutions, founded upon a strong and permanent basis, though not all of equal magnitude or of equal advantage, still in their varied degrees they may be contemplated as possessing the means of great moral and religious good, as well as national benefit.

The character of moral and religious institutions may justly be ascribed to Joint Stock Banks on various grounds, but chiefly because in a well managed bank, the characters who meet with most favour, indulgence, and assistance, are young men of good morals and respectable conduct, who are just commencing the world with perhaps little or no capital; men of good motives, but who have been borne down by unforeseen and unavoidable circumstances; and men who having immediate demands which they are unable from the investment of their capital to meet, have no other guarantee but their known respectability and integrity in business. These are exclusive of many other instances of temporary accommodation where character, the moral and industrious character of the party, forms the chief guarantee of the bank.

On the other hand the same principle on the part of the bank will lead to a strict scrutiny of applications from persons of immoral and dishonest character, will occasion their transactions to be regarded with jealousy, and less liberally dealt with than those of an opposite description.

In cases where honest and industrious persons have become indebted to the bank through misfortune, and are involved in distress, they are treated with kindness and forbearance, compositions freely and cheerfully received, and discharges given without hesitation or annoyance.

Towards villains and impostors a bank acting upon principles of moral rectitude as well as of common justice will be inexorable, and prosecute to the utmost. An association to be entitled "The Joint Stock Bank Association for the prosecution of Rogues and Impostors," ought to be formed, to which every Joint Stock Bank in the kingdom should contribute.

A Joint Stock Bank, as a public institution, should display as much public spirit as is consistent with its stability and resources, such as countenancing and encouraging by contributions all public works and public charities in its district. With respect to its own establishment, its expenditure should be commensurate with its success and prosperity; it should be liberal in the remuneration of its officers, and have elegant and commodious premises. Proprietors are not so unreasonable as to require that while they derive a large annual revenue of from five to twenty per cent. upon their invested capital, those who drudge and toil to secure it for them, who, in fact, both think and work for them, should be rewarded with mere pittance, and that the business should be transacted in premises on a footing with a pawnbroker's or a mechanic's shop.

Another view in which a Joint Stock Bank may be called a moral and religious institution is, that its business and accounts will be so arranged, and so regulated, as that nothing will require to be done on Sunday. A banker's clerk is emphatically a working man; and the Sabbath is as much a day of rest to him as to the veriest week-day labourer; and he looks forward to the release which that day brings to all heaven's creatures, with as much gratitude and joy as can be experienced by the most oppressed. Banks having branches ought not to require their returns so early as to occasion their being written up on Sunday, and those having clerks or officers living on the premises, ought so to arrange as that they may be permitted at least to attend divine service.

A kind and moral consideration for the health and happiness of those in their service, will induce banks to allow their clerks leave of absence at reasonable periods; to encourage clubs and associations for those having families; and to assist the juniors in becoming members of literary and scientific societies, and thereby increase their qualifications for superior offices. The sick ought to be treated with kindness and forbearance; those who err with compassion and forgiveness; but the obstinately wicked and idle should be rigorously punished as an example to others.

That banking establishments are well entitled to the character of moral and religious institutions, can be readily substantiated by the testimony of many prosperous and wealthy tradesmen. How often has the fear of being seen by the watchful and reproving eye of his banker, deterred the young tradesman from joining the company of riotous and extravagant friends? How often has it kept him from the tavern, the club room, and places of public amusement and dissipation? What has been his anxiety to stand well in the estimation of his banker? Has it not been a subject of concern with him to be found regular in attendance on his business, keeping intercourse only with persons of respectability and good conduct, and punctual in his transactions? Has not the frown of his banker been of more influence with him than the jeers and discouragements of his friends? Has he not trembled to be supposed guilty of deceit or the slightest mis-statement, lest it should give rise to suspicion, and his accommodation be in consequence restricted or discontinued? Has not the prudent advice and admonition of his banker opened his eyes to the reckless and ruinous course which he may have been unwittingly pursuing? And has not that friendly advice been of more value to him in a temporal and moral point of view, than that of his relation—or very possibly of his priest? Many who have attained to wealth and respectability in the world, but for the moral influence of banking institutions, might have been outcasts from society.

They may be considered moral and religious institutions inasmuch as, while all the departments of their business are adjusted and conducted with a sort of religious scrupulosity, their transactions are only with the moral class of society, with the provident mechanic, the honest merchant, the industrious trader, the careful farmer; men who have a moral sense of what is right and are anxious to do well. The spendthrift, the idler, the thief, the impostor, can have no community of interest in a bank, and are consequently altogether excluded from any intercourse with it, or share in its success and advantage.

As moral and religious institutions that have produced and will still produce, much moral and temporal good to the commercial public of England, Joint Stock Banks are entitled to the most favourable regard of the legislature. It is to be regretted that while cavilling about points of the law upon which they are established, legislators have contemplated them chiefly as institutions possessing a dangerous extent of privileges which there was a disposition to abuse; and the fact that they are establishments founded upon sound rational principles, carried out with uniform regularity, and dispensing great moral advantages, has been entirely overlooked.

CHAPTER VIII.

ON BILLS—THEIR CHARACTER AND ADVANTAGES.

One of the chief sources whence a bank derives its profits, is in the discount of bills. Bills are of two classes, commercial and accommodation. The one is drawn against goods, or other mercantile value—the other is for the purpose of raising money to accommodate the wants of one or all the parties upon it. The bills of a country banker may be thus classed—bills drawn direct upon London—bills made payable in London, and bills payable in the country These may be all good commercial bills, or there may be accommodation bills mixed up with each class.

A bill drawn direct upon London is that which is drawn by a party residing in the country upon a party residing in London. A first-rate commercial bill is that which is drawn by a commercial house of high character, in this or a foreign country, upon a house of high standing in London. Such bills always find an easy circulation, and are eagerly purchased by bill brokers. It is very well known among bankers and commercial men, that parties in the country are in the habit of drawing upon parties in London for the purposes of accommodation, and that even private bankers have lent their acceptances to aid such advances. This system, however, having in many instances wrought its own cure, is not now so much practised nor countenanced as it was some years ago.

Bills between parties in the country and made payable in London, though they represent value, and are in fact commercial transactions, do not maintain so high a character, nor are they so negotiable, as direct bills. Where bills between parties residing in the same town are made payable in London, the presumption is that this is done to suit the wishes of the country banker, or to facilitate their circulation. Such bills are more objectionable in the market than those drawn by a party in one town upon a party residing in another.

Local bills, or bills payable in the country, are bills drawn and accepted by parties in the same town or district, and made payable at a local bank, or their own houses.

Bills, wherever payable, drawn against value, are obviously a much safer investment, than bills drawn between parties for the mere purpose of speculation, or of raising money. The former are of consequence a sort of legitimate representation of goods or money, and readily circulate among merchants; but the latter are a spurious imitation of something to which they bear no true relation, and are universally rejected and discountenanced by all upright and judicious men of business. This observation is to be understood in a commercial sense. Bills were originally invented as a convenient medium of payment between merchants, but the ingenuity of the age has converted them into a vehicle for raising capital and furnishing the means of speculation. It would be a very useful and satisfactory indication of the soundness of our commerce, were all banks, private as well as Joint Stock, to exhibit a periodical return of the amount of bills on hand, distinguishing those of a *bona fide* mercantile character from such as were known or believed to be for the purposes of accommodation. There is little doubt but the one would bear a fair proportion in amount to the other. Generally speaking, accommodation bills are discountenanced by all properly managed banks, more particularly where the parties are men of small resources. The difference between a genuine commercial bill and an accommodation one, is something similar to the difference between a genuine coin and a counterfeit. No one would knowingly receive a counterfeit sovereign, unless well assured that it would be reimbursed at a stated period. The risk and discredit attaching to accommodation bills are increased, where the parties concerned do not confine their operations to one particular bank, and where the facility exists it will almost invariably be found that such business is divided among all the banks in the district.

In estimating the character of the bills possessed by a country bank the first object would be to ascertain what proportion of them represented actual value, and what were fictitious or accommodation. This investigation would have reference to the stability of the bank. The second object would be to know what proportion were payable in London, and what in the country. This would have reference to the resources of the bank, and may be more fully explained.

The ultimate resource of any bank is its original capital. In addition to its own capital, a bank has the means and facilities afforded by deposits and circulation which go to augment that capital. It is obvious that the more readily convertible the securities upon which a bank advances its capital, the less difficulty will be experienced in meeting any unfavourable turn in the money market, or running demand for payment of its obligations. A well conducted bank will therefore always have an adequate portion of its assets to consist of marketable securities, and these by the consent of many experienced bankers and bill brokers should be *bona fide* bills of good character. However much importance may be attached to investments in exchequer bills or government stock as convertible securities in times of panic, a bank of any reasonable pretensions can never be under difficulty while possessed of a sufficiency of good short dated London paper—that is commercial bills drawn upon London.

The respectability of a bank depends very materially upon the quality of the bills sent up to the London market; and paper of an indifferent character which may be passed in a period of prosperity when money is abundant will occasion applications made at a different season even with better paper, to be viewed with suspicion and distrust, and frequently produce to the bank much trouble and inconvenience.

Accommodation bills are the very worst class of securities upon which a bank can invest money—and are objectionable even when the parties are unexceptionable. Much as they are to be deprecated however as tending to stimulate speculation and thereby injure the legitimate trade of the district, bring ruin upon individuals, and ultimate loss to the bank, they are often the source of large profits.

It is but reasonable that where a bank risks money upon accommodation bills an additional charge should be made for such transactions, and if every bank made it a rule in all cases to charge a higher rate of interest upon such paper than is made upon *bona fide* bills, the effect would unquestionably be to diminish their quantity and to protect the trade of the district.

When individuals or companies apply for a loan the amount of which it is inconvenient to advance upon open account, it is frequently made upon negotiable bills—that is bills payable in London at convenient dates. These bills, as necessity arises, find their way into the London market, and the credit and stability of the bank is more or less affected, according to the amount of such paper afloat, and the known or presumed resources of the bank. It may happen that a bank of small capital may have an amount of such paper afloat bearing such a proportion to its paid-up capital, as to create an unfavourable opinion of its management and position.

The character and status of a bank may be very soon understood from the description of paper which it sends up to London.

Accommodation bills bear certain *ex facie* marks which indicate at once their true character. They are generally drawn for the largest sum the stamp will carry—they never express what they are drawn against—they are generally drawn and accepted by parties residing in the same town or neighbourhood, and frequently bear the names of parties having no relative connection in trade.

CHAPTER IX.

ON RE-DISCOUNTING.

A bank whose capital is not either commensurate with its business, or has been imprudently invested, becomes dependent, in a large measure, upon its resources, by re-discounting. The facilities which exist of this kind are chiefly confined to the London bill-brokers. Few banks have any arrangements with those houses for permanent or stated advances, nor might such engagements be at all times convenient for either party. Banks, therefore, which are in the position alluded to, are often and necessarily put to incredible inconvenience, from the caprice and disobliging manner of bill-brokers. The remedy for this is obviously for a bank to curtail its business, and to confine its operations within the prudent limits of its own capital; it would be still more commendable, to call up capital adequate for conducting a gradually extending business.

All banks necessarily commence with a small paid-up capital, which it is their duty to increase in proportion to the increase of their business.

It is a very unsound and unsafe system, and altogether an error in banking, for any bank to attempt to conduct a large business with a small capital, and depend upon the London market, or even upon its credit with other establishments, for the re-discount of its bills. The bank that is under the necessity of constantly re-discounting its London paper, however large may be the profits it is enabled to divide among its shareholders, is evidently labouring with too small a capital. In fact, wherever large dividends are declared there can be no doubt the bank is working upon too small a capital. The official returns made by Joint Stock Banks shew that numerous establishments in the manufacturing and mining districts possess very inadequate capital, and the same fact is revealed by the large quantity of paper bearing the indorsement of these banks kept constantly afloat in the money market.

It is perfectly practicable for a bank to confine its operations within its own available capital so as to avoid recourse to the discount market, and it is at all times desirable that this should be practised, though it is not at all times convenient, nor in all cases profitable. But no bank, whose chief business is that of discounting bills, being at the same time a bank of issue, can be considered secure with a small capital. The very process of re-discounting, which is the great source of its profits, multiplies its obligations with such amazing rapidity, that the liabilities of many small banks in this way would be incredible, were the fact and the process by which it is accomplished less familiar to the community. It is not a sufficient argument against this statement that if a bank is to hold these re-discounted bills as liabilities they are entitled to take credit for them as assets. As a matter of accounting this is doubtless correct, but as affecting the stability of the bank the matter must be contemplated in a different light. The risk which the bank runs is multiplied in proportion to the amount of bills re-discounted. A bank with a capital of £40,000, having bills running to the amount of £300,000, would have its whole capital swept away by a loss bearing no reasonable proportion to the amount of its discounts. Now it cannot be doubted that this statement represents the condition of numerous banks in the manufacturing and mining districts. This system is evidently unsound, and such establishments cannot be too strongly urged to call up more capital. These observations are not intended to discountenance or throw discredit upon the system of re-discounting. Many banks are known to look upon it with apprehension as being a system fraught with danger. It is well for them if they are so circumstanced as to realize a reasonable profit without this adventitious aid. The absurd and dangerous extent to which it is in some cases practised is what is here objected to.

It is very well known that banks in the agricultural districts accumulate capital by deposits and circulation for which they can find no other employment than sending it to the London money-lenders or investing in stock, while it is equally well known that banks situated in mining and manufacturing districts, have demands upon them for accommodation out of proportion to their capital, and which they cannot otherwise supply than by having recourse to the system of rediscounting with bill brokers. This latter class must, of course, charge a commission on the money borrowed and lent between banks in this way. The borrowing bank, therefore, pays an extra charge, which by a different arrangement might be avoided, and both parties be equally well accommodated. The arrangement here suggested is, that one bank should lend direct to another, without the intervention of a broker. The bank which borrows money from its depositors at 2 per cent. could very profitably lend to its neighbour at 2½ per cent.; and if it borrows at 2½ per cent. it could lend at 3 per cent., and so on in proportion. But as the bank which has to lend is not supposed to be aware what bank wants to borrow, this inconvenience might be very simply removed, by appointing a medium of communication in the metropolis. One confidential individual could manage the whole matter, and receive and notify applications and terms between banks, leaving the latter to act upon his information by direct correspondence. Both profit and advantage would result to Joint Stock Banks from such an arrangement, and they would be effectually relieved from the annoyance and caprice frequently endured from bill brokers. The Scotch banks, that in most cases have surplus capital invested in the funds, might also, by this method, be enabled to employ it to more advantage, and at the same time benefit their English neighbours.

These observations are not intended to encourage a system by which banks, having only a small capital, inadequate to the extent of their business, would feel disposed to avail themselves of the facilities suggested without calling up additional capital. The lending bank will, of course, take care that the borrowing bank does not receive an amount of accommodation out of proportion with its capital.

A question of some interest and of considerable importance to Joint Stock Banks might be submitted for discussion at a banking club, viz. :—To what extent, in proportion to its paid-up capital, is a bank justified in re-discounting? This would be very much a question of circumstances. A well managed bank, being cautious and circumspect in the quality of the paper which passed through its books, would fairly be entitled to re-discount a larger amount than another bank of equal capital, and managed with less prudence, and which gave currency to accommodation paper. Setting aside this distinction, however, and supposing a bank managed in the most unobjectionable and prudent manner, to what extent would it be justified in re-discounting?

Re-discounting is indefensible as a system, and is wrong in principle. It partakes something of the nature of overtrading, and conduces to speculation on the part of the bank, and a reliance on resources which not being legitimate, often operate to the discredit as well as the direct loss of the establishment.

By calling up additional capital, a bank which has previously been obliged to rely almost exclusively upon its own resources in re-discounting, becomes not only relieved thereby from this very disagreeable and unsafe position, but is placed in one of a much more respectable and advantageous character. The fact that the bank possesses adequate capital, will be a strong inducement to depositors, and will also tend to promote the circulation of its notes. A man will more readily deposit £1000 with a bank having a capital of £100,000, than with one having a capital of only one half that amount, and in like manner the notes of the former will be a more acceptable tender than those of the latter.

The character of the bank is very materially affected by the amount of its capital. A bank with an insufficient capital will be contemplated with much less confidence and respect, thàn one having a capital commensurate with its business.

It may be asked, how can any one know the capital or resources of any bank, as a bank may have a small capital, and yet have large resources in deposits and circulation?

It is answered—1st. That parties at a distance may be ignorant of the capital or resources of the bank, but the customers, correspondents, and commercial public, in its own neighbourhood, will infallibly soon become aware of its true position, and with these chiefly must it be the interest of the bank to stand well, because by their acts alone it must stand or fall.

2d. A tolerably accurate estimate can be made of the capital of a bank in relation to its business, from the applications which it makes for money in other quarters, and from the nature and extent of its bills in circulation.

3d. A tolerably accurate estimate can also be made of the capital of a bank, from its published statements of the amount and rate of the annual or half-yearly dividend.

CHAPTER X.

THE DUTIES AND CHARACTER OF A DIRECTOR.

The deeds of settlement of Joint Stock Banking Companies invariably describe the duties devolved upon the directors, and invest them with the power and privileges necessary to the full discharge of those duties.

The directors are, in fact, the acting partners of the company, and have the entire control and disposal of its affairs, so far as the provisions of the deed extend. The shareholders, at a general meeting, have at any time power to alter or amend the deed as they may think proper, but they cannot annul any past acts of the directors, if in accordance with the terms of the deed of settlement.

Some adequate idea may be given of the powers and duties of the directors, from the following summary :—

The directors are chosen from among the shareholders, at a general meeting—the pecuniary qualification being that they hold a stipulated number of shares in the company.

Some deeds bear that no person can be elected a director who does not hold the required number of shares; nor a bankrupt, nor insolvent, nor any person having stopped payment within a certain number of years, nor a bill broker; nor a manager, director, clerk, or accountant in, or agent for, any other banking house or company; and that persons being disqualified, or becoming disqualified, continuing to act, shall forfeit a certain penalty.

The directors being appointed, elect out of their own number, a chairman to preside at their meetings.

The periods of meeting are usually named in the deed, and are generally once a week, but they can be called together by the manager of the bank on any emergency.

The proceedings of the directors are required to be entered in a book kept for that purpose.

They are empowered to provide houses or offices for the business of the company by purchase, erection, or lease; with power to sell, let, or dispose of the premises, and to insure the buildings and effects.

They are empowered to appoint, remunerate, and remove, London bankers, managers, accountants, cashiers, clerks, and other officers and servants.

Such persons as the directors appoint have exclusive authority to sign bills and notes on behalf of the company.

They are required to take out the license named by act of parliament, to compound for bill and note stamps; to cause bonds to be given by sureties, on behalf of the Company, to the Commissioners of Stamps, and they are empowered to indemnify such sureties.

They are required to cause returns to be made to the Stamp Office annually, or oftener, in terms of 7 Geo. IV. c. 46.

They are empowered to allot such shares of the stock of the company as may not have been originally subscribed for, and to make calls upon the shareholders from time to time, for additional capital, as the business extends, and in the proportions stipulated by the deed, and to forfeit shares for non-payment of instalments.

They are authorized to give credit, and make advances in their discretion; to invest surplus funds and to change the securities; to return to the shareholders such part of the capital as they cannot employ to advantage, and to recal the same again without any prejudice to any original call.

They are required to cause proper books of account to be kept, and to produce a balance sheet at the yearly or half-yearly meeting of the shareholders.

They are empowered to nonsuit and defend proceedings at law, and in equity, in the name of any one of the public officers, and either against shareholders or strangers, and to take the entire management of all actions brought against the public officers, or any of the shareholders.

They may submit to arbitration and compound debts, and execute, or depute officers to execute, letters of attorney.

Such is a brief outline of the powers and duties generally devolved upon the directors of Joint Stock

Banking Companies, and it is manifest that a body of men in connection with any company, having such powers and duties delegated to them, must exercise the complete control and management of that company. The choice of suitable directors ought therefore to be a matter of serious deliberation on the part of the shareholders. This fact is rendered the more forcible, from the consideration that Joint Stock Banks being, with a few exceptions in Scotland, unchartered companies, and there being no restriction as to the liability of the shareholders, each shareholder is liable to the public creditor to the last farthing of his property. This observation is not thrown out as an insinuation against the security of these establishments, but to show the necessity of exercising extreme caution in the choice of directors.

There are several points of view in which a man becomes eligible as a director of a bank, independent of his qualification as the holder of the required number of shares. Indeed his qualification as a shareholder merely, must not be taken into the account.

He ought, in the first place, to be a man enjoying public confidence. Unless he is a man whom the community contemplate as deserving of their confidence and esteem, it is not presumable he can be of much service to the bank, either by his influence or character. The public are not likely to deposit their money in an establishment where they cannot place the fullest reliance upon the directors, and for the same reason, parties of respectability will not readily be induced to open accounts with the bank.

2. He ought to be a man possessing a knowledge of commercial business. It is a matter of great importance to the satisfactory and efficient management of a bank, that those to whom is entrusted the direction of its affairs, be in some measure conversant with the ordinary affairs of trade. Men who are retired from business are unquestionably the most eligible, not merely from their business knowledge, but because they are not apt to be contemplated with that suspicion, jealousy, and distrust, which tradesmen will sometimes exercise towards such directors of a bank as are likewise engaged in trade. But retired men of business are not readily to be had as directors of a bank, nor are they in most cases disposed to accept of such an office. Where such is the case, men of high standing and character engaged in trade, should be sought for.

3. A bank director should be a man of strict integrity and uprightness. This is a qualification perfectly indispensable to the welfare of the bank. He must be above all trafficking in the stock of the company, or taking any undue advantage over the other shareholders through his intimate knowledge of the state of their affairs as regards the bank. He must never for a moment forget, that while he is a partner in the concern, and as an honest man, is bound to conduct it in as faithful and diligent a manner as he would his own private affairs, that he is at the same time appointed to a solemn trust, in having the interests of numerous

others, equally interested with himself, under his management and control. In fact, unless the director of a bank is a man of strict integrity, he is placed in a position calculated to be productive of great mischief. He is invested with power to ruin the fortunes of others, and to inflict much commercial evil upon the community. Where there is a want of integrity, there is a want of principle, and the bank must necessarily be mismanaged.

4. A bank director should be a man of influence and respectability. He ought to be a man well known and respected in the district. Such a man is desirable in a variety of ways. He adds his own personal respectability to the establishment, and he influences the favour and support of his friends and acquaintances. His standing in society gives the public confidence in the establishment with which he is connected,—and they bring their money and business to its support; the paper of the bank becomes more readily current in the district, and the weight of his influence destroys any suspicion of its stability.

5. A bank director should be in good pecuniary circumstances. It would be a most wholesome regulation, were it stipulated in all deeds of settlement, that no bank director should be privileged to overdraw his account. The great facilities which directors enjoyed of raising money from overdrawing their bank accounts, have, in some instances, resulted in extensive commercial disasters, and in the total wreck of large establishments. The temptation to speculations of all descrip-

tions which such facilities hold out, necessarily increase the risk of the bank, and induces a less rigid inspection of the accommodation afforded to other customers. Where those who are entrusted with the management of the bank forget the extent and importance of the trust reposed in them, and begin to enter into unwarrantable speculations with the funds committed to their care, it is not supposable that they will be particularly scrupulous as to the general management of the affairs of others.

6. A bank director should be one who can bestow some attention upon the affairs of the establishment. It has appeared in evidence that gentlemen have been appointed, and have accepted the office of directors of banks, who gave little or no attention to the affairs, who in fact appear to have considered that the office of director was conferred on and accepted by them, more for the purpose of complying with the letter of the deed of settlement, which enjoined the appointment of a certain number of directors, than from any idea of their being expected, or of its being necessary for them to know any thing regarding the management. The consequence of this has been, that the duties which the shareholders devolved upon perhaps six individuals, were confined to two, or possibly only one, and the others approving, without suitable knowledge or proper inquiry, of all their acts, the mass of shareholders, as well as an extensive commercial circle, have been involved in the disastrous results of mismanagement. It is altogether an anomaly that any man, or body of men, should have

the credit, honour, and distinction, of being managers and directors of a bank, and yet not exercise any of the active functions and important duties that relate thereto. Upon what principle can they undertake, as by accepting the office they unquestionably do, to discharge a solemn trust, in faithfully administering the affairs of a bank, into which they make it no part of their business to look? Were the fact not very well known, it would seem absurd; yet it is not the less absurd that it is known.

There are certain duties then, and a certain line of conduct to be pursued by a bank director, which may be readily deduced from the preceding observations.

The first and most important duty of a director is to make himself well acquainted with the affairs of the bank. No director can be of any use to a bank, unless he is thoroughly versant with the state of the accounts, and the principles upon which the business is conducted. It is not necessary that he should be aware of the daily position of every account, or that he should confuse his mind with the duties of office work. What he ought to know is—what parties keep accounts with the bank, what is the nature and character of the accounts, and how their operation affects the credit and interest of the establishment. He should know what advances and obligations the bank is under, and what is the precise state of the liabilities and assets.

2. A faithful director should insist upon the periodical exhibition of a list of the accounts, a state-

ment of the circulation and of the cash, and an account of the liabilities and assets of the bank. In order to afford him proper satisfaction, and to enable him to judge of the general working of the business, as well as to decide upon the character of the accounts, these lists ought to be furnished weekly ; and in all banks where a proper system of accounting is kept up, this can be done without any difficulty, or in any way obstructing the general business. But without such lists, no director, particularly in large establishments, can be possessed of the requisite information for enabling him to discharge his duties with satisfaction and fidelity. By having such lists weekly laid before him, he is enabled to compare the operations upon each account, to see the amount of accommodation made to each individual, and to regulate the advances. In like manner the weekly state of circulation enables him to judge of the progressive increase or diminution of the bank's issues, to compare these with the amount of cash in the coffers of the bank, to maintain a corresponding ratio between the one and the other, and in periods of commercial prosperity or depression, to observe precaution in the regulation of both.

Most Joint Stock Banks keep what is termed a discount ledger. In this ledger accounts are opened for all parties who are in the habit of discounting bills with the bank, and into these accounts are entered each bill bearing the name of the party, whether as acceptor, drawer, or indorser. The bills running are written off when retired, and the accounts being kept upon the progressive system, the balance of bills running is brought out with every entry, and the accounts shew at one glance what is the amount of accommodation upon bills enjoyed by the customers of the bank. This is a ledger of such importance to a bank, that it is impossible that any adequate or satisfactory knowledge can be possessed of the accommodation granted to individuals where it is not kept. It should, therefore, not only be introduced into every bank, but the directors ought to have a list of the balances due by each individual in this ledger periodically laid before them, so that they may have it more completely in their power to prevent undue advances, and to check speculation.

3. It is the duty of a director to satisfy himself that the management, as well in the superintendence as in the working out the details of the business, is entrusted to individuals of adequate knowledge and capacity. A bank may be materially injured by having any of the departments of its business committed to persons incapable of conducting them with fidelity, regularity, and correctness. Persons of respectability and of experience ought to be obtained and encouraged to remain in the establishment, by being rewarded in proportion to their ability and usefulness. The character and conduct of the parties employed to attend to the affairs of the bank, necessarily affect the character and welfare of the establishment, and tend to influence the estimation in which it is held by the public.

4. A director should give regular periodical attendance at the bank. Most banks have what is called a "Weekly Board," that is a meeting of the board of directors one day in the week, and some establishments have two. Every bank, of whatever magnitude, ought to have a "Board day," or a meeting of the board of directors, at least once a week. This is essential to the interests of the bank, as well as necessary to a satisfactory and faithful discharge of the duties of the directors. At this weekly meeting a statement of the affairs of the bank for the week preceding should be laid on the table, with a general abstract of the accounts, and a list of the balance on current accounts. From these lists, and the state of each week's operations, a perfect knowledge will be obtained of the business of the bank, and the progress of its affairs. Each director will thus have an opportunity, not only of knowing how the business progresses, but will be enabled to speak out his opinion with confidence, and to discuss with satisfaction, whatever subject may be brought under his notice. No man can pretend to act as a director of a bank who does not attend stated meetings of the board, and take an interest in every circumstance affecting the welfare of the establishment. The man who acts in this manner instead of benefitting injures the bank, and is guilty of a breach of confidence, in neglecting the performance of duties which, by the very accepting of the office, he engages to fulfil.

5. Each director should satisfy himself that every statement of the bank's affairs, to which he lends his

sanction, is faithful and correct. Numerous and bitter have been the reproaches heaped upon directors for suppressing and misrepresenting the real circumstances and conditions of the bank, thereby not only deceiving those who had appointed them to the office, but alluring others into connection with establishments utterly unworthy of confidence.

6. Every director should be actuated by the most upright and honest motives. The best of men sometimes miscalculate while actuated by the very best motive, but whatever springs from an honest and upright intention is not likely to terminate in disgrace. Directors should, therefore, avoid all jobbing in the shares of the bank themselves, or connive at the practice in others. They ought always to remember that they are acting as the trustees of others, as well as for themselves, and that they are under the deepest moral obligation to preserve inviolate all the rights, privileges, profits, and advantages of the bank committed to their management.

7. Directors ought to be of easy access and agreeable manners. It is seldom necessary for directors to see the customers of the bank either personally or collectively; their intercourse is generally conducted through the medium of the manager, but where personal interviews are necessary they ought, on the part of the directors, to be characterized by condescension and affability.

CHAPTER XI.

BANKS CONSIDERED AS MERCANTILE INSTITUTIONS.

Merchandize are those commodities which the interests or convenience of men lead them to exchange with each other with a view to mutual advantage. There is consequently no article supplied by the bounty of nature, or manufactured by the art of man, which may not become an article of merchandize. In the early and middle ages of the world, what is now known by the name of barter, was the system by which commerce was conducted between nations and individuals. The advancement of mankind in knowledge and civilization, led to the adoption of precious metals as a more convenient medium of exchange in value for their goods and merchandize. The metals being valued according to their weight, fineness, and cost of production, the value of other articles came to be regulated in proportion, and different nations affixed a certain and unvarying value to their respective coins. But as society advanced, even the use of the precious metals as a medium of exchange was, from their weight and bulk, found to be attended with much inconvenience, and except for ordinary domestic purposes, and in the settling of small balances, they are now, in this country, entirely superseded by the use of paper. The convenience of a paper currency is, as all experience testifies, so very considerate, and so far excels a metallic one, that the probability of our ever again adopting the latter, is not once to be entertained. The paper currency is based upon the metallic, and its security as well as convenience, consists in its ready convertibility into coin, and the knowledge we possess of the stability of its issuers.

Money, either represented by paper or metal, being in general use as an equivalent in value for all articles of merchandize, becomes as much an article of merchandize as any other description or quality of goods. Banking establishments, therefore, being instituted for the purpose of facilitating the operations of trade, by supplying a ready medium of exchange between merchants, and by negotiating the obligations of one merchant to another, assume a decidedly important commercial character, and are very intimately related to the best interests of any nation.

A banker is one who deals in money. This money is his merchandize, which it is his duty and interest to buy and sell to the best advantage. The value of money, like every other article of commerce, is affected by the supply and demand,—it is sometimes cheaper and sometimes dearer. Where it is abundant, it is sometimes to be had upon terms so cheap as to give an unhealthy stimulus to different branches of industry, and induce merchants to extend their trade at home and abroad, with undue liberality, and ultimately to their own loss. Where it is scarce, it cannot be procured except upon terms which compel merchants to diminish their trade, to shorten their terms of business, and sometimes even to dismiss their servants, and become bankrupts. Banking is a branch of commerce which enjoys the singular advantage of regulating the amount of business in every other department. It is therefore of all others, the most important, and ought to be engaged in only by men of consummate skill and ability,—not only in consideration of their own interest but of the interest of the whole country.

A merchant engaged in trade, procures his stock at as low a price as possible, and sells again at the best price he can persuade the public to give him, the difference being his profit or loss, as the case may be. A banker acts upon the same principle. He lends out his capital on the highest terms he can get. He borrows money at the lowest, and lends it out again at the highest per centage. In addition to this, he often charges a commission for the trouble of borrowing and lending, and for making payments to third parties.

It is the duty of a wise merchant to know something of the character and stability of his customers. It is not supposable that he would give credit to any one who chose to apply for goods, without making some enquiry, and satisfying himself whether or not the customer was worthy of being trusted, and to what extent. The same principle is characteristic of a wise and prudent banker. He will not make advances to individuals of whom he knows nothing. He will not be guided merely by the respectability of the customer's appearance, nor the largeness of his speech, but will ask for such references or such securities, as are necessary to satisfy him fully that he can be safely trusted. If a person went into the shop of a grocer in order to make a purchase, and in payment thereof presented the note of some distant country bank, of which and of the person himself the grocer knew nothing, we would entertain a very indifferent opinion of the judgment of the latter, if, though he knew not whether the note were false or genuine, yet because the stranger had the manners of a gentleman, and spoke like a man of sense and honesty, he gave him value for the note. If the note afterwards turned out to be spurious, our opinion of the grocer's judgment would be that it was very weak indeed. In like manner, if a banker had a bill presented to him for discount, which is virtually presenting him a document to be exchanged for the merchandize—money—in which he deals, and, although he knew nothing of the parties by whom the bill was drawn or accepted, yet because the person presenting it had the air and manner of a gentleman, or even because he looked like an honest man, he was induced to advance money on the bill, we should reasonably consider him a weak banker. If when the bill became due, it turned out that none of the parties on the bill were worth any thing, or that all the names were a fabrication, we should immediately set the banker down for a blockhead.

It is the interest of a merchant to give as short credit as possible. His interest is promoted by such a measure in a variety of ways,—he is enabled to trade upon his own capital—he runs less risk of loss—he is enabled to go into the market with ready money —he turns over his capital frequently—he becomes better acquainted with the circumstances of his customers, and he is free from the annoyance and humiliation of seeking credit accommodations from his brother merchants. It is in like manner the interest of a banker to give short credit. The bills he discounts should only have a short term to run. Six, nine, and twelve months bills, particularly the two last classes, are out of the regular course of trade, and ought not to be encouraged. By confining his discounts as much as possible to two and three months bills, a banker turns over his money more frequently—he runs less risk of loss—he gives less encouragement to speculation—he turns in more profit—he becomes better acquainted with the strength and business of his customers, and he is less dependent for supplies from bill brokers and other bankers.

A prudent merchant will, as much as possible, regulate his trade in conformity with the operations of the money market, the fluctuations of commerce, and the political aspect of affairs at home and abroad. For instance, when there comes a depression in the money market, and a consequent scarcity of the circulating medium, he will be more than usually cautious as to the stability of the parties to whom he advances goods on credit; he will endeavour to reduce his book debts, and will be more inclined to sell for cash than upon bill or running account. When he finds also that there are indications of a rise in the prices of certain articles, and of diminution in those of others, he will use his endeavours to invest in the one, and to sell off the other. When the political movements in his own nation, or of other states to which our commerce extends, threaten an interference with the internal or external regulations and interests of trade, he will unquestionably adopt such precautions as may appear necessary to protect himself, and avert the possibility of his being involved in loss and ruin. A similar course to this would be characteristic of a prudent banker. Were he however to act upon the opposite principle, and when he found money becoming a scarce article in the market, continue to discount freely to his customers, delay calling in his overdrawn accounts, and persist in pushing his notes into circulation, we should look with some confidence to his coffers being speedily empty of coin, and his bank shut up. And if he disregarded those fluctuations of trade by which the stability and wealth of some merchants are rapidly promoted, while those of others are as quickly prostrated, and shut his eyes to those less frequent but not less important changes, in the policy of government at home and abroad, which exercise a mighty influence over the interests of commerce, he would certainly run a very considerable risk of loss and embarrassment.

A banker is not merely a merchant, he is also a manufacturer. By authority of Act of Parliament, he is permitted to manufacture a substitute for the coin bearing the image and superscription of his sovereign, and to issue it to the public upon the credit of himself and his copartners. This paper money, or "rag money" as some of our levelling wits have stigmatised it, it is the interest of every banker to issue in as large proportions as his legitimate capital and assets will warrant; and this, which may be called his staple article of manufacture, it is also his interest to carry into every market where it is likely to meet with a purchaser. Like every other merchant and manufacturer, he has to contend with powerful and active competition. But in the sale of his notes, a banker in one respect departs from the usual mode of traffic among merchants. A merchant in exchange for his goods generally receives either money, or a bill, or some different article of manufacture. Now a banker will most gladly receive in exchange for his own notes the notes of any other banker; indeed it is his constant endeavour, by all legitimate means, to effect this object. His profit from this sort of traffic is very considerable, as he thereby supplants the notes of his neighbour banker with his own, and returns them for coin, and the more of his own notes he can keep in constant circulation, he has so much the more capital at his disposal, but he must of course always have a portion of his security of a character immediately available for any sudden or extraordinary demand which may arise for the repayment of these notes.

In making up the annual or half-yearly balances of his accounts, a wise and honest merchant will make a fair estimate of his debts, and write off a proportionate sum from his profits. He will not appropriate the whole profits of his business to his own private purposes, and permit his debts to go on increasing year by year, while his gains are lavished upon his expensive private establishment. By such a course he would infallibly not only diminish his capital proportionally, but would circumscribe his means of pushing trade, and ultimately bring about his own embarrassment. On the contrary, it would be his duty, and certainly his interest, to write off his bad debts regularly, and also to reserve a portion of his profits to guard against contingent losses, as well as to enable him to increase his business. These remarks apply forcibly to the case of a well regulated bank. In such an establishment it is considered a matter of course, never to be overlooked or deviated from, that an annual estimate be made of the amount of bad debts, or probable bad debts of the year, and a corresponding sum written off from the account of profit and loss to set against such amount. It is also considered a matter of course that all the profits, after deducting the amount of bad debts, should not be divided, but that such a portion as may be deemed expedient, should be set aside as a rest or guarantee fund, to be applied against unforeseen losses, and to equalize the dividend in unfavourable years.

CHAPTER XII.

BANKS CONSIDERED AS POLITICAL INSTITUTIONS.

A political institution is that which bears a relation to the government of the country; which is either operated upon by the government for the purpose of promoting certain political ends, or which operates upon the government so as to compel the adoption of certain lines of policy, or which in concert with the government, either openly or by sinister method, influences a nation's industry and enterprise.

It may be safely asserted, that in England Joint Stock Banks, as well as private banks, are more or less political institutions,—they control, and are in turn controlled, by the government. With one particular exception, it is readily conceded that this political character is not inherent in the constitution of these banks, but is imposed by imperative necessity, arising from the reciprocal interchange of influence between the Bank of England and the government. Every bank that ministers to the wants of a government, and is in turn protected by that government from the bankruptcy which its imprudent management would otherwise in many instances produce, becomes to all intents and purposes a political engine, subserving the purposes of government, and exercising an undue and unconstitutional influence over the fortunes of individuals and the operations of trade.

The history of the Bank of England from its commencement, when the whole of its entire capital was advanced to government down to the present day, shews on the one hand, that while they were ready at all times to make advances of their capital to the government in lieu of certain privileges and emoluments secured in their charter as the bank of the state, the government on the other hand were equally ready to protect them from the bankruptcy and ruin which the demand of the public creditor must inevitably have produced.

Had the operations of the Bank of England exercised no influence over the trade of the country farther than its own legitimate business extended, the evils with which its career has been marked would never have taken place, and its capacity to do mischief might have been, by the united efforts of other banks, and the result of public experience, gradually counteracted and curtailed. But so long as the privilege of issuing an unlimited amount of paper is continued to her by act of parliament, and so long as the government are prepared to render her imprudence subversive of all national prosperity, by shielding her under a suspension of cash payments, it is clear that successful competition on the part of other banks is out of the question; that the trade of the country is laid under a necessity of alternate prosperity and depression, ebbing and flowing, while the fortunes of individuals, embarked in commerce, are constantly perilled by the capricious exercise of her influence.

While all the notes of other banks are convertible into gold at the will of the holder, and the public are at liberty to receive or reject them as they think proper, those of the Bank of England are constituted a legal tender, and in all transactions, except with the bank itself, are a compulsory substitute for coin. It is evident that in this view the Bank of England, overlooking altogether the enormous and dangerous privilege thus possessed, enjoys an immense superiority over all other banking institutions. And it must be also evident, that according to the prudent or imprudent manner in which the issue of her notes is regulated, must be the advantage or misfortune experienced by the commerce of the country.

The privilege of issuing an unlimited amount of paper, which it can create at will, is one greatly magnified in its mischievous tendency, by the additional privilege of holding and jobbing in government stocks, enjoyed by the Bank of England. It is in fact stigmatised in the city of London as a great abuse and evil, but it is much increased by the secret arts and manœuvres resorted to in the purchase or sale of the stock, for the purpose of concealing the operation.

The position and privileges of the Bank of England not only invest it with a great political character, but from the magnitude of its operations and the extent of its issues, which are a legal tender over the country, it exercises an indirect but certain influence over every banking establishment in the kingdom. It follows necessarily that a political character is imposed upon all banks, which is the more clear from the fact, that whatever is the conduct of the Bank of England, becomes more or less the conduct of every country bank. In times of commercial pressure, brought about either by political or civil influences upon trade, or mismanagement on the part of the bank, when the Bank of England begins to sell out its stock, or otherwise diminish its circulation, the country banks are compelled, for their own safety, to do the same thing. On the other hand, when money is abundant, and the Bank of England begins to advance at a reduced rate of interest, the country banks immediately take up the cry and follow in the same chase. The simple fact that the Bank of England possesses the power, which she unquestionably does, of making money cheap or dear at will, being once admitted, it is clear to demonstration, that the country banks have no option but to regulate their conduct by her proceedings. However much, therefore, other establishments may be alive to the imprudence which often characterises the management of the Bank of England ; or, however much on other occasions they may admire the soundness of the principles upon which she acts, as to their own establishments, they can do neither more nor less than follow in her wake.

A political character is thus shewn to invest the Bank of England from constitution and from choice, and to surround, also, other banks, joint stock and private, from necessity imposed by the constitution and privileges enjoyed by the Bank of England.

Whether this political character of the Bank of England, and of all other banks, ought or ought not to exist, is a subject of some interest.

Companies formed for the purposes of trade and commerce are naturally divested of any thing like a political character, that being altogether inconsistent with the peaceful and profitable pursuits of industry. Having obtained the permission, and being protected by the power of the government, in the prosecution of their commerce, a company of merchants as such have no relation to the government,—their only concern is how best to pursue those means which bring them the most beneficial results. If a company of bankers can be considered in the same light as a company of merchants—merchants whose sole commodity is money—they must be admitted to be deprived of the usual privileges of merchants, by having a political influence exercised over their dealings. That the Joint Stock Banks, as well as private banks, have this influence exercised over them through the agency of the Bank of England admits of no doubt whatever. There are several considerations which arise out of this view of the matter.

1. The Bank of England is invested with a very dangerous political character and power, and one of such magnitude as ought not to be possessed by any corporate body.

2. This power has been frequently exercised to the injury of trade and of private fortune, and ought, therefore, to be withdrawn.

3. By placing all the business of the government, and all the revenue of the country in the hands of one company, the government acts illiberally, exclusively, and unjustly towards other banking establishments, because it is the duty of a good government to distribute equal favour and equal justice to all.

4. The bank herself is fettered by her connection with the government.

With respect to all the other banks in the country, both public and private, it must appear—

1. That a political character is foreign to their constitution, and they ought, therefore, to be relieved from its responsibility.

2. That they are fettered by the operations of the Bank of England, and their energies are cramped and controlled by an establishment to which they ought to be under no obligation.

3. That they are entitled to fair and free competition with the Bank of England, and ought, therefore, to possess an equal share of government patronage.

Although, however, a political character is foreign to the constitution of Joint Stock Banks, there is yet one sense in which that character is not unfrequently assumed by them.

It is an unquestionable fact, that a large proportion of the customers of every bank are more or less under obligation to the bank for temporary or permanent advances, and, as a matter of course, it is their individual inclination and interest by all possible means to stand well in the estimation of their banker. To do any thing contrary to what may be supposed the wishes of that functionary, would accordingly be very far distant from the mind of any man who had an overdrawn account, or who required occasional accommodation upon a bill. The banker, fully aware of this mighty influence which he necessarily enjoys over his customer, has not unfrequently exercised it for political, as well as other, purposes; and were scrutinies to be made of the result of election contests, it would be found that in many districts the successful candidate owed no small part of his majority to the interest and influence of the banks, though it might sometimes happen, on the other hand, that the minority was swelled by the like rival interest.

In this manner a bank not only assumes but exercises a political character, and in the same degree it must depart from the legitimate character and office of a bank. Without dilating upon the inconsistency and impropriety of such conduct, it may be sufficient to allude to the undue and unconstitutional influence thereby exercised over the free agency of the elector, in imposing upon him the necessity—the direst necessity of all, the apprehension of want and ruin,—of voting contrary to wish, inclination, and conviction. It is in truth a worse species of bribery than that which merely holds out a temporary gift. It presents the complex character of bribery and intimidation. It holds out a bribe in the shape of discounting a bill, or making an advance upon an account; and it is fraught with the worst intimidation, in threatening to withhold both these accommodations at the period when most likely to be required.

CHAPTER XIII.

ON CAPITAL.

Capital is of two descriptions, nominal and real. The idea of nominal capital is scouted by many writers as a pure nonentity, and palpable absurdity. It is at once conceded that for any one to imagine that the name of a thing and the thing itself are identical, would certainly be to imagine an absurdity, and that to give substance to a mere name would be equivalent to conjuring up a nonentity. But setting aside cavilling on such points of mere verbal and abstract distinction, the object here intended is to assert and to explain that there is such a thing as nominal capital, and also such a thing as real tangible capital. There exists a distinction between these two descriptions of capital, though both are in fact capital equally, yet not both immediately available.

The nominal capital of a bank is that amount fixed at the formation of the establishment, as commensurate with the probable requirements of the district in which the bank is to be located, and generally averages from £100,000 to £500,000. In some instances it exceeds the latter amount. The sum being fixed, whatever it may be, as the capital of the projected bank, is incorporated in the deed of settlement of the company, and the partners become bound to pay up the whole of the amount, if required, in such proportions or instalments as may be agreed upon. Suppose that £500,000 is the sum fixed upon, this sum becomes the nominal or named capital which is considered adequate for conducting the business of the proposed bank, and each individual partner is legally bound, on signing the deed of settlement or co-partnery, to the whole extent of his property, not only for this sum, but for the entire liabilities of the bank. This nominal capital therefore, is in fact something tangible, though it be a capital only in name. It would be ridiculous to suppose that on commencing business, the directors of the bank would call up the whole subscribed or nominal capital, as it must be clear that the business must be small at first, and would only increase gradually. It is therefore generally stipulated in deeds of settlement that only a certain amount per share shall be called up at stated intervals, according as the business expands. The amount of money called up and brought into operation in conducting the business of the bank, is called the "paid-up capital," or real capital of the bank, in contradistinction to the nominal or subscribed capital. The paid-up capital often bears a very small proportion to the nominal capital, and in few cases exceeds fifty per cent. There is something like an absurdity in having a large nominal capital with only a small proportion paid up, but the absurdity is removed, when it is considered that this nominal capital in the event of losses, extension of business, or other circumstances, can be called into existence at two or three months' notice. The very fact that it can be called up, and that the partners of the bank having by their deed of settlement become bound to pay up each their own proportion when required, is a matter of importance to the public almost paramount to its being actually paid up. Indeed, so far as the security of capital goes, a bank with a capital partly in reserve, that is, not all paid up, is to be preferred to one with its whole capital paid up. The advantage in the former case is, that the shareholders may be called upon at a short notice, and are bound to pay up the remaining subscribed capital, while in the latter case, the capital being all called up, and it may be, all misapplied and lost, the shareholders can be influenced only by motives of expediency or actions at law, means alike unpleasant, unsatisfactory, and in most cases very dilatory in their result.

The doctrine of those who argue that a nominal capital is a nonentity, and that a paid-up capital is the best and only security to the public, is one open to many objections. Were there no other objection it would be sufficient to urge the fact that the capital being all paid up, the public have nothing more to look to, and that should it be all misapplied and mis-spent, their case is in some measure hopeless. In the case of the bank itself, it has been shewn that where the capital is all paid up it has nothing to fall back upon, and that when a time of pressure comes, and its funds have been imprudently invested, and its resources exhausted, the hazard of stoppage becomes almost inevitable. A bank, however, with only a portion of its capital paid up, has always in the prospect or anticipation of a pressure, or any particular difficulty in its own position, a sure and efficient protection in an additional call upon its shareholders.

The question as to what portion of the nominal capital of a bank ought to be called up, and what proportion the paid-up capital should bear to the nominal, is one so entirely dependent upon circumstances, that no general answer can be given. An attempt to legislate upon this point would be worse than ridiculous, it would be absolute folly. The capital required for any one bank can only be known to those connected with its management. A capital which would be ample for one bank, might be altogether inadequate for another; and what would be too small for a third, might be one-half too much for a fourth. This is a point, therefore, which banks must be left to legislate upon for themselves. There is only one particular in which, on this matter, they are apt to err, and in which many of them do err, that is in working with too small a capital. Many evils arise out of this practice, some of which have been alluded to elsewhere. Their operations are necessarily restricted, they acquire no character for pecuniary strength, and are readily affected by depressions in the money market. The directors of Joint Stock Banks ought therefore never to hesitate upon calling up capital, as the expansion of business creates the necessity. It is well enough to resort to the money market for the rediscount of bills, when money is abundant and cheap, and to solace themselves with the prospect of making large profits, and being able to declare ten to fifteen per cent. upon a small capital, but when a pressure comes, and they find large quantities of dishonoured bills returned upon them, their deposits in the course of being drawn out, and the circulation of their notes diminishing, while many of the usual sources of supply are shut up, they then begin to calculate, when too late, upon the advantages of large capitals.

There are, doubtless, disadvantages connected with large capitals as well as with small; and probably a capital barely suited to the wants of the district is preferable to one of greater magnitude. Where there is a large capital, and particularly one more than adequate to the wants of the district, the tendency is to increase speculation, and to invest upon insufficient security. In the other case, the tendency, with a barely sufficient capital, would be to exercise greater scrutiny as to the character of the investments, and greater caution in the general nature of the business.

The subscribed capital of a bank is divided into shares of a certain nominal amount to be called up in certain proportions or instalments. The nominal value of shares in Joint Stock Banks range from £5 to £100. Considerable difference of opinion exists as to what the nominal value of shares ought to be, some contending for shares of small nominal value, such as from £5 to £10 and £15; others urging that the strength and respectability of a bank is promoted by shares of a higher denomination. The arguments in favour of shares of small nominal value are,—that tradesmen of the middle and humble classes of society, who are in general the best customers of a bank, are induced to become shareholders—that they are necessarily induced to bring their business to the bank; and that as they are the holders of the largest proportion of the bank's notes, they become in their capacity of shareholders the best safeguard in periods of panic, and when "runs" are to be expected. It has also been argued that shares of small nominal value are a more marketable commodity than those of a higher denomination, and that as in consequence they pass more frequently from hand to hand, they not only bear a better premium in the market, but the bank realizes greater profit, not only from the increase of transfers, but from the additional premiums on the issue of reserved shares. On the other hand it has been argued, that where the shares are of small nominal value, respectable parties have shewn a disinclination to become connected with such establishments, and that in those districts where the identification of the resident gentry with the local bank would have brought all the influence and weight of their character and station to give it importance, credit, and success, the establishment has comparatively failed in usefulness from the want of their countenance and support, originating in the shares being fixed at too low a nominal value. The connection of the gentry and wealthy citizens with a bank, it has been imagined, adds to the public security, and gives confidence in its management. It has been imagined also, that in periods of panic and embarrassment they are not only from their character and station, a sufficient protection against public discredit, but are best able to meet any immediate call for the supply of additional funds.

There appears to be nothing peculiarly substantial on either side of the case. A capital of £500,000 divided into 50,000 shares of £10 each, and one of the same amount divided into 5000 shares of £100 each, is, as regards capital, one and the same. The tradesman who can afford to purchase fifty shares of £10 each, can equally afford to purchase five shares of £100 each. The county gentleman, on the other hand, who could purchase 100 shares of £100 each, could just as readily purchase 1000 shares of £10 each. The chief distinction in the matter is, that where the shares are of small nominal value, a door is opened for the admission of parties as shareholders who are of small means and small repute, and whose usefulness to the bank is comparatively insignificant, while in the other case, respectable and influential parties are induced to become shareholders and give a character and importance to the bank which otherwise it could not have possessed. Much allowance must necessarily be made for the circumstances under which a bank is originated, and the locality it occupies, but as a general principle, it seems prudent and reasonable that the nominal value of the shares should be such as would ensure the respectability and usefulness of the bank. A tradesman desirous of becoming a bank proprietor, will naturally feel ambitious of enrolling his name in the same list with the opulent and respectable; if therefore the nominal value of a Bank's shares are such as to invite the co-operation of both parties, the greater is likely to be its stability, usefulness, and success. There have been cases where banks that commenced with shares of £5 nominal value and upward have found it expedient to double their value, while in other cases, banks having shares of a high nominal value, have found it of advantage to issue an additional number of shares of smaller denomination. It happens in some districts that a greater disposition exists to invest in undertakings where the shares are of small nominal value than where they are large; while in others the understanding that only a small proportion of the nominal capital will be adequate for conducting the business, and that the partnership will stand dissolved upon the loss of one fourth or third part of the paid-up capital is a sufficient inducement for enlisting a proper number of shareholders.

The entire arrangement of the amount of capital, the nominal value of the shares, and the amount of capital to be paid up, it would thus appear, can be regulated only by circumstances, of which those are best competent to judge who are entrusted with the formation and management of the bank.

CHAPTER XIV.

BANK BOOK-KEEPING.

The system of book-keeping adopted by Joint Stock Banks, though similar in some respects, is not alike in all. Those banks that proceed upon what is understood by the Scotch system generally pursue one mode.

The object of every banker or merchant is to have his books kept in such a manner as to preserve a correct statement of his affairs with the least possible trouble; and as dispatch is sometimes of great consequence to both, that system which combines correctness with dispatch is the one most likely to be fallen upon. The beauty of the Scotch system, however, does not consist so much in the facility of its execution as in its extreme correctness, labour being very justly considered of secondary importance to correctness. Parties not previously aware of the Scotch bankers' system of book-keeping, are often surprised at the readiness with which any particular entry can be turned up, and immediate information afforded of the state of every individual account. Whatever may be the system of book-keeping adopted by any banker or merchant, that must certainly be the most preferable which enables him to ascertain with the least trouble the correct position of any account at any given time. At the same time it must be observed, that while the principles and mode of accounting are generally the same with the Scotch banks, they frequently differ in many little particulars, which circumstances or experience may render expedient.

The three books of primary importance in a bank are the cash book, the day book or journal, and the general ledger.

The cash book is ruled with a double money column on the right hand side of each page, and on the left columns for the date.

The day book or journal is ruled in a similar manner with the cash book.

On the debit side of the cash book are placed all monies received, and on the credit all monies paid away. The balance between the debit and credit side shews the amount of cash in the hands of the teller at the close of the day. The entries in the cash book, for the sake of facility, are generally made as they occur, or as soon thereafter as possible. These entries are afterwards transferred to the journal or day book under their proper head of account, and the totals posted to the debit or credit of the respective accounts in the general ledger.

The general ledger is kept upon the progressive system, and the balance of every account brought out with each entry.

The other principal books of a Joint Stock Bank are—

The Shareholders' Register.—A book containing a list of the names of the shareholders of the bank, with the number of their shares, and the number of each certificate; with columns for the dates of transfer, the party to whom transferred, the number of shares transferred, and the number of the new certificate.

The Stock Journal.—A book for the entry of calls on shares.

The Stock Ledger.—This book contains accounts for each individual shareholder, in which he is credited for the amount of his shares paid up, and debited for the whole or whatever part he may sell. The balances of this ledger will correspond with the amount of capital to the credit of stock account in the general ledger.

Current Account Ledger.—This ledger contains the current or " drawing" accounts of all the customers of the bank It is ruled with columns for the date of each entry, a space for the particulars, three money columns for debits, credits, and current balance, and columns for the number of days between each transaction, and for the daily interest due to and by the bank. By this method of keeping the accounts of the customers, not only are the particulars of each transaction given, but the balance of the account is brought out with each, and the interest calculated at the same time, so that the account shews at once what is due to or by the bank, both of principal and interest, and the account can be closed in five minutes without any difficulty. The total balances of the accounts in this ledger agree with the balance of current accounts kept in the general ledger.

When bills are passed to the credit of a customer's account it is the practice of some banks not to charge the discount at once to the debit of the party, but to fill in the amount in the current account ledger, in the column for interest due to the bank, and thus bring it into the account at the end of the year or half year; a practice neither so advantageous to the bank, nor so correct a mode of business as to calculate the discount upon receipt of the bill, and pass it at once to the debit of the party.

Deposit Receipt Book.—This book may be either kept in the form of a ledger, or as a mere register of receipts granted for money deposited with the bank at interest. The ledger form appears to be the neatest as well as the most convenient The amount of unpaid deposits in this book will correspond with the balance of the account of deposit receipts in the general ledger.

Past due Bill Book.—There are various forms of this book, and which, like the preceding, may either be kept as a ledger or otherwise. The amount of bills unpaid entered in this book will correspond with the balance of past due bills account in the general ledger.

Bills of Exchange Book.—Some banks have different books for each class of bills—such as London, country, and inland or home bills A bill book ruled so as to contain every description of bills received, will serve the same purpose as a multiplicity of bill books, and be much more convenient for reference, as well as a more ready check upon the amount and denomination of bills current. Where one bill book only is used it ought to contain columns for the number of the bills, the date when discounted, or received, the last indorser, drawer, and acceptor; the place where the bill is dated, the date, currency, time when due and amount, with columns for the weekly or daily amount, the number of days charged on discount, the amount of discount, commission and postage, with the date of the payment or remittance of the bill to any other bank or party.

Bills paid Book.——This book is ruled with columns for the date of payment of the bills, the number of the bill, the party to whom paid, the name of the acceptor, the date when due, the amount, and daily or weekly amount.

As these two bill books, where only two are kept, will contain a complete record of all the bills received and paid by a bank, the balance of these books will of course correspond with the bill account in the general ledger, and the amount of bills on hand. Where more bill books are kept, the aggregate amounts of the received and paid bill books will shew the same result.

Discount Ledger.——In this book are opened accounts for such parties as are in the habit of discounting bills with the bank. It is ruled with columns for the date of discount, the number of bills under discount, the name of the acceptor, the date when due, and the amount of the bill. There are also money columns for debits, credits, and balance. When a bill is discounted, it is entered to the debit of the party, and when paid, written off to his credit. The balance column shews the amount of bills the party has under discount. Some ledgers are ruled with columns to distinguish such bills as the party has accepted, from such as he has drawn or indorsed. This book, when regularly kept, and it is indispensible to a well conducted bank, will be a faithful record of the amount of bills under discount to the different customers of the bank.

Account Current Books.—These are books in which are kept the accounts of the London agents, the branches, and country bankers. They are ruled with double money columns, and are kept upon the simple entry of Dr. and Cr.; the balance of the respective accounts corresponding with the account of each in the general ledger.

Draft Book.—This is a book ruled for the purpose of keeping a record of the drafts granted upon the London bankers of the bank. The weekly or daily amount will of course correspond with the amount in the day book.

Some banks open accounts in their ledger for the drafts granted on London, as well as those on agencies. Others pass them at once to the credit of the bank drawn upon.

Liabilities and Assets.—A book ruled with double money columns is kept by most banks, in which a statement is made up periodically of the liabilities and assets of the bank, that is, a summary of the accounts in the general ledger, the difference between the debit and credit side being the assets or deficiency of the bank, as the case may be.

One of the best features in the Scotch system is the admirable check that exists over every book and account, not only from the manner in which the books are arranged and kept, but from the strict supervision generally taken of the entries in the cash book. All the entries in this book are made from vouchers taken with every transaction, and it is the duty of one of the officers of the bank to compare these vouchers with the entries, and satisfy himself that they correspond, and that the columns are correctly cast up; the bills are compared with their entries in the bill books, and from the cheques and deposit slips the entries are made into the current account ledger; and the other vouchers passed through the respective books to which they relate. By this system of having a voucher for every entry, the careful checking of the cash book, and the mode by which one book is proved against another, errors seldom creep in, and are easily detected.

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