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The English Banking System

By

HARTLEY WITHERS

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AND OTHER WRITERS

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THE ENGLISH BANKING SYSTEM.

By Hartley Withers.

Chapter I.

THE ENGLISH SYSTEM.

(A) BANK OF ENGLAND.

The distinctive functions of the Bank of England consist in its acting as—

1. Banker to the British Government.

2. Banker to the joint stock and private banks.

3. (*a*) Sole possessor of the right to issue notes which are legal tender in England; (*b*) sole possessor, among joint stock banks with an office in London, of the right to issue notes at all.

4. Provider of emergency currency.

5. Keeper of the gold reserve for British banking.

6. Keeper of the gold reserve which is most readily available for the purposes of international banking.

These various functions fit into and supplement one another, and though their diversity is sometimes pointed to as throwing too much responsibility onto one institution, it in fact enables the Bank to carry out its duties with extraordinary ease, and with the least possible disturbance to the financial community. By the fact that it keeps the balances of the other banks, the Bank of England is enabled to conduct the payment of the interest on the British debt largely by transfers in its books. By the fact that it keeps the balances of the Government and has the monopoly of the legal-tender note issue, the Bank has a great prestige in the eyes of the general public, which it communicates to the other banks which bank with it. There is an impression that the Government is always behind the Bank, and that the Bank is always behind the other banks, and this feeling has certainly done much to foster the confidence of the British public in its banking system.

A credit in the books of the Bank of England has come to be regarded as just as good as so much gold; and the other banks, with one exception, habitually state their "cash in hand and at the Bank of England" as one item in their balance sheets, as if there were no difference between an actual holding of gold or legal tender and a balance at the Bank of England. It thus follows at times when an increase of currency is desirable, it can be expanded by an increase in the balances of the other banks at the Bank of England, since they thus become possessed of more cash to be used as the basis of credit. For currency in England chiefly consists of checks, and customers who apply to the banks for accommodation, by way of discount or advance, use it by drawing a check which is passed on and so creates a deposit; and expansion of currency thus consists chiefly in expansion of banking deposits. This expansion is only limited by the proportion between deposits and cash which the banks think fit to keep, and as long as they can increase their cash by increasing their credit in the Bank of England's books the creation of currency can proceed without let or hindrance. Their balances can be increased by borrowing from the Bank of England, which is generally carried out not by the banks themselves but by their customers from whom they have called in loans, and the Bank of England is thus enabled to provide emergency currency with great ease, by means of loans and discounts which are used to swell the balances of the other banks, which thus show an increase of the cash at the Bank of England which they use as a basis for credit operations. The elasticity of the system is thus remarkable, and the merchants and bill brokers of London can by taking approved security to the Bank of England, increase the basis of English credit in a few minutes by borrowing.

1. Examining these functions of the Bank of England in closer detail we find that its first and most obvious one, which originally brought it into being, of financing the British Government and acting as its banker, is now perhaps its least difficult and important duty. Apart from the prestige which it thus acquires and its close touch with the Government and the officials of the Treasury, the Bank's position as government banker is of little direct material advantage. Its duties as such, besides the normal relation between a bank and a customer, consist chiefly in making advances to the treasury in the shape of "deficiency advances" when the government balances are too low to admit of the payment of the quarterly interest on the British debt without replenishment, or against "ways and means" advances at times when the revenue is coming in more slowly than government expenditure is proceeding. It also, when the Government has to borrow to a greater extent, manages its issues of treasury bills, or any loan operation that the Government may have to undertake, such as the creation of fresh debt in time of war, or the periodical borrowing recently necessitated by the requirements of the Irish land-purchase

scheme. The variations in the amount of the Government's balance at the Bank of England are a question of great importance to the outside money market, because when this balance is big the result is that a large amount of money is in the control of the Bank of England, and the resources of the outer market are thus curtailed.

It has already been shown that the balances of the other banks at the Bank of England are treated by them as cash and used as the basis of credit. Consequently when the payment of revenue on a large scale transfers large amounts from the other banks to the government account in the Bank of England's books, the outer market's basis of credit is thus reduced and money tends to become scarce and dear. This is especially noticeable in the last quarter of the financial year, January to March, when the payment of the direct taxes (income tax, and house duty) transfers many millions from the tax-paying public, through its bankers, to the national exchequer's credit at the Bank. Between December 28, 1907, and March 27, 1908, public deposits, or government balances, at the Bank of England rose from £5,625,000 to £19,843,000 by the operation of this process. This transfer makes a gap in the basis of credit which has to be filled up by borrowing, and it is usual to find that, according to the phrase current in Lombard street, "the market is in the Bank"—that is, the merchants and brokers are borrowing from the Bank of England throughout the greater part of this quarter of the year. When the market is borrowing from the Bank it does so either by discounting bills with it at Bank rate, which is the official minimum rate of discount, or by taking advances on securities, for which advances it usually pays one-half of 1 per cent above Bank rate; and since Bank rate is, except on quite rare occasions, above the rates for loans and discount current in the outside market, it will be seen that this transfer of revenue funds to the Government's balance normally raises the current value of money during the period in which it is proceeding.

Dealers in credit, who are pinched in pocket by this habitual decrease in the supply of money at this season, cry out against the system, and maintain that the revenue ought to be distributed among the other banks until it is required for government disbursements at the end of the quarter, in the same manner as the United States Treasury deposits, when placed with the American banks, are divided among many. Such a change, however, would obviously strike at the very basis of the English system, which has grown up with all its anomalies into a very practical and trustworthy instrument. If the Bank of England were deprived of its privilege of holding the revenue as paid in, it would have to be remunerated more highly, not only for the other work that it does for the Government, but also for performing other functions for the community, which, as will be seen later, throw onto it responsibilities which hamper its earning power as a banker. If any alteration is necessary of an arrangement which causes chronic inconvenience to dealers in credit during the greater part of a quarter of the year, it would more naturally be found in a reorganization of the system under which most of the direct taxes are paid in one quarter. It has already been shown that the position of the Bank of England as government bank gives it a prestige in the eyes of the public, which it passes on to the other banks which are its customers; and a banking system is so largely a psychological matter that the most radical reformer would hesitate before making any alteration which would tend to shake the basis of this prestige.

2. The second of the Bank of England's distinctive functions—its acting as banker to the rest of the English banking community—is the one which throws upon it its most serious responsibilities and gives it most of its actual power and ease in working. The Government gives it prestige in the eyes of the multitude, which considers that governments are omnipotent; the other banks give it the power of providing emergency currency by making entries in its books, and so acting as the easily efficient center of a banking system in which elasticity and the economy of gold are carried to a perfection which is almost excessive. Nevertheless, it pays heavily for its apparently privileged position as bankers' bank. At first sight it would appear that these customers, keeping a regular balance of twenty-odd millions, which varies little and on which the Bank of England pays no interest, were a source of comfortable income and no anxiety to it. But in the first place it is obvious that a liability which is regarded as cash by the rest of the banking community requires special treatment by its custodian, and in practice it is so specially treated that the Bank of England maintains a proportion of cash to liabilities which is fully twice as high as that of the strictest of the other banks. This proportion rarely is allowed to fall below 33 per cent and generally ranges between 40 and 50 per cent, and it need not be said that this high level of cash holding tells heavily on the earning power of the Bank of England.

Moreover, it is its position as bankers' bank that exposes the Bank of England to the responsibility of maintaining the gold reserve for English banking and being prepared to meet, in gold, any draft on London that anyone abroad who has acquired or borrowed the right to draw wishes to turn into metal to be shipped to a foreign country.

The amount of the bankers' balances is not separately stated, but is wrapped up in the total of the other deposits in the Bank of England's weekly return. It is believed to average about 22 millions in these days, and it is often contended that valuable light would be thrown on the monetary position if this item were separated from the balances of the other customers of the Bank. Many of the outer bankers are in favor of this change, but there is a serious practical objection to it, in that a dangerous impression might be created in the public mind if at any time it were seen that the Bank's cash reserve was below its liability to its banking customers; and the separate publication of the bankers' balances might thus check the readiness with which the Bank of England creates emergency credit. Another suggestion that is sometimes made by the many critics of the existing order of things in English banking is that the banks should keep their cash reserves themselves; but this very revolutionary change would deprive the system of its two great advantages, a centralized organization with a center which specializes on the duties involved by acting as center, and the extreme elasticity with which the present arrangements work. At the same time it must be admitted that the system by which the other banks treat their balances at the Bank of England as cash leads to the existence of a vast amount of "cash" in England which on being looked into is found to consist of paper securities or promises to pay. If we assume that the proportion of cash held by the Bank of England is 50 per cent of its liabilities—it does not always stand so high—the other 50 per cent being represented by securities, this at once shows that only half the bankers' balances are backed by cash. And we shall see when we look into its weekly return that its cash in its banking department, of which the bankers' balances are a liability, consists largely of its own notes; and its own notes are backed, to the extent of about one-third, by securities. So that the actual gold held against these bankers' balances consists roughly of about two-thirds of a half of them, or one-third of their total. And when it is considered that these bankers' balances are treated by the bankers as equal to cash in hand and are made the basis of credit, on which they build liabilities ranging from five to ten or even in extreme cases to fifty times their extent, it becomes evident that the critics who maintain that the multiplication of credit and the economy of gold are carried too far in England have a solid foundation for their contention.

3. The Bank of England's monopoly of note issue, which once gave it the monopoly of joint-stock banking in London, is now a matter of comparatively minor importance, owing to the change in English banking habits by which the check has ousted the bank note for the purpose of daily commercial payments, and the regulations which were imposed on the note issue by the bank act of 1844. Its monopoly lay in the provision, which was one of its

early privileges, that "it shall not be lawful for any body politic or corporate whatsoever, or for any other persons whatsoever, united or to be united, in covenants or partnerships exceeding the number of six persons, in that part of Great Britain called England, to borrow, owe, or take up any sum or sums of money on their bills or notes payable at demand." This monopoly was conferred on the Bank in 1706 and was maintained until 1826, when the implied monopoly in joint-stock banking was restricted to a 65-mile radius around London. In 1833 joint-stock banks were established in London itself, since it had been discovered that the Bank of England's alleged monopoly only reserved to it the privilege of note issue, and the private bankers in London had already found that it was more convenient to banker and customer to work by the system of deposit and check. By this system a customer who took a loan from his banker did not carry it away with him in the form of notes, but was given a deposit or credit in the bank's books and the power of drawing checks against it. The development of this system has made money in England mean, as a rule, a credit in the books of a bank which enables its holder to draw checks, and has made checks the chief currency of the country.

The development of this system was quickened by the provisions of Peel's Act of 1844, which, under the influence of banking disasters that had arisen out of reckless note issuing by private banking firms in the counties, laid down an iron rule for the regulation of note issues in England. None of the other note issuers were allowed to increase their issues under any circumstances, and the Bank of

England, for every additional note issued beyond £14,-000,000, was to hold metal in its vaults. Under the terms of Peel's Act one-fifth of this metal might be silver, and in the early returns issued by the Bank under the act a certain amount of silver is found among the assets of the issue department. In the first return issued, for example, which was dated September 7, 1844, the total note issue was £28,351,000, which was backed by £14,000,000 in securities, £12,657,000 in gold coin and bullion and £1,694,000 in silver. But since 1853, no silver has been held in the issue department of the Bank, and in 1897, when the influence of the bimetallists on the existing Government led to a proposal that the proportion of silver allowed by law should be held by the Bank as backing for its note issue, public opinion expressed itself so vigorously that the suggestion was promptly buried. The Bank's fiduciary note issue, thus fixed at £14,000,000, was only allowed to increase by the lapse of the issues of the existing issuers, the Bank being empowered to increase it by two-thirds of the amount lapsed. The lapsing process has proceeded steadily by the amalgamation of country banks with banks which have London offices and so are prohibited by the Bank's monopoly. And the Bank's fiduciary issue has thus been raised from the original £14,000,000 to £18,450,000. Above this line it can not go except by means of the suspension of the bank act, which has been found necessary occasionally in times of panic, the last of such occasions having occurred in 1866. The English currency system is thus, as far as the law can rule it, entirely inelastic, but it has already been shown that even when the law of 1844 was passed, the check currency, over which the law exercises no restriction, was already driving out the note, and banks without any right of note issue had been 11 years established in London. The Bank of England's note issue is now chiefly used by other banks as "till money," or part of the store of legal-tender cash they keep to meet demands on them. It has thus become part of the basis of credit in England, since the other banks roughly base their operations on their holding of cash in hand and at the Bank of England. Their cash at the Bank of England has already been discussed above; their cash in hand consists of coin and notes, and since the latter have thus become part of the foundation on which the deposit liabilities of the other banks are based, there is reasonable ground for the contention often put forward by practical expert critics of the English system, that the fiduciary note issue should be reduced by the repayment by the Government of the whole or part of a Government debt of £11,000,000 to the Bank, which backs the greater part of it, and its replacement by gold. It is evident that the amount of metallic backing for a note issue which is intended to circulate as currency is a different matter from that required in the case of a note issue which is held by bankers as a reserve and used by them as a foundation for a pyramid of credit operations.

4. By the ease with which the Bank of England provides emergency currency it gives the English banking system the great advantage of extreme elasticity and adaptability; and it is enabled to do this by the fact that it acts as banker to the other banks, and that every credit which they have in its books is regarded by them and by

the rest of the community as "cash" to be taken as practically equal to so much gold. This cash at the Bank of England in the hands of the rest of the bankers can be multiplied as rapidly as the Bank of England is prepared to make advances, and as the mercantile and financial community can bring it bills for discount or securities to be borrowed on. There is no legal restriction of any sort or kind, and the close relations between the Bank and its borrowing customers enable the necessary operations to be carried through with a celerity which is unrivaled, at any rate in the Eastern Hemisphere. The process works as follows: In every English bank balance sheet there will be found an item among the assets "cash at call or short notice," though in a few cases the slovenly habit is adopted of including this entry along with the cash in hand. This "cash," as it is called, really consists chiefly of loans made by the banks to the discount houses, and regarded by the banks as the most liquid of their resources. As such, it is at once made use of when for any reason, such as the many payments which have to be made on quarter days, or the end of the half year when the preparation of balance sheets by firms and companies requires an abnormal amount of cash for more or less ornamental purposes, the banks are subjected to extra pressure by their customers, who both withdraw actual currency from them for smaller payments, and require advances in order to show cash with bankers in their balance sheets.

The banks in order to meet this pressure, and at the same time to preserve an adequate amount of cash in their own statements, call in their loans from the discount houses; the discount houses, at a point, can only repay them by borrowing from the Bank of England and transferring the credit raised with it to the bankers, whose cash at the Bank of England is thus increased. This book entry takes the place in their balance sheets of the legal-tender cash that their customers have withdrawn, and is used as the basis for the increased deposits that have been created by the loans of the bankers to their customers for ornamental purposes. Similarly at the time of year when the transfer of the taxes to the Government's balance reduces the cash at the Bank of England held by the other banks the gap is filled by the loans made by the Bank of England to the customers of the other banks. In short, by discounting and making advances the Bank of England can at any time create book credits, which are regarded as cash by the English banking community, and on which the latter can base the credits which give the right to draw checks, which are the most important part of the English currency. The extent to which the Bank of England can create this credit is a matter for its own discretion, but any creation of it diminishes the proportion that it shows in its own weekly returns between its reserve and liabilities. Consequently when it is applied to for amounts which bring that proportion too low the Bank of England has to take steps to reinforce its cash reserve.

5. It has been shown that the Bank of England keeps the balances of the other banks, and from this it follows that the latter look to it for gold or notes at times when the local commercial community requires an extra supply. At the end of every month, especially at the ends of the quarters or at times of national holidays, the Bank's note

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circulation expands and coin is taken from it. The duty is thus thrown upon it of keeping an adequate supply of cash for home purposes, and, as has been already stated, its normal proportion of cash to liabilities is very much higher than that of the other banks. But these movements are tidal and regular, and hough times of active trade increase slightly the demand for coin and note currency in England, the extensive and ever-growing use of the check reduces the importance of this part of the Bank's duties.

6. Much more important is the Bank of England's duty as custodian of the gold store for international banking. London is the only European center which is always prepared to honor its drafts in gold immediately and to any extent. The Bank of France has the right to make payments in silver, and uses it by often charging a premium on gold, sufficient to check any demand for it; and in other centers measures are taken which make apparently free convertibility of credit instruments optional at the choice of the central bank. Consequently the Bank of England has to be prepared to meet demands on it at any time from abroad, based on credits given to foreigners by the English banking community, and it has thus to observe the signs of financial weather in all parts of the world and to regulate the price of money in London so that the exchanges may not be allowed to become or remain adverse to a dangerous point. The difficulties of this task are increased by the extent to which the English banking community works independently of it, by accepting and discounting finance paper, and giving foreigners credits at rates which encourage their further

creation. For the low and wholly unregulated proportion of cash to liabilities on which English banking works, enables the other banks to multiply credits ultimately based on the Bank of England's reserve, leaving the responsibility for maintaining the reserve to the Bank. This it does by raising its rate when necessary, and so, if it has control of the market and its rate is "effective"—a phrase which will be explained later—raising the general level of money rates in London.

When its rate is not effective, the Bank of England finds itself obliged to intervene in the outer money market—consisting of the other banks and their customers—and control the rates current in it. This it does by borrowing some of the floating funds in this market, so lessening their supply and forcing up the price of money. By means of this borrowing it diminishes the balances kept with it by the other banks, either directly or indirectly—directly if it borrows from them, indirectly if it borrows from their customers who hand the advance to it in the shape of a check on them. The result is that so much of the "cash at the Bank of England," which the English banking community uses as part of its basis of credit, is wiped out, money—which in London generally means the price at which the bankers are prepared to lend for a day or for a short period to the discount houses—becomes dearer, the market rate of discount consequently tends to advance, the foreign exchanges move in favor of London, and the tide of gold sets in the direction of the Bank of England's vaults, and it is enabled to replenish its reserve or check the drain on it. That the Bank of England should have to go through this clumsy ceremony of borrowing money that it does not want, in order to deprive the outer market of a surplus which depresses discount rates in a manner that is dangerous owing to its effect on the foreign exchanges, arises from the want of connection between bank rate and market rate. In former days the London money market never had enough money to work with without help from the Bank of England. Bagehot, in his great work on Lombard street, published in 1873, says that "at all ordinary moments there is not money enough in Lombard street to discount all the bills in Lombard street without taking some money from the Bank of England."

As long as this was so, Bank rate—the price at which the bank would discount bills—was at all times an important influence on the market rate. Since then, however, the business of credit making has been so quickly and skillfully extended that Lombard street is frequently able to ignore Bank rate, knowing that it will easily be able to supply its needs from the other banks, at rates which are normally below it. Currency in England consists of checks drawn against deposits which are largely created by the loans and discounts of the other banks. There is no legal limit whatever on the extent to which these loans and discounts can be multiplied, and the only limits imposed are those of publicity, which is applied rarely in all cases and in some not at all, and of the prudence with which the banks conduct their business. Hence it follows that competition between the banks often impels them to continue to make advances or discount bills at low rates when the Bank of England, as custodian of the English gold reserve, thinks it advisable in the interests of the foreign exchanges to impose a higher level. This it does by borrowing some of the credit manufactured by the other banks, in order to create artificial scarcity of money, and make its own official rate effective.

It thus appears that the Bank of England's official rate is often through long periods a mere empty symbol, bearing no actual relation to the real price of money in London; and only becomes effective, and a factor in the monetary position (1) when the trade demand for credit is keen enough to tax the credit-making facilities of the other banks to their full extent, (2) when the payment of taxes transfers large sums from the other banks to the Government's account at the Bank of England, so reducing the "cash at the Bank" on which they build credit operations, and (3) when, owing to foreign demands for gold, the Bank of England takes measures, by borrowing, to restrict credits in the open market and to make its rate effective. In other respects its official rate differs materially from the rates quoted by ordinary dealers in credit. It does not fluctuate according to the supply and demand for bills, but is regularly fixed once a week at the meetings of the Bank of England court on Thursday morning. It is extremely rare for any change to be made in the Bank of England rate on any day except Thursday. Instances occur rarely when some sudden change of position makes it essential, as at the end of 1906, when the Bank rate was raised to 6 per cent on a Friday morning. In normal times the rate which is fixed on one Thursday is maintained until the next, though the rate is only a minimum and the Bank of England occasionally takes advantage of this fact and refuses to discount at its minimum, which still remains ostensibly the Bank rate, while the bank actually makes a rather higher charge, which is usually made the official rate on the next Thursday.

But it must not be supposed that when Bank rate is ineffective the Bank of England is doing no business. It discounts bills and makes advances at market rates at its branches, and also at its head office to its private customers. Bank rate may be described as the price at which the Bank is prepared to discount in its official capacity as center of the London market, and it is because appeal is only made in exceptional circumstances to the Bank to provide credit in this capacity that Bank rate is often ineffective.

Finally, the position of the Bank of England, and its relation to the English money market, as a local and insular affair, may be summed up by saying that the Bank, by means of the prestige which makes a credit in its books as good as gold enables the banking community to expand credits and make check currency as long as it is prepared to lend credit. And the extent to which it is prepared to lend credit is only regulated by its own discretion and consideration for the proportion between its cash and liabilities. At the end of the half year it is sometimes applied to for fresh credits to the extent of over twenty millions sterling, chiefly in the form of advances for a few days. On one side of its account its holding of securities is expanded by this amount and on the other its liability on deposits is similarly swollen. At the end of 1902, the last occasion when the Bank's weekly return was made up on December 31, and so showed the full extent of the extra credit provided by it at the end of the year, the other securities[a] rose from £27,647,000 on December 17 to £47,736,000 on December 31. The other deposits[b] at the same time rose from £36,653,000 to £55,259,000, and this increase in the basis of credit was perhaps used by the other banks for the provision of five to ten times as much accommodation for their customers. A week later the other securities had declined to £29,625,000 and the other deposits to £41,073,000, though reinforced in the meantime by the payment of government dividends; the emergency credit had been wiped out, when no longer required, by the simple process of repayment to the Bank of England of the sums borrowed from it; and the Bank's proportion of cash to liabilities, which had fallen to 28 per cent on December 31, had risen to 38⅜ per cent.

Money in England is thus to a great extent a convention based on the assumption by the community that a credit in the Bank of England's books is as good as gold. This assumption the Bank cultivates by means of the high proportion of cash that it keeps in normal times. At the end of the year it allows it, as has been shown, to run down rapidly, knowing that the demand on it at that period is short lived and is chiefly on account of borrowers who will leave the sums borrowed to their credit in its books; but at other times its cash proportion is carefully controlled by movements in its official rate and the measures described above.

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[a] Other securities in the Bank of England's return, which is explained in detail later, are securities other than British Government obligations.

[b] Other deposits are deposits other than those of the British Government.

The problem of providing emergency credit and currency capable of easy expansion and rapid contraction is thus solved by means of this convention, backed by the use of the check currency which cancels itself day by day, each check existing only for the purpose of the transaction which it completes.

At the same time the Bank of England is obliged by the pressure of external conditions frequently to regulate the price of money in London. This necessity for regulation is a fact which is only dimly grasped by the London money market as a whole, which frequently resents the operations of the Bank of England and contends that the price of money ought to be left to the natural laws of supply and demand. The position of the London money market, however, as the only one in which gold can at all times be obtained, to any extent and without question, clearly makes some regulation of the rates at which it is prepared to work inevitable. None of the various items which compose the market can be expected to conduct their business with a view to the necessities of the market as a whole. If a banker wants to increase his holding of bills, he naturally does so at the market rate, without considering whether his doing so is likely to turn the foreign exchanges against London and so cause a demand on London for gold. Consequently the exigencies of their daily business, and the strong competition between them, impel the banks and discount houses to do business at rates which may sometimes be dangerous to the general interest, and it is thus clearly necessary that some institution with a commanding position at the head of the machine should occasionally intervene and regulate its operations.

(B) THE JOINT STOCK BANKS.

The most obvious function of the joint stock banks of England is the business of taking care of money for customers and meeting checks drawn against their balances. Customers place money with them either on current or deposit account. On current account it can be withdrawn at any time and earns, as a rule, no interest. Many banks make it a condition that unless the current account is maintained at a certain figure, generally £100, a charge shall be made for keeping it. A usual charge is £1 5s. 0d. each half year, but arrangements vary according to the terms agreed with different customers, and the keen competition now prevalent enables many to obtain the convenience of a bank account for nothing. Sums left on deposit are generally placed for a week or longer, and if placed for a week the rate paid on them by the banks is generally $1\frac{1}{2}$ per cent below Bank rate.

Out of this function of meeting checks drawn by customers against the sums deposited has grown the banker's chief duty, which is now the provision of check currency for the mercantile and financial community. Currency in England consists of coins, notes, and checks. The coins are minted by the Government, gold coin being legal tender to any extent, silver to the extent of £2, copper to the extent of 1s. The silver and copper coins are mere tokens, passing at a conventional value which is far above that of the metal contained in them. The use of this metallic currency is almost entirely confined to small retail transactions, especially among the poorer classes which can not afford the luxury of a banking account.

The note issues are almost obsolete as currency, the Bank of England's being used chiefly as reserve by the other banks, while the issues of the country banks are so small as to be negligible. Most of the commercial and financial transactions of England to-day are settled by checks drawn on the banks by their customers. These checks are not legal tender, since it would obviously be impossible that a check drawn by an individual on a bank could be legally made acceptable by a creditor whether he wished to take it or not.

Nevertheless, the protection which the check affords to its users against fraud has been sufficient to make its use general. And the English community thus conducts exchanges between itself by means of an enormous number of pieces of paper drawn upon banks which purport to give the holder the right to demand gold or legal tender, but are, as a matter of fact, in an overwhelming proportion crossed off against one another in the bankers' clearing houses. This check currency is provided by the banks without any legal restriction or supervision. It has been, ever since the beginning of banking, the business of the banker to finance trade and commerce by lending it what is called money. Before printed instruments were known, bankers, who were in those days goldsmiths and bullion dealers, lent actual coin to their customers. When bank notes were invented, the bankers lent their own promises to pay, which were circulated among the community and took the place of coin currency. When the use of checks drove out the bank note, as happened in England, the bankers lent their customers not their own promises to pay but the right to draw checks, involving a promise on their part to meet the checks on demand. These checks drawn are paid in to the other banks, and the check currency of England thus consists to a great extent of certificates of mutual indebtedness between the banks and their customers. The loans and discounts made by one bank create the deposits of another, and the check currency represents transfers of the credit so created. If the balance sheet of an English bank is examined, it will be found that its liabilities consist to a small extent of its capital and reserve fund, to a very large extent of its current and deposit accounts, which are its liabilities to its customers, and again to a small extent of acceptances.

On the assets side will be found "cash in hand and at the Bank of England," which represents the till money and cash reserve—the coin and legal tender actually held by the bank—and its credit at the Bank of England. The next item is generally cash at call and short notice, which consists chiefly of the bank's loans to discount houses and also in some cases of advances to stockbrokers and others from whom it may expect to be easily able to call them in. Its investments will be a fairly considerable item, but in most cases a large proportion of assets will consist of discounts, loans, and advances. By making these discounts, loans, and advances the banks create deposits for themselves and for one another. A customer who has raised a credit by a discount or advance makes use of this credit to draw a check. He passes the check to his creditor, his creditor pays it in to his own bank, and as long as the discount or advance is current there will be a deposit against it in the books of one bank or another. In the rare cases in which the customer uses his credit for the withdrawal of coin or notes, the same process will work; he will pass them on to a creditor who will ultimately pay them into a bank, in the enormous majority of cases. The extent to which the banks can create credit by means of loans and discounts is regulated only by their prudence and by the rules which they apply to their business. If they advance too much, their credit at the Bank of England will be diminished, owing to the fact that the claims against them in the clearing house will be heavier than the claims which they have to present against other banks. The result will be that the proportion of their cash and liabilities will be brought down to a point which is lower than they consider prudent.

There is no legal obligation of any sort on them to maintain any regular proportion between cash and liabilities, and as their position in this respect is only subjected to occasional publicity they are not obliged to consider even the effect upon their customers of any considerable variation in the proportion between cash and liabilities which they keep. The system thus works with extreme elasticity and banking facilities can be provided in England with extraordinary ease. It has of late years been frequently contended that the ease and elasticity with which it works have carried the English banking machinery to a somewhat extreme length in the matter of the economy of gold and legal tenders and the extent of the credit pyramid which it builds up on them. After the crisis of 1890 Lord Goschen seems to have been strongly imbued with the conviction that the system had been carried too far. He therefore urged upon the London banks that they should make a monthly statement of their position, and this suggestion was adopted by the majority of them. The result was that they published a monthly statement showing how they stood on one day at the end of each month, and it thus followed that on one day at the end of each month the banks showed a proportion of cash to liabilities which they considered sufficiently adequate to stand the light of publicity. But the system has long been seen to be faulty, and a certain amount of abuse has grown up round it. It is strongly suspected, for example, that some of the banks which publish these statements make preparations for them by calling in loans or reducing their discounts for the day on which the statements are drawn up. As far as this is done the statement is to a certain extent misleading, and this practice of "window dressing," as it is called in Lombard street, has been subject to frequent criticism, so much so that one of the leading London banks—the London and County—adopted early in 1908 the practice of showing its daily average cash holding, thus demonstrating that it was not in the habit of preparing a statement which did not represent its position fairly throughout the month. So far the other banks have not followed its example, and it is very reasonably contended on their part that the monthly publicity to which they are subjected is an unfair handicap to them in the conduct of their business, seeing that they have to compete with other banks which do not make any such statement, and only show their position at the end of each half year when they draw up their half-yearly balance sheets. Lord Goschen's reform was a good one as far as it went, but it was not adopted by all the London banks. None of the private banks thought that it applied in any way to them, and a large agglomeration of private banks, which has since then been united as a great joint stock bank, has not adopted the policy of a monthly statement. None of the country banks have joined the movement, and the application of publicity is thus partial and in some respects unfair.

It has been contended that before those banks which publish monthly statements can be expected to make them fuller or more fairly representative of their average position throughout the month the system should be applied more generally to the banking community as a whole, and especially that the country banks, which compete keenly in the large provincial centers with the branches of the London banks, should have the same extent of publicity applied to them as to their brethren who have head offices in London. It is extremely difficult, however, for those in favor of this reform to induce the country bankers to come into line in the matter, and since if they did so the extent of their credit operations would probably be considerably reduced, the mercantile community, which naturally resents any measure which would tend to restrict the supply of credit and possibly make it dearer, has not hitherto shown much enthusiasm for the reform. It has, however, been advocated by a committee of the Associated Chambers of Commerce of the United Kingdom that all the banks should publish monthly statements showing their average holding of cash, deposits, and other details. Certainly the operations of these smaller banks and the extent to which they raise a pyramid of credit on a small cash basis is an element of some danger to the whole English banking community if at any time banking trouble should arise in England. It has been stated by a president of the English Bankers' Institute that the proportion of cash to liabilities shown by country banks ranges down to a point as low as 2.2 per cent. No one can contend that this is an adequate cash basis for banking to work on, and as long as certain members of the banking community conduct their business on these lines an obvious hardship is involved on those which keep a more prudent and strong reserve of cash. It is contended by the big strong banks that their smaller brethren compete with them by providing more credit than they have any right to create, relying on their assistance in times of difficulty.

The position is an extremely delicate and difficult one; the banking community as a whole resents any suggestion of interference by the Government, or of dictation from outside; it habitually, in the course of half-yearly meetings and of addresses at the Bankers' Institute, admits the fact that it conducts its business on inadequate cash reserves, and yet it is unable to put its own house in order owing to its own divergent interests and the difficulty of inducing the smaller banks to work on the same ideals as those which dictate the policy of the larger and stronger ones. Apart from this danger of the over-multiplication of credit on an inadequate cash basis, the complete absence of any legal or other restrictions on the operations of English banking enables it to work with extraordinary ease and readiness. As long as good unpledged security, whether in the form of bills of exchange, commodities, or Stock Exchange securities, are available in the hands of customers the banks can advance against them to any extent that they consider prudent. Prudence dictates in the case of the great majority of them that a certain proportion of cash to liabilities shall be maintained, but, as was shown above in dealing with the Bank of England, the cash of English banking consists partly of credits with the Bank of England. These credits with the Bank of England, and consequently the cash credits of English banking, can be multiplied as rapidly as the Bank of England is prepared to make advances or discount bills, and so give credit in its books. The Bank of England is subjected to weekly publicity by the appearance of its account, which will be dealt with later, and it watches over its proportion of cash to liabilities with a vigilance which is greater than that of the rest of the banking community as a whole. Nevertheless, its prudence in this respect is the only restriction on it, and we thus arrive at the conclusion that the chief function of the English joint stock banks, that of providing the mercantile community with currency and credit, can be carried out to any extent as long as their customers have security to offer and their proportion of cash remains adequate to their sense of prudence. And further, their proportion of cash can be increased as rapidly as the Bank of England is prepared to make advances, which it can and does to an extent which again is only limited by its own prudence.

It follows that this system, by which checks drawn against banking credits are the chief currency in England, while banking credits can be multiplied to any extent that the prudence of bankers considers right and are based on credits at the Bank of England which can again be multiplied without any legal restriction, has completely freed the English monetary machine from any regulations except those imposed by its own sense of duty and the possible criticism of the public; and the development of the use of checks has thus completely nullified the attempt to regulate the English currency system made by Peel's Bank Act of 1844, which will be considered later when we examine the legal restrictions imposed on the Bank of England. Besides this absence of outside regulation, the English monetary system is also distinguished by a remarkable lack of cohesion and cooperation among the members of its own body. Except to a certain extent in the country districts, where the rates allowed to depositors and charged to customers are to a certain extent a matter of convention, English banking works almost entirely at the mercy of very keen internal competition. It is true that in London the rate allowed to depositors is to a certain extent regulated by the Bank of England's official rate, and is fixed and published. Even in this case, however, bankers frequently make variations according to the length of the time for which the depositor is prepared to fix the transaction, and on the other side of the account the rate that the banks charge for loans and discounts is left entirely to the higgling of the market, each transaction being regulated by the exigencies of the moment, the nature of the security, and the standing of the customer. This extreme development of competition leaves the market liable to pronounced depression in rates at times when slackness of trade or other causes decrease the demand for credits. At these times the adroit bill brokers and discount houses, which are in some respects the most important borrowing customers of the banks in London, are enabled by the use of this weapon of competition to obtain loans from the banks at rates which are often below the price that the bankers are paying to their depositors. Hence, it follows that in these times of monetary ease the credit machine goes on turning out its product at rates which are quite unremunerative and have a detrimental effect on the market rate of discount, and so on the foreign exchanges, thus increasing the difficulties of the Bank of England, which at these times of extreme ease is without any control of the position. Against this weakness of the system, however, must be set the advantage which the unrestricted and fiercely competitive manufacture of credit confers on the mercantile and trading community.

A few words should be said concerning the form of checks with which the English banks provide their customers as currency. Legally a check is a bill of exchange drawn on a bank and payable on demand. That is to say, it is an order signed by a customer of the bank directing it to pay a certain sum to another party or to himself. The form, however, can be varied in various methods, increasing or diminishing the ease with which the check can be turned into cash. The check can be made payable to A. B. or bearer, and in this form can be taken to the bank drawn on and immediately turned into cash. When drawn to A. B. or order, a check has to be indorsed, or signed on the back, by A. B. before the bank drawn on will pay it. A still further restriction is the English system of crossing checks, that is to say, of drawing two lines across the face of the check, by which mark it is shown that the check is not to be paid in cash across the counter by the bank drawn on, but must be paid into a bank by the payee, and so only becomes credited to him in his own banking account through the operations of the clearing house. It is evident that this protection greatly increases the safety of the check, since if it fell into the wrong hands its chance of being made fraudulent use of is greatly diminished. As the lines drawn across the face of the check by the bankers' customers are often faint and irregular, it has been found in practice that they lend themselves to the ingenuity of the fraudulent, who are easily enabled to erase them and so obtain possession of money that is not meant for them. Some of the banks therefore print these crossing lines on all the checks that they issue to their customers to be filled in, and when the customer wishes to obtain cash from his bank on one of these checks he is consequently obliged to write upon it "Please pay cash," and sign this note upon it. The extensive use of crossed checks thus tends to make the check still further an instrument which merely transfers banking credits from the books of one bank to another, since every crossed check implies that it can not be turned into cash directly, but can only transfer credit with one bank to credit with another. Another restriction with which custom has protected the English check is the system of writing "not negotiable" on the face of it. These words do not mean that the check is really not negotiable, but their legal effect is that the holder of the check can not establish a better right to it than the party from whom he received it. If therefore the party from whom he received it had no right to it, his claim against the paying bank is nil. With these safeguards, and with the enormous convenience of being drawn to any amount to fit the exact requirements of each transaction, the check, although not legal tender, has been enabled to supersede the bank note in English currency.

The chief function of the joint stock banks having thus been shown to be the provision of currency for the English community, it may further be noted that a remarkable development of their activity has been the rapidity with which they have covered England with branch establishments. It was estimated in 1858 that the total number of bank offices in the whole of the United Kingdom was just over 2,000; at the present moment the aggregate branch offices of four of the English joint stock banks which are richest in respect of branch establishments have exceeded this total. One bank in England has over 600 offices, one has over 550, two have over 400, three have more than 200, twelve have more than 100. This multiplication of branch offices has been carried out partly by the absorption by the joint stock banks of the smaller institutions in the country, whether private or joint stock, and partly by the rapidity with which they have opened branches in the great provincial centers and their suburbs, and to a moderate extent in the small country towns. The result of it is to give the English monetary system the power of easily supplying the needs of the various parts of the community as the requirements of others ebb and flow. At the same time this rapid development increases the competition between the various English banks, which we have already shown to be carried to an almost excessive degree, and by the wide local distribution of their liabilities enhances the possibility of strain on them in times of difficulty.

The rapid increase in these various centers at which the public can obtain banking facilities of the modern English kind—that is to say, the right to draw checks—is certainly one of the influences which have reduced the circulation of bank notes in England in the hands of the public, but it has probably tended slightly to increase or maintain the circulation, or at least issue, of Bank of England notes, since all these widely dispersed branches of the other banks require to have a certain number of Bank of England notes in their tills as reserve against demands on them. An article in the Bankers' Magazine of February, 1909, from which the above figures of banking branch development were taken, discusses this interesting point, and the extent to which these two influences balance one another. It shows that the circulation of English country bank notes has diminished from an average for the year 1872 of over 5 millions, to an average for the year 1908 of less than half a million—£439,800 to be exact. During the same period the Bank of England's note circulation has risen from 25½ millions in 1872 to about 28¾ millions for the average of 1908. It estimates that there are fully 4,600 bank offices in England and Wales requiring Bank of England notes as till money, which did not do so in 1872, and points out that if on the average each office held about £700 of Bank of England notes as reserve against demands, the increase in the Bank of England note issue would thus be roughly accounted for. It adds that some banking authorities estimate the amount of Bank of England notes held by the other banks' branches at a very much higher figure, and points out that it is very desirable that statements should be made by the banks of England and Wales as to the amount of Bank of England notes which they hold. Certainly any such light that the banks could be prevailed upon to provide as to the nature of the cash that they keep against demands would be of very great interest; but the banking community does not show itself very eager to respond to such requests as these for light upon the manner in which it conducts its business.

Besides thus providing the mercantile community of England with currency and credit, the banks fulfill highly important functions in the discount market of London. We have already seen that an important item in their assets is one described as cash at call and short notice. This so-called cash is, in fact, credits given by the banks to the discount houses of London enabling them to carry on their business of discounting the bills, which are so important a feature of London's monetary system. The rate at which they make these advances at call and short notice has a very direct influence upon the rate at which the discount houses will take bills, and consequently upon the foreign exchanges, and it has already been shown that excessive competition among the banks often delivers them into the hands of the discount houses and impels them to lend money at lower rates than those which they are receiving on it. The policy upon which they appear to work is the theory that it is better to have any rate for these amounts that they lend to borrowers of exceptionally good credit than none, and they are enabled to do so without material loss, because a considerable part of the money which they hold is on current account and not on deposit. Their system of including their current and deposit accounts together makes it impossible to decide on what proportion of the money for which they are responsible they are paying interest. Only one of the large joint-stock banks separates its current from its deposit accounts in its balance sheets. This is the Union of London and Smith's Bank, the latest balance sheet of which, dated December 31, 1908, showed that while its current accounts stood at 25 millions, the amount that it held on deposit only amounted to $10\frac{3}{4}$ millions.

If this proportion were general throughout the banking community it is evident that a large proportion of the moneys that they hold on behalf of the public is earning no interest from the banks, since it is not usual for interest to be paid upon current accounts, but since most of the bankers leave the proportion between their current and deposit accounts in obscurity, it is impossible to speak positively on this point. We can only be certain that the bankers occasionally do make loans to the discount houses at rates which are below the allowance that they make to their depositors, which in London are usually $1\frac{1}{2}$ per cent below Bank rate. This it may be remarked is the only direct connection between the official rate and the rates granted or charged by the other banks.

Some of the banks include under this heading "cash at call and short notice" advances which they make to the Stock Exchange for the fortnightly periods that elapse between its settlements. The funds that they so use obviously have an important effect upon the marketability and price of securities in London. On the first day of every settlement it is usual to see rates quoted as those at which the banks are lending to their stock exchange clients for the financing of speculative commitments. In the arrangement of these rates a certain amount of combination and cooperation among the banks, or some of them, has grown up as a matter of custom, but since for this class of accommodation the bankers are subject to competition on the part of the agencies of the foreign banks and the big finance houses it is often found difficult to maintain even this amount of harmonious working among the bankers.

It has been shown that the rate at which the banks make advances to the discount houses has an important effect upon the market rate of discount in London, but the banks exercise a still more important and direct effect upon this discount rate by being themselves large buyers of bills. It is impossible to gauge exactly the extent to which they hold bills among their assets, since many of them in their balance sheets include their discounts along with their loans and advances. Among the many suggestions that reformers have put forward in the matter of English banking, one is that this item of the banks' holding of bills should be separately stated. But though this obscurity in the statements of the English banks makes it impossible to know the precise extent to which they hold bills, there is no doubt their purchases of them are on the whole the most important influence upon the market rate of discount in London. Nearly all the discount houses, whose functions will be described later, buy bills, largely with the intention of reselling them to customers, of whom the joint-stock banks are the largest and most important and most regular buyers, and it is contended by the discount houses that the market rate of discount, for which they themselves are generally supposed to be responsible, is really and in fact regulated by the price at which the big joint-stock banks are prepared to buy. This being so, since the market rate of discount is perhaps the most important influence on the foreign exchanges and so on the inward and outward movements of gold, it will be seen that this function of the bankers is one of the greatest possible importance from the point of view of London's free market in gold.

Besides thus regulating the price at which bills of exchange can be discounted in London, the banks have in recent years taken an increasingly large and important part in the creation of bills of exchange by placing their acceptances at the disposal of their customers. A bill of exchange being an order signed by A, directing B to pay a certain sum of money to himself, A, or to a third party, C, it is obvious that the standing and position of B, who is called the acceptor of the bill, is of the greatest possible importance to its negotiability. The business of acceptance will perhaps be described more opportunely when we come to examine the functions of the merchant firms, of whose business it is now perhaps the most characteristic part. The increasing extent to which the bankers have in recent years intruded into this class of business is a grievance that is resented rather keenly by the merchant firms, or accepting houses, as they are often called. It is contended by the latter that the business of acceptance is a special function for which special training is required, and that the joint-stock banks rarely have available the special abilities that make for its proper conduct. On the other hand, the high standing of the joint-stock banks and their big reserve resource in the shape of their uncalled capital makes their acceptances an exceptionally fine credit instrument, and it seems natural enough that they should, to a certain extent and within moderate limits, place these facilities at the service of their customers. By doing so, they give their hall mark to a great mass of paper which becomes readily negotiable and easily turned into cash by the operations of the discount market and of the other banks. But their intrusion into this business, which was formerly largely in the hands of the accepting houses, is complicated, though in appearance rather than in fact, by the bankers also exercising an important function in watching over and sometimes regulating the extent of the business done by the accepting houses. This, however, is also a matter which will be better dealt with later on.

Finally it may be added that the English joint-stock banks are now showing a disposition to engage to some extent in the business of dealing in foreign exchange which has hitherto been left to the finance houses and foreign firms established in London. The London and County and the London City and Midland banks have now established regular foreign exchange departments. This development is generally welcomed as a sign of a desire on the part of the banks to widen their horizon and to come into closer touch with the affairs of the financial world at large, but, as in the case of the banks' increasing interest in acceptance, there are some critics who consider that it is better for the bankers to stick to their obvious and highly important function of providing the community with credit and currency, and taking care of the money of their customers.

(C) THE SCOTCH BANKS.

The functions performed by the Scotch banks are essentially similar to those already described as being carried out by their English brethren. The differences between the currency system of the two countries are in degree rather than in essence. In Scotland the note issue had made a harder fight for its existence than in England, owing no doubt to the fact that the Bank of England's monopoly did not extend to Scotland and that the great Scotch joint stock banks therefore extended the system of using notes as currency, while the development of joint stock banking in England was necessarily opposed to it, since, as has been shown above, joint stock banks in England with an office in London were unable to issue notes. Nevertheless, even in Scotland the advantages of the check have told in its favor, and, as will be seen below, liabilities of Scotch banks under note issue are now much smaller than those under deposit as current accounts.

The article in the Banker's Magazine, from which we have quoted above, showed that the Scotch note circulation had increased from £5,332,000 in 1872 to £7,173,000 in 1908. This increase, when compared with the fact that the note issues of the English country banks have during the same period diminished almost to vanishing point, shows that the bank note is much more tenacious of life north of the Tweed. This is partly owing to the fact that in Scotland notes may be issued of the denomination of £1, whereas in England the smallest allowed is of £5, so that the note was thus circulated more easily among the poorer classes in Scotland and so gained and retained a hold upon a much wider circle of the community. In this respect, as in others, Scotch banking is more democratic than English, and provides its facilities for a poorer and lower class of the community, though this distinction between the banking systems of the two countries is being rapidly diminished. Especially in its early days it laid itself out much more readily to the encouragement of the small capitalist and borrower, often granting him facilities against security, or an absence of security, which would have been only regarded as feasible under quite exceptional circumstances in England. A very interesting system was at one time fairly general in Scotland, and is even now by no means obsolete. It was the system described as that of cash credits, by which borrowers were able to go to banks and obtain advances against the joint personal security of themselves and one, or two, or three friends. By this means, in which a kind of cooperative responsibility was recognized as a security by the Scotch bankers, very poor borrowers were enabled to obtain banking facilities, and many instances are recorded in which by a loan of this kind, of quite small importance from the banking point of view, foundations of fortunes have been laid and the general commercial prosperity of the community has been furthered in a very satisfactory manner. And even now, though in the great Scotch centers of business the English system of making advances only, or chiefly, against definite security pledged as collateral obtains to a great extent, yet the essential difference between Scotch and English banking is still this readiness of the former to take into consideration the personal standing of the applicant rather than the stuff or paper which he brings to it as security for an advance.

Banking by branches in Scotland has proceeded even more rapidly than in England, and the percentage of branches per head of the population is higher in the northern part of the Kingdom. This wide diffusion of banking facilities in Scotland has been largely brought about by the fact that its banks, having the privilege of note issue, were able to hold their own notes as "till money," so economizing in the matter of cash. The following passage is from a work entitled "Scottish Banking, 1865–1896," by A. W. Kerr, author of a History of Banking in Scotland:

"Were it not for the power to issue notes, and the readiness with which the public receive them, the banks could never have afforded to open a third of the branches which have been established. The reason for this is a very simple one. Without the right of issue a bank must, at every one of its offices, hold the whole of its balance of cash in the shape of coin, or of notes of other banks, which, as far as it is concerned, are as unprofitable as coin. Such balances entail a complete loss of interest which can only be borne where the amount of business is of considerable extent. There are probably not above 100 (at most 200) localities in Scotland that would satisfy such conditions. When, however, a bank can hold its till money in the shape of notes, it is enabled to extend its operations into districts which would otherwise be quite inaccessible. It is for this reason, and for this almost entirely, that the Scotch banks have been able to develop their branch systems to an extent that has made Scotland notable as having the greatest supply of bank offices in proportion to population of all the countries of the world."

The authority of a practical Scotch banker is equally emphatic on the point. Mr. Robert Blyth, general manager of the Union Bank of Scotland, read a paper at the thirty-first annual convention of the American Banking Association, in October, 1905, on the subject of Scottish banking. In the course of this very interesting paper he made the following statement: "It is in another quarter altogether that the Scotch banks find the value of the £1 note. It is the unissued notes in the tills of the branch offices, forming the till money at more than a thousand branches, wherein the real value lies. Without them the banks would require to keep £8,000,000 or £10,000,000 of gold coin, not as a reserve but as till money. It is these £1 notes which have enabled branch offices to be planted in every part of the country."

It thus appears, from the highest possible authority, that the Scotch banks are enabled by their right of note issue to economize gold to the extent of £8,000,000 or £10,000,000, and it is amusing to observe how the objects aimed at by Peel's legislation with regard to note issue have thus been defeated even more completely in Scotland than in England. In England, as has been shown, banking turned the flank of Peel's Act by developing the use of checks, which superseded the note as the common form of payment in daily transactions. In Scotland, banking evaded the spirit of Peel's regulations, which were intended to insure that every addition to currency should be secured on an addition to the bullion held by it, by actually economizing bullion to the extent of £8,000,000 or £10,000,000.

Scotland used the same weapons as England, namely, the check and the development of deposit banking. The table given below shows that the eight Scotch banks had, according to their latest balance sheets, £7,000,000 of notes outstanding, and £108,000,000 of liability on deposits and drafts. With regard to the latter item Peel's regulations had nothing to say, and since ordinary banking prudence demanded that some cash should be held against it, and since the gold held against notes was not specially earmarked as such, Scotch banking was able to treat its cash against deposits as the basis both of its notes and deposits and so produce the economy which is boasted of by its champions. Its "authorized" note issue at the time of Peel's Act was £3,087,000 and has since been reduced by lapses to £2,676,000. The law thus compels it to hold £4,500,000 of bullion against the present excess above this limit. But the law says nothing concerning cash to be held against deposits, and the metallic basis of these is probably extremely slender, if the cash held against notes is set on one side; but it is impossible to detect its actual amount, since the Scotch banks include with their cash their balances at the Bank of England, etc. And the net result is, that when the proportion of its cash to its total liabilities on notes and deposits is worked out it is found to be decidedly low, even when compared with English practice. The following table speaks for itself:

[Pounds sterling]

	(1) Note circulation.	(2) Deposits, drafts, etc.	(3) Total, notes, deposits, etc.	(4) Gold and silver coin, notes of other banks, cash at Bank of England, and checks in course of transmission.	Proportion of (4) to (3)
					Per cent.
Bank of Scotland	1,118,838	18,053,470	19,172,308	1,547,782	8.1
Clydesdale	843,212	12,207,019	13,050,231	1,764,547	13.5
Commercial Bank of Scotland	974,797	14,894,337	15,869,134	1,912,208	12.1
National Bank of Scotland	805,593	15,269,045	16,074,638	[a]1,146,457	7.1
North of Scotland	728,953	7,452,486	8,181,439	956,054	11.7
Royal Bank of Scotland	1,003,428	14,335,056	15,338,484	[a]1,425,437	9.3
Union Bank of Scotland	907,274	13,115,842	14,023,116	1,349,124	9.6
	6,382,095	95,327,255	101,709,350	10,101,609	9.9
British Linen Bank	811,116	12,703,271	13,514,387	[b]1,972,151	--------

[a] Does not include checks in hand and in transit.
[b] This total includes loans at call or short notice.

It will be observed that owing to the absence of uniformity which is characteristic of British banking accounts, it is impossible to make this table statistically satisfactory. Two of the banks include their checks in hand or in transit along with other items, so that it is impossible to include them with their cash, as is done by some of the others, while some state them as a separate item by itself. If it is reasonable to include a check on another bank as a cash asset (and some purists maintain that neither a check on or a note of another bank has any right to be so treated) the cash holding of these two banks should be somewhat higher than they are shown to be in the above table. Even so, however, the general level of cash proportion would remain low; what it would be if real physical cash alone were considered it is impossible to guess, for this is a point on which banking accounts in Scotland, as in England, are persistently reticent.

It will also be noticed that one of the banks, which we have consequently left out of the table, follows the bad practice of many of the English country banks and includes in its cash item its loans at call or short notice.

The bank's acceptances, being a liability of a special kind, and specially secured, are not included in the table.

It should be observed that the notes which the Scotch banks hold as till money do not appear in the above statement, for until they are issued they are not a liability, and though they are treated by the banks in practice as an asset, they can not figure as such in a balance sheet. That they are practically treated as such is witnessed by Mr. Blyth, as quoted above, when he says that without them the banks would require to keep 8,000,000 or 10,000,000 of gold coin. And it is, of course, this habit of regarding unissued notes as a banking asset in the shape of till money that accounts for the low reserve of actual cash that the Scotch banks show.

Scotch banking is so generally regarded as one of the highest achievements of the banking intelligence that some hesitation is natural in criticising the system by which, according to its own evidence, it has obtained most of its success. At the same time, it is difficult to avoid the conclusion that a serious danger lurks in a system which regards a banker's unissued promise to pay in the light of a

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banking asset. Mr. Blyth points out that these unissued notes are "not a reserve but till money," but the distinction between till money and reserve is one upon which it is possible to lay too much stress. In assessing the strength of a bank it is usual to compare the amount of its cash in hand, as a whole, with the amount of its liability to the public on deposit and current account, etc., and note circulation if any. The cash in hand, as a whole, consists of the till money and cash reserve. If the till money consists to any extent of the bank's own promises to pay, it follows that the bank's cash reserve as a whole is to that extent weakened, for it need not be said that in case of serious trouble, which is a contingency of which all provident bankers have at all times to beware, a bank's own promises to pay would be of little service to it. If a bank's credit were doubted, these promises to pay would not be available for it in meeting demands upon it. At such periods the public requires from its bankers not promises to pay but physical gold. In Scotland the confidence of the public in its bankers is so great, and the readiness with which it circulates their promises to pay appears to be so ingrained in the national character, that the contingency of the demand of the public for gold seems to be extremely remote. The criticism therefore which detects a weak point in this asset upon which Scotch banking prides itself so highly may be said to be merely academic. Nevertheless, when we examine Scotch banking by the test of figures, we find that it does actually work, as indeed would be expected from the statement of its exponents, on a cash basis which is decidedly narrow.

Though the functions that they perform are practically the same as that of the English bankers, Scotchmen have succeeded in avoiding the excessive competition in carrying them out which we have seen to be a weakness of English banking. In Scotland, on the other hand, cohesion and cooperation among the banks are carried to an extreme of which the mercantile community frequently complains. The banks are few and stand together like a close corporation; they agree absolutely and arbitrarily among themselves as to the rates they will allow to depositors, the rates at which they will advance or discount, and the terms and commissions for which they will do business for customers. The extent to which this regulation of the price of the product that they turn out is carried, is almost incredible from the English point of view, and though it is contended by the champions of the Scotch system that it encourages that wholesome democratic influence in Scotch banking which is in favor of the small borrower of limited resources, who is thus able to obtain accommodation on the same terms as much larger and more important customers, yet it must be obvious that the Scotch banks, by making these hard and fast agreements among themselves as to the price of the accommodation that they will give, and maintaining it in every case, are in fact putting the same price upon a very different article. The result of it is beginning to tell upon them a little in these days, since, when the big Scotch merchants and manufacturers find that their local bankers charge them the same rates for accommodation as the small tradesmen of the towns, they are naturally impelled to make arrangements to provide themselves with monetary facilities somewhere south of the Tweed, where rates are ruled by the circumstances of each case, and competition and higgling often in times of monetary ease deliver the bankers into the hands of the borrowers. As it is, the Scotch banks in regular conclave fix their rates in accordance with those current in the London money market or the Bank of England's official minimum, and, having fixed them, stick to them. The system is very profitable to themselves, and their customers certainly can not complain on the whole of the facilities with which they provide them. Nevertheless, the cast-iron rigor with which they work hand in hand in combination appears to be an excessive development of banking unity, and an ideal banking system would seem to lie somewhere in the middle between the excessive competition of the English bankers and the cast-iron combination of their Scotch brethren. Finally, it may be added that it is a little inaccurate to speak of a Scotch banking system, if the phrase be taken to imply that Scotch banking stands by itself and works on its own resources. In fact, it is only an appendage of the English system and relies habitually on drawing gold from the Bank of England, as its center and the keeper of its reserve.

(D) THE PRIVATE BANKS.

Any differences that exist between the private and joint-stock banks of England lie in their ownership rather than in their functions. Their functions are the same, but the manner in which they carry them out is perhaps influenced to a slight extent by the fact, which really distinguishes them, that the private banks are owned by a few partners who generally conduct the business for themselves or exert more or less influence on it, while the joint-stock banks are managed by salaried directors and officials on behalf of a large body of shareholders formed into a public company, the shares in which can as a rule be bought and sold on the London Stock Exchange. It will be remembered that the measure confirming the Bank of England's monopoly enacted that it should be unlawful for "any body politic or corporate * * * or for any other persons whatsoever exceeding the number of six persons" to carry on the note-issuing business which was then (in 1709) regarded as the only banking function. This measure restricted to the Bank of England the power of uniting for banking purposes the capital of a large number of shareholders, and left it faced only by the competition of private banking firms, consisting of not more than six partners.

Since private enterprise naturally precedes joint-stock institutions, it goes without saying that the private banks of England were the pioneers of the banking business. There are still in existence private firms which were founded before the Bank of England. A goldsmith called Child was doing business of a banking character soon after 1660, and Child's Bank still exists. Hoare's Bank was instituted in about 1680, fourteen years before the Bank of England received its charter. Modern developments have almost driven them out of the field, and among the leading banks in the city of London only two are left which can still be called private in the old sense of the word. There are one or two other institutions which are on the borderland; and at the west end of the town several old firms, including Child's and Hoare's, have retained their old constitutions.

It was obviously inevitable that business of the magnitude and widely extended responsibility that modern banking has assumed should fall into the hands of the joint-stock system; the regular practice which dictates, or ought to dictate, the policy of banking, naturally lends itself to joint-stock organization, as was pointed out more than a century ago by Adam Smith, and further, the necessary maintenance of a uniformly high level of business ability and prudence is attained with some difficulty under a system which practically works by the hereditary principle. The old private banking firms were largely family businesses, being passed from father to son or from one relative to another almost as a matter of legacy. It was inevitable that the younger generations which succeeded to a business would be unlikely to devote the same unremitting attention to its conduct as was displayed by those who were building it up, and as the profits of banking led to rapid accumulation of wealth, it was still more natural that those who inherited great wealth should, at least in England where the outlet for a man's energies is so wide and varied, prefer to give much of their time to other occupations outside the business.

The private banks thus made but a weak resistance against the competition of the joint-stock institutions worked in the interests of shareholders by a set of trained officials whose career depended to a great extent on the success with which they managed them. Gradually the private banks were absorbed into the joint-stock companies, and in 1896 a large number of the old private firms were amalgamated under the joint-stock principle under the title of Barclay & Co., so named from one of the principal private firms included. The functions that they perform are, as has been said, similar in essence to those conducted by the joint-stock banks, and differences between them, even in degree, are so small as to be quite insignificant. The remnants of them form, with the merchant firms and accepting houses, a kind of aristocracy in the city of London, and it is contended that their survival gives, from the high traditions and dignity which they have derived from their exceptional position, a certain high ideal of conduct in business, which is of great value. It is also occasionally asserted that their customers find them more easy to deal with, since the managers of the joint-stock banks are alleged to be unable to depart by a hair's breadth from the strict rules under which they conduct business without an appeal to their board of directors which may probably cause delay; and also, that the private banks give a good deal more attention to the question of finding suitable investments for their customers, and in general are enabled to take a more close and personal interest in their business connection with them. But these are obviously matters of minor detail, and in general it may be said that the business and the functions conducted by the private banking firms of Great Britain have already been described when we enumerated those of the joint-stock banks.

(E) THE MERCHANT BANKERS AND ACCEPTING HOUSES.

The most important function of the merchant bankers is not that of banking, but of accepting. Banking, in the strict sense of the term, they do not engage in—that is to say, they are not prepared to meet claims upon them by an immediate payment of cash or legal tender over the counter, but by payment of a check on one of the banks in the stricter sense of the term. Their function is that of bringing into being the interesting and important credit instruments known as bills of exchange. A bill of exchange, originally drawn on a merchant by a correspondent, from whom he had bought goods, directing him to pay the consideration for them at sight or at date named, has in recent years widely extended this function and has become an instrument by which credit can be raised against any form of security or collateral, or in some cases against no security at all but the credit of the parties named upon it.

It need hardly be said that there is an immeasurable difference between one bill of exchange and another. Since the bill is an order by one party to another to pay a sum of money, generally at a subsequent date, the ability of the party on whom the bill is drawn to meet it at the due date is a question of overwhelming importance. When the bill arrives the party drawn on "accepts" it by signing his name across the front of it, so intimating that he is liable to pay the sum named at the date specified, and becoming the acceptor of the bill. It is clear that a bill accepted by a small tradesman has no value outside his own street, if there, while one accepted by a great merchant house of unquestioned standing is an easily negotiable credit instrument and also an ideal form of investment for bankers and others who have to keep their resources liquid, since it can easily be discounted or turned into as much immediate cash as its prospective value at the due date makes it fetch, and at maturity it has to be met by its acceptor. The importance of the acceptor's name on a bill thus led merchants of first-rate standing to specialize in this form of business. They gradually left off or reduced the amount of their actual mercantile business and confined themselves to accepting bills, for a commission, for others whose credit was less well established. Out of bills of exchange, originally drawn against merchandise actually shipped, grew the finance bill drawn sometimes in anticipation of produce or merchandise to be shipped, sometimes against securities, and sometimes against the credit of the parties to it.

The business of acceptance has thus grown up as an important and separate function which is largely in the hands of the leaders among the old merchant firms, whose acceptance of a bill stamps it at once as a readily negotiable instrument. By the service that they perform in the creation of this great mass of paper, the merchant firms, or accepting houses, as they are generally called, facilitate the trade of the world in a most useful and in fact indispensable fashion by providing credits against mercantile transactions which have not yet matured. When the wheat of America is harvested, but has not yet reached its market, the ultimate purchaser of it can not be expected to pay for it in cash, but arrangements can be made by which a bill can be drawn against it on a first-class accepting house, and this bill being readily negotiable and easily discounted in the London market provides the cash, or a considerable proportion of it, which the wheat will ultimately realize when it has been shipped to its destination and passed into the hands of the consumer. The same process can be repeated with many articles of manufacture which are still in an inchoate condition, and the world's commercial activity, which would be immeasurably lessened if each transaction had to wait maturity before cash could be raised against it, is thus enabled to proceed with the remarkable velocity which modern conditions make possible. Nevertheless the function of the London accepting houses, though of enormous importance, is still to a certain extent subordinate to the judgment of the English banks. They finally decide whose paper is most readily negotiable, and, in times when the credit machine is felt to be somewhat out of gear, the bankers occasionally discriminate against the paper of firms which they consider to have been giving their acceptance too freely. In this respect, as in so many others, the Bank of England remains the final arbiter, since the paper of an accepting house which is questioned by the other banks can be negotiated at the Bank of England through a discount house, and the Bank of England has before now intervened with effect when it considered that questions raised concerning certain acceptances have been without justification.

This business of acceptance is one into which the other banks have themselves recently intruded with considerable effect, accepting bills for their customers, home and foreign, for a commission; and there is a certain apparent anomaly in the position which makes them guardians of the volume of acceptance created by the private firms and acceptors themselves on a steadily increasing scale. Nevertheless, this anomaly has little or no untoward effect in practice. The bankers are naturally extremely cautious in raising any question as to the security of general credit in London, and they are in many ways closely connected with the private accepting houses, so that the system, which appears to be full of uncomfortable possibilities on paper, works easily enough in practice.

Other functions of the merchant firms and accepting houses are their activity in general finance and in exchange business. Both these functions arise out of their old business as merchants, which gave them close connection both with the governments and the business communities of foreign countries. Their connection with the governments naturally led to their providing credit facilities for them, and to their handling loans and other operations which these governments might have to conduct in the London market. Many of them act as regular agents of foreign governments, making issues of bonds on their behalf, paying their coupons, and conducting amortization and other business in connection with their loans; and their connection with the general business community inevitably led to their doing a considerable exchange business with foreign countries, financing drafts on them for the purposes of travel and the innumerable other arrangements which necessitate the transfer of credit from one country to another. It should perhaps be added that the Bank of England's court of directors is largely recruited from the ranks of the accepting firms and finance houses, and the close connection of these firms with the finance, both government and private, of other countries, equips them especially well to regulate the policy of the Bank of England, one of whose most important functions, as we have already seen, consists in controlling the London money market with a view to foreign demands upon its store of cash.

(F) POSTAL AND TRUSTEE SAVINGS BANKS.

The distinctive duties of savings banks, whether postal or other, are such that they can hardly be considered as part of the banking system of England. A savings bank, as they are understood in this country, performs only one side of the banker's function, and that perhaps the least important. It is the business of a banker to make advances, to create credit, and in England to provide the community with currency. None of these functions are fulfilled by the savings banks. It is also the business of the banker to take care of money deposited with him by the community, and this part of his function the savings banks do carry out. They are guardians, trustees, safe deposits, but they are not banks in the true sense of the word, because they do not make loans and advances, they do not discount bills, they do not facilitate trade and finance by the creation or circulation of any credit instrument, and the sole use that they make of the funds deposited with them is to invest them in securities of a specially restricted class. At the same time, they have some indirect influence upon the conduct of banking business in Great Britain, since the allowance that they make to depositors has an effect, especially in the country districts where the banks compete keenly for deposits, upon the allowance made by the English banks. It is complained by the joint stock bankers that whatever bank rate may be, and whatever may be the rate for money in London, they can not allow their country depositors less than the 2½ per cent which is the regular allowance to depositors in the post-office savings banks. It is natural enough that the bankers should therefore complain bitterly of the intrusion of Government into a business which it does not understand and which it conducts according to principles which would land any ordinary banker very speedily in ruin. The post-office savings bank keeps no attempt at a cash reserve, perfectly reasonably contending that the fact that its deposits are secured upon the consolidated fund of the United Kingdom insures for it a confidence and security which ordinary bankers have to arrive at by means of a strong position with regard to cash and liquid assets. At the same time, the savings banks, whatever be the current price of money and whatever the difficulties they have in reinvesting funds deposited with them on terms which will enable them to show a profit, continue to pay 2½ per cent to their depositors. They did so during the period of abnormally cheap money in 1896 and 1897, when Government securities could not be bought to yield the 2½ per cent which the savings banks were paying, and when consequently the necessarily considerable expenses of the conduct of the business involved the savings bank in heavy loss. They have continued to do so steadily, in spite of the subsequent depreciation of Consols and the other securities that they hold, which reduced their finance to a position which would be considered one of insolvency if any private or joint stock company had to acknowledge such a state of affairs.

Their ostensible pretext, the encouragement of thrift among the working classes, is an extremely desirable object in England, where thrift among the working classes is very much to seek. At the same time, the contention of the bankers that they are subjected to unfair competition is very strongly grounded. The regulations of the post-office savings banks have been expanded to an extent which permits the deposit of sums up to £50 in one year, aggregating £200 altogether, and it is clear that depositors who are in a position to make deposits on such a scale as this have arrived at a point at which assistance and stimulation by the State are unnecessary. The rate allowed to them, though low enough from the point of view of the depositor, is certainly high when the exceptionable nature of the security is considered and when allowance is made for the fact that these deposits can be withdrawn at any time—immediately up to £10 if the expense of a telegram is paid, and after one to two days' notice in the ordinary course of business. In fact, the post-office savings bank gives away one kind of banking facility, that is, the guardianship of the money of depositors, allowing them a rate for its use on terms with which the ordinary bankers are quite unable to compete, and it is very fairly contended that the amount that each depositor is allowed to place with the savings banks should be reduced, and that the rate allowed should also be brought more closely into touch with the modern conditions of the money market. Probably the really careful and thrifty members of the class for which the post-office savings bank is designed to provide facilities attach very little importance to the rate paid to them. Certainly other banks working under ordinary commercial conditions could not afford always to pay depositors $2\frac{1}{2}$ per cent on their money, with the right of immediate withdrawal, and their complaints against unfair competition by the State thus have a considerable basis of foundation.

The trustee savings banks were originally philanthropic institutions founded by private persons for the encouragement of thrift, but in 1817 Parliament intervened with regulations for their management. The most important feature of these regulations was the obligation imposed on the trustees to invest the whole of the funds with the Government through the hands of the national debt commissioners. Since the establishment of the post-office savings banks in 1861 many of the trustee banks have been closed, and the increase in the deposits of the rest has not been nearly as rapid as that of the new rivals, which have the advantage of more direct Government control.

(G) THE DISCOUNT HOUSES.

The discount houses in London carry on a business which is chiefly ancillary to that of the banks. It has been shown that the bankers are large buyers of bills—that is to say, they make large investments by discounting bills of exchange, giving cash or credit for them some time before they are due and holding them until their maturity. Bills of exchange, which are necessarily and automatically turned into cash on the day of maturity, are obviously an ideal security for a banker's investment. They are liquid and readily negotiable, and at due date they are cashed, without any need for looking for a buyer and without any question of market conditions. The great volume and diversity of the bills of exchange which come into the London market to be thus melted and turned into present cash before their date of maturity has caused the existence of a class of dealers in bills who specialize in handling them and may be regarded as intermediaries between the holders of the bills—that is to say, originally, the drawers of them, or their representatives or anyone else into whose hands they may have passed them on—and the bankers, who are the ultimate buyers and hold them as investments until maturity. It is the business of the discount houses to buy these bills on a wholesale scale, using for this purpose funds largely lent them by the banks, and to meet the requirements of the bankers with regard to the date named and quality of the bill, providing them out of the store that they keep constantly replenished. Some of the larger firms, and two joint-stock companies which have applied the joint-stock principle with great success to this business, constantly keep a very considerable supply of bills in their own hands. Nevertheless, even they still retain the appearance of intermediaries to a very great extent, and the majority of the discount houses are intermediaries almost entirely. Some few of them, commonly designated running brokers, hold practically no bills and do a commission business by taking a parcel of bills from a seller and disposing of them at the best possible terms, charging him a brokerage on the transaction; but the most common form of the business is the one indicated above, by which the discount houses keep a considerable floating supply of bills always, with a view to disposing of them to bankers, meeting the requirements of the latter in the respects indicated.

The function of the discount houses is thus of considerable importance in the London money market, because the terms on which they do their business may have a considerable effect upon the foreign exchanges and so upon the inward and outward movement of gold. Ultimately and in the long run it is probable that the discount rates current in the London money market are decided by the banks themselves, since if the bankers decide that they will not buy below a certain rate that rate is almost certain to become very speedily effective. Nevertheless, the discount houses may have a considerable temporary effect on the rates current, since if they take a strong view concerning monetary probabilities in London their sentiment is almost certain to express itself on the rates current for the moment.

We have also seen that the discount houses fulfill a very important function by borrowing funds from the bankers at call and short notice. These funds are regarded by the bankers, and actually described in their balance sheets, as cash, cash at call, and short notice. It is a somewhat elastic extension of the term "cash" to apply it to money that is being lent to any borrower, even of the highest credit and against the most liquid possible collateral. But it is always assumed by the bankers that these funds placed in the discount market can be called in readily at any moment. That they can be called in is practically a fact; but it arises chiefly from the ability of the discount houses when pressed for repayment of these loans by the bankers to fill the gap in credit by an appeal to the Bank of England and the production of fresh cash, as it is called, by borrowing from it. The discount houses take security to the Bank of England and raise with it the right to draw checks. These checks they pay to their bankers, whose cash at the Bank of England, which we have already

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seen to be regularly used as part of the basis of credit in England, is thus increased.

It follows from the necessities of their position that the discount houses are liable to be affected by the least fluctuation or change in the current value of credit, either momentary or for the future. Any change in the position which makes it appear that money is going to be dearer later on will make a considerable difference to the price at which they will be able to dispose of the large holding of bills which we have seen to be their stock in trade. Any change in the position which necessitates an immediate demand for cash causes the bankers to call in funds from them and drives them into the Bank of England, which discounts bills for them at its official rate, and generally charges one-half of 1 per cent more for advances. They thus conduct their operations on terms which require extremely alert ability and a capacity for gauging monetary probabilities not only in England, but all over the world, since London's position as the free market in gold necessarily makes its rates extremely sensitive to any possibility of disturbance elsewhere. Besides the money that they habitually borrow for short periods from bankers, the discount houses also have considerable amounts placed on deposit with them by other lenders, some of which they employ, especially in times when the volume of bills is comparatively small, by loans to the Stock Exchange for financing the speculative commitments of the public, and by holding or carrying securities of a reasonably liquid character. They also take some part in the underwriting of new loans and in the general financial business of the London market.

CHAPTER II.

LAW AND CUSTOM IN THE ENGLISH SYSTEM.

English banking is regulated by law to a very small extent. As has been observed in earlier parts of this memorandum, very strict regulations were imposed by the act, generally known as Peel's Bank Act, of 1844, upon the note issue of the Bank of England and of other banks which issue notes in the United Kingdom, but, as has before been shown, these regulations are now a matter of minor importance, owing to the extent to which—partly in consequence of them—the bank note has been superseded in England as the currency of commerce and finance by the check. The chief function of the English banker, as it is understood to-day, is not that of issuing notes, but of receiving deposits and making advances which take the form of deposits and are drawn against and circulated in the form of checks.

This part of the banker's business is not in any way restricted or regulated by the law, and as the great majority of English bankers confine themselves to it and the business connected with it and resulting from it, it follows that the ordinary English banker rarely finds himself affected by the law in the management and direction of his business. Books on banking law are devoted almost entirely to questions arising out of ordinary banking practice, such as the circumstances under which a banker who has paid money in reliance upon a forgery can recover from the person to whom he has paid it, and give a very small proportion of their space to the functions and questions to be discussed in this memorandum. They are left almost entirely to the custom and tradition of the business.

(A) THE BANK OF ENGLAND.

In the case of the Bank of England, which was instituted under special circumstances and by a special charter, certain definite arrangements were laid down by the act constituting the Bank concerning its organization and directorate. The act, which was passed in 1694, states that—

"William and Mary by the Grace of God do hereby ordain and appoint that there shall be from time to time for ever of the members of the said company, a governor, a deputy governor, and 24 directors of and in the said corporation, which governor, deputy governor and directors, or any 13 or more of them, of which the governor or deputy governor to be always one, shall be and be called a court of directors for the ordering, directing and managing the affairs of the said corporation." The act appointed the first governor and deputy governor and states that they have been chosen by a majority of the subscribers, having £500 each in the capital stock. It also makes arrangements for the holding of general meetings or courts "for the appointment of governor, deputy governor and directors, and for the making of bye laws, ordinances, rules, orders or directions for the government of the said corporation, or for any other affairs or business concerning the same." It provided for the annual election of the governors and directors and restricted the right of voting at the general courts to holders of at least £500 stock in the Bank. No member was allowed to have more than one vote. It was further provided that no one could be governor of the Bank unless a subject of England, naturally born or naturalized, and holder of £4,000 stock in the

Bank. The qualification for the deputy governor was £3,000, and for directors £2,000. The governor was also required to take an oath to the effect that he would "to the utmost of his power by all lawful ways and means endeavour to support and maintain the body politic or fellowship of the government and company of the Bank of England and the liberties and privileges thereof."

Similar oaths had to be sworn by the deputy governor and directors and they also had to swear that they were possessed of a sufficient holding of stock in the Bank. Oaths were also administered to electors before they could give any votes in the general courts and also to all the "inferior agents or servants for the faithful and due execution of their several places and trust in them reposed." It was also appointed that "no dividend shall at any time be made by the said governor and company save only out of the interest, profit, or produce arising out of the said capital stock, or fund, or by such dealing, buying, or selling as is allowed by the said act of Parliament, and that no dividend whatsoever shall at any time be made without the consent of the members of the said corporation in a general court, qualified to vote, as aforesaid."

The management of the Bank was left in the hands of the governor, deputy governor, and directors, subject of course to the by-laws and directions that might at any time be passed by the general court of proprietors. Custom has enacted that its directors should never be chosen from the ranks of the other bankers. They are generally taken from the merchant firms and accepting houses.

The charter did not make any definite statement concerning one point which has occasionally been debated and discussed in later days, viz, the question of any liability upon holders of Bank of England stock. It has occasionally been contended that there is no limitation on the liability of holders. But it need not be said that the question has never been a practical one. Under the national debt act of 1870, which regulated the payment of the dividends on the national debt of Great Britain, it was provided, among other things, that until all the stock of the English debt had been redeemed the banks of England and Ireland should each continue to employ within their offices a fit person as their chief cashier and another fit person as their accountant general. Apart from these provisions, the law has left the question of the management and organization of the Bank of England to the discretion of the proprietors and their directors.

The Bank of England's note issue has been regulated in a manner which is well known by Peel's Act of 1844, which laid down that the amount of its fiduciary issue, that is to say, its issue of notes against securities rather than bullion, was to be restricted to 14 millions, and that above that point for every note issued the Bank should hold metal in its vaults. It was also enacted that if the issues of any country banks which had the privilege of note issue were subsequently to lapse, the Bank of England should be empowered to increase its fiduciary issue to the extent of two-thirds of the lapsed issue. By means of these lapses the amount of the fiduciary issue has been raised from the 14 millions mentioned in the act of 1844 to £18,450,000.

It is also well known that Peel's Act of 1844 provided for the separation of the Bank's functions into two separate departments, one of which it called the "issue department" and the other the "banking department," the promoters of the act being apparently of opinion that there was some essential difference between note issuing and the other functions of the banker, and that note issuing ought to be very specially regulated and restricted, and that as long as this were done all would be well with the currency arrangements of the country.

A good deal of confusion appears to have prevailed in the minds of those who were responsible for this curious piece of legislation. It speaks of the "Bank of England's exclusive privilege of banking," whereas the only exclusive privileges that the Bank of England possessed were connected with note issue, and at the same time it draws a hard and fast line between banking and note issuing, as if the two functions were wholly separate. The principle on which it was based, which appears to have been the theory that the issue of notes was the only form of currency that needed regulation or care, involves an extraordinary oversight when it is remembered that ten years before this act was passed joint stock banks had been founded in London, solely for the purpose of conducting deposit banking and handling the check currency which deposit banking creates.

It is perhaps fortunate for English banking that the legislature took so one-sided a view of the system which it was attempting to regulate. Its regulation of the note issue consisted in drawing a cast-iron line, beyond which no note was to be issued except with a full bullion backing. It thus, as far as it understood banking, took away from the banker the whole of his discretion concerning the amount of bullion which he was expected to keep against his liabilities. Had it recognized that the check currency, though only in its lusty infancy, was likely to drive the bank note out of circulation for the ordinary purposes of commerce and finance, it may be supposed that it would have dealt with its creation in an equally drastic manner. Fortunately it did not perceive this development, though it had already made great progress; it consequently left a door open by which English banking has been able to develop unfettered and unrestricted. The regulations on the Bank of England's note issue are now a matter of minor importance. When the banking community goes to the Bank of England for assistance, it does not ask it for notes, but for a credit in the books of its banking department. As has been shown in previous sections of this memorandum, at the end of the half years, when the English monetary community finds it necessary to create a large amount of emergency credit and currency, it carries out this operation easily and simply by taking security to the banking department of the Bank of England and obtaining, to the extent of 15 or 20 millions, fresh credits in its books, which are regarded for English banking purposes as equivalent to so much gold.

The bank act of 1844 also enacted that the Bank of England should publish once a week a statement of the assets and liabilities of its two departments, and a copy of one of these statements is here appended.

BANK OF ENGLAND.

An account pursuant to the act 7 and 8 Vict. cap. 32, for the week ending on Wednesday, the 10th day of March, 1909.

ISSUE DEPARTMENT.

DEBIT.

Notes issued	£55,952,170
	55,952,170

CREDIT.

Government debt	11,015,100
Other securities	7,434,900
Gold coin and bullion	37,502,170
Silver bullion	......
	55,952,170

Dated the 11th day of March, 1909.

J. G. NAIRNE, *Chief Cashier.*

BANKING DEPARTMENT

DEBIT.

Proprietors' capital	£14,553,000
Rest	3,691,483
Public deposits (including exchequer, savings banks, commissioners of national debt, and dividend accounts	17,267,641
Other deposits	39,876,393
Seven-day and other bills	26,576
	75,415,093

CREDIT.

Government securities	15,141,108
Other securities	31,323,272
Notes	27,280,175
Gold and silver coin	1,670,538
	75,415,093

Dated the 11th day of March, 1909.

J. G. NAIRNE, *Chief Cashier.*

These weekly accounts are commonly called "the bank return," and are closely studied as containing the key to the position of the Bank of England and the available resources of the London money market. It will be seen that the issue department contains one line of liability, viz, the notes issued. On the other side, giving the list of the assets held against these notes, the first line is "Government debt," which is the original debt from the Government to the Bank, to provide which the Bank of England was founded in 1694, swollen from the original £1,200,000 to over 11 millions by subsequent additions. The next line, "Other securities," gives the holding of British Government stock, which raises the fiduciary backing of the Bank of England's note issue to the £18,450,000 at which it now stands. The rest of the notes issued are backed by gold coin and bullion, though the line "Silver bullion" recalls the fact that by the bank act of 1844 the Bank was empowered to hold silver against its notes to the extent of one-fourth of the gold or one-fifth of the total bullion. But, as has been recorded above, it is more than half a century since this right has been exercised, and a recent attempt to put it into force was so strongly resisted by city opinion that it was promptly dropped.

The items in the banking department require a little explanation. The "Proprietors' capital" speaks for itself, except that it differs from that of other English banking companies by being fully paid up, though, as was observed above, there is some doubt as to whether there is further liability on it.

The next item among the liabilities, "the rest," as it is called, is the Bank of England's reserve fund in the ordinary sense of the word—that is to say, an accumulation of profits which have not been divided among the proprietors but have been kept in hand to strengthen the Bank's position. Unlike most reserve funds, however, this item, "the rest," fluctuates from week to week, and may be supposed to contain the current profit and loss account balance. It should be added that, by unwritten custom, it is never reduced below £3,000,000, and the amount above this level at which it stands at the end of the Bank's half year is the amount available for distribution by way of dividend among the proprietors.

The public deposits are the deposits of the various departments of the British Government which the Bank holds on its account as keeper of the national balances. In the account presented above this item is shown swollen by the collection of the direct taxes, which proceeds during the quarter from January to March. The other deposits are the Bank's liabilities to all customers other than the British Government, and so include the balances of the other banks which use the Bank of England as their banker and holder of a considerable portion of their cash reserves. Included along with them, however, there are the balances of the Bank's private customers, including municipalities, colonial goverments, etc., and the amount of the bankers' balances on which the resources of the London money market, apart from the Bank of England, really depend, can only be guessed at. It is believed that they generally average about 22 or 23 millions, and it is generally found that when the amount of the other deposits as a whole falls to about 41 millions, money in Lombard street is scarce and comparatively dear.

In the account given above it will be seen that the pressure of tax payments has reduced them below 40 millions, and, as usual during the January to March quarter, the market was actually at the date of this return obliged to borrow from the Bank of England in order to restore its balances.

The item of seven-day and other bills is an old-fashioned form of remittance provided by the Bank and used chiefly for the purposes of revenue payments.

On the other side of the account we find the Bank's assets divided into "Government" and "Other securities" and its holding of its own notes and of gold and silver coin. Here again "Government" means only the British Government, and under the item "Government securities" are included the Bank's holding of consols and other British Government stocks, treasury bills, or other forms of unfunded debt, and likewise any promises to pay that it may hold from the Government against temporary advances that it may have made to it in the ordinary course of its relation with it as its banker.

The "Other securities" item is equally, or still more, comprehensive. It includes the Bank's holding of stocks or shares, any bills that it may have taken from the London market, its loans to private customers or to bill brokers or stockbrokers, and the discounts and advances that it makes in the course of its ordinary banking business at its branches in the country. It will thus be seen that the return in this respect is far from informing, and it is contended, not without reason, that the Bank of England might well set an example of clearness in the account which it presents by separating its loans, its discounts, and its holding of securities as investments.

It may perhaps also be added while we are on this subject of suggested improvements in the Bank of England's return, that it has been frequently suggested that the bankers' balances should be separated from the other items included in the other deposits. It is unlikely, however, that this suggestion will be revived among the other bankers, who were its most important advocates, because it has been borne in upon them that if this reform were carried out the willingness of the Bank of England to lend money at times when emergency credit is required might be very seriously modified. There can be no doubt that at the end of the half-year, when the Bank of England frequently adds 15 or 20 millions to the amount of the bankers' balances, by the loans which it makes to the bill brokers and others who place the credit so created to the account of their bankers at the Bank of England, these bankers' balances must be raised to a level which is considerably above that of the Bank of England's reserve; and it seems more than probable that if the amount of the bankers' balances were separately published, the Bank of England might be unwilling to allow this process to be indulged in with the same freedom.

If this were so, the whole mechanism of the London money market would be modified in a manner which its components would probably find inconvenient, and since this aspect of the case has been recognized the agitation in favor of the separate publication of the bankers' balances has been practically dropped.

The last two items among the assets of the banking department contain what is usually called the "Bank of England's reserve." It is not a reserve in the ordinary sense of the word, accumulated profits held as a reserve fund. That we find among the liabilities under the name "rest." When reference is made to the Bank of England's reserve, what is meant is its holding of cash in the banking department. This cash consists very largely of the Bank of England's notes issued by the issue department. It will be observed that in the return before us the notes issued, the liability of the issue department, amount to nearly 56 millions, while the notes held by the Bank in the banking department amount to 27¼ millions. Subtracting one item from the other, we find that some 28¾ millions was the amount of the Bank's actual note circulation. It thus appears that a very large proportion of the cash held by the Bank of England to meet demands upon it consists of the liabilities of its issue department, and the system of treating a liability as an asset, which has been academically criticised above in the case of the Scottish banks, is thus practiced by the Bank of England. But there is this important difference between the two cases. The Scottish banks, as was shown by the evidence of their own representatives, take advantage of their note-issuing privilege to economize metal to the extent of 8 or 10 millions. And so it follows that their holding of actual cash is decidedly low when compared with their liabilities against notes and deposits. The Bank of England, on the other hand, habitually holds a very high proportion of cash. In the return given above its liability on notes outstanding is £28,672,000, taking the notes issued less those held by the banking department as an asset, and its liabilities on public and other deposits and seven-day and other bills come to £57,170,000, making a total of £85,842,000. Against these liabilities it holds in its two departments £39,172,000 in coin and bullion, the proportion being thus over 45 per cent. In the case both of the Scotch banks and of the Bank of England the cash held against notes is regulated by law, and above a certain limit each note issued must be represented by bullion. But the Scotch banks have developed deposit banking facilities to an extent which has made their total cash holding small in proportion to their total liabilities on notes and deposits, while the Bank of England, owing to the high proportion that it maintains against the liabilities of its ordinary banking business, still shows in the return given 45 per cent of cash against its notes outstanding and its liability on deposit and drafts, which compares very favorably with the proportion that we found in the hands of the Scotch banks.

At the same time, though, as compared with Scotch practice, the Bank of England's ideal is a high one. The fact that the reserve of its banking department (held against the liabilities which include the balances of the other banks which are an important part of the basis of English credit) consists largely of its own paper, which is based to the extent of about one-third on government debt or securities, is an example of credit based on credit that is sometimes pointed to as a too successful extension of the economy of metal which, within due limits, is one of the most important functions of modern banking. And there is a strong feeling among the English banking community that the Bank's fiduciary issue should be gradually abolished, and that the Bank of England note, which is now held largely as a reserve by the Bank of England and the other banks, also has become part of the basis of credit, should be, actually and in fact, a bullion certificate.

The amount of the Bank of England's reserve, as shown in its weekly return, is an item of the utmost importance to those who have to forecast the condition of the London money market. The amount of the reserve is now rarely allowed to fall below 20 millions, though there are many still alive who can remember the time when a 10-million reserve was considered an adequate amount. When gold is taken from the Bank, it follows that the notes issued against it by the issue department are canceled, and thus the amount of notes held among the assets of the banking department are canceled likewise. The export of gold so immediately reduces the reserve of the banking department and lowers the proportion between it and the Bank's liabilities on public and other deposits and seven-day bills. Both the amount of the reserve and its proportion to liabilities are carefully watched by the bank court, and any serious reduction in them is met by measures described above, viz, the raising of its official rate, accompanied, if necessary, by the borrowing process by which, as has been shown, the Bank of England frequently has to make its rate effective.

(B) THE ENGLISH JOINT STOCK BANKS.

With regard to the provisions laid down by the law for the organization and working of the ordinary English joint stock banks, it may be said that, except with regard to note issue and one or two quite unimportant details, no special provisions are made; and it has already been shown that the note issues of the English banks, apart from the Bank of England, are now a quite negligible quantity, averaging something under half a million; and since no joint stock bank with an office in London can possess the right of note issue, it follows that all the great English banks, which necessarily from their position must have an office in London, are debarred altogether from note issuing. Nevertheless, for the sake of completeness, it would be as well to state the nature of the restrictions upon the right of note issue which govern those of the few country joint stock banks which still maintain them.

By the act of 1844 it was laid down that no banking company in England which did not then possess the right of issue could acquire it, and that those which then exercised it could not under any circumstances increase their note issue above the limit laid down by the act, which was based on the average of its circulation during the twelve weeks preceding the 27th of April, 1844. The right of issue might only be exercised outside a circle drawn around London with a radius of 65 miles, within which the Bank of England's monopoly was protected against competition by other joint stock companies.

In order to exercise the privilege, a bank must annually take out a license subject to a duty of £30, a separate license being necessary for every place at which notes are issued. In respect of the note issue, the law thus laid down an absolute limit upon English banking, and also made strict regulations for the presentation of returns showing that it had not been exceeded. The bank charter act provides that a weekly return shall be sent to the commissioners of stamps and taxes, giving an account of the circulation of bank notes on every day during the previous week, and also the average amount of the circulation, and at the end of every period of four weeks an average circulation during the four weeks is to be stated, and also the amount of notes which the Bank is authorized to issue under the act.

These returns were to be published by the commissioners in the London Gazette, and though, owing to the supersession of the note by the check, they have no practical value as a statement of English currency movements, these returns do still make their appearance in the Gazette, an official publication which is read only by those in search of curious information. It may be added that any neglect of the duty of presenting this return to the commissioners, or any falsification of the accounts, render the Bank liable to a fine of £100. Under the act the commissioners have the right to inspect the books of the noteissuing banks, but this right does not appear to have ever been exercised.

Before leaving the subject of notes, we may add that the limitation of liability on bank shares does not apply to the liability under notes. But here again, owing to the insignificant dimensions of the note issue of the English banks, this provision is of no importance. Under the provisions of the joint stock companies acts, which apply to all joint stock companies as such, the English joint stock banks have to furnish to the registrar of joint stock companies an annual list of shareholders in the company, with their names, addresses, and occupations, and the number of shares held by them. A banking company must add to this list a statement of the names of the several places in which it carries on business. The register of members is to be kept at the registered office of the company, and any shareholders in a joint stock bank can claim to inspect the list during business hours.

A special provision with regard to the purchase and sale of bank shares on the stock exchange was laid down by a statute, commonly known as Leeman's Act, which provides that all contracts and claims for sale and purchase in the shares of joint stock banking companies shall be null and void unless they shall set forth the numbers of the shares transferred. The object of this provision was to prevent attacks on the credit of banks, which might have serious results from the public point of view, by means of bear sales on the stock exchange. Its practical result was that nobody could sell a bank share unless be possessed them or could borrow them from some actual holder, and so was able to give the numbers of the shares at the time when the sale was effected; and it was thus made impossible by means of fictitious sales, with a view to repurchase before the completion of the bargain, to give any appearance of weakness to the position of a bank.

With regard to the liability of directors and officers, the banks are again subject to the ordinary law of joint stock companies. Under this law it is permitted to companies to provide under their memorandum of association that the liability of the directors shall be unlimited, but this provision is rarely, if ever, made use of. The directors of a company, being to all intents and purposes a specially elected committee of shareholders appointed to manage its affairs in the interests of the company as a whole, thus undertake certain duties and responsibilities to which the law expects them to apply reasonable diligence and care. They are bound to account to the company for all profits, and are responsible for any losses that may be incurred by their acting ultra vires, or by their willful misconduct, or by negligence. Innocent mistake does not appear to render them liable, and they are entitled to place a reasonable amount of confidence in the officers of the company.

In the course of giving judgment on a case which is quoted by Dr. Heber Hart in his work on the law of banking, Dovey *v.* Cory, the Lord Chancellor made a statement containing the following remarks:

"The charge of neglect appears to rest on the assertion that Mr. Cory like the other directors did not attend to any details of business not brought before them by the general manager or the chairman, and the argument raises a serious question as to the responsibility of all persons holding positions like that of directors, how far they are called upon to distrust and be on their guard against the possibility of fraud being committed by their subordinates of every degree. It is obvious if there is such a duty it must render anything like an intelligent devolution of labor impossible. Was Mr. Cory to turn himself into an auditor, a managing director, a chairman, and find out whether managers, auditors, and directors were all alike deceiving him? I can not think that it could be expected of a director that he should be watching either the inferior officers of the bank or verifying the calculations of the auditor himself. The business of life could not go on if people could not trust those who are put into a position of trust for the express purpose of attending to details of management. If Mr. Cory was deceived by his own officers there appears to me to be no case against him at all. The provision made for bad debts, it is well said, was inadequate, but those who assured him that it was adequate were the very persons who were to attend to that part of the business, and so of the rest."

At the same time the law appears to lay down that the trust reposed by directors in others must not be blind or unqualified or to the exclusion of the exercise of their own judgment, and they are bound to fulfill the regulations of their own company.

The duties and liabilities of managers are left in a similar state of vagueness as far as the law is concerned. Like the directors the manager has to account to the company for any profits that may accrue to him in connection with his position, that is to say, he must not conduct business on his own account and keep the profits for himself, and he is of course expected to use reasonable diligence and care.

In a case in which a bank manager had obtained a commission for bringing about the amalgamation of two banks, it was stated in the course of the judgment that since he was a manager, bound to consult the shareholders' interests only, he could not retain a pecuniary benefit obtained by him in his character of manager not known to and not sanctioned by the shareholders who employed him.

It has been shown above that special regulations were made for the periodical publication of the liabilities of joint-stock banking companies under their note issue.

Apart from this, the statements of accounts which banking companies have to produce are, with one unimportant exception, merely those laid down by the joint stock companies acts; that is to say, once a year the accounts of every banking company have to be examined by an auditor or auditors. The auditors have to be elected by the shareholders once a year, and have access to the books and accounts of the company at all reasonable times. In the case of a banking company, an investigation into the company's position may be ordered by the board of trade on the application of not less than one-third of the shareholders.

A special form of statement of capital, liabilities, and assets for banking and similar companies was laid down by the companies act of 1862. It provided that every limited banking company and every insurance company and deposit, provident, or benefit society under the act should, on the first Monday in February and the first Monday in August in every year, make and put up in a conspicuous place in every office in which it carries on business a statement showing the capital of the company, authorized, issued, and paid up, and also a statement of assets and liabilities of the company on the first day of the preceding month, drawn up in the following form:

Debts owing to sundry persons by the company—

On judgment.

On specialty.

On notes or bills.

On simple contract.

On estimated liabilities.

The assets being divided into—

Government securities.

Bills of exchange and promissory notes.

Cash at the bankers.

Other securities.

This is the only form in which publicity is imposed by law upon banking in the ordinary sense of the word as it is now understood in England. It need hardly be said that from the form of the statement it conveys absolutely nothing to the ordinary member of the public, and these statutory statements, though they are still put up by the banks in their offices, with more or less modification from the original form, are perhaps the only statements issued by them to which no attention whatever is ever paid. Custom has made the banks publish the accounts and balance sheets which the law only compels them to lay before their shareholders in general meeting. Appended is a specimen of the balance sheet and profit and loss account of the Union of London and Smiths Bank, which is selected by reason of the fact that it presents its position with unusual detail.

THE UNION OF LONDON & SMITHS BANK (LIMITED).

Statement of accounts for the half year ending December 31, 1908

GENERAL BALANCE.

LIABILITIES.

	£	s.	d.	£	s.	d.
Capital subscribed, £22,934,100, in 229,341 shares of £100 each; paid up, £15 10s. per share				3,554,785	10	0
Reserve fund invested in consols, local loans stock, and Transvaal government 3 per cent guaranteed stock, as per contra				1,150,000	0	0
Current accounts	25,116,492	19	4			
Deposit accounts	10,759,370	8	0			
				35,875,863	7	4

	£	s.	d.	£	s.	d.
Acceptances and guaranties				3,461,362	2	1
Liabilities by indorsement on foreign bills sold				24,268	11	7
Other liabilities, being interest due on deposits, unclaimed dividends, etc				563,352	1	11
Rebate on bills not due				29,077	5	11
Profit and loss—						
Balance brought forward	193,839	17	7			
Net profit for the half year ending December 31, 1908	174,507	6	3			
				368,347	3	10
				45,027,056	2	8

ASSETS.

	£	s.	d.	£	s.	d.
Cash in hand	3,353,635	6	10			
Cash in Bank of England	3,528,438	12	2			
				6,882,073	19	0
Money at call and at short notice				6,933,965	2	0
Investments:						
Securities of and guaranteed by the British Government	2,939,312	7	11			
India stock and Indian Railways guaranteed bonds	313,098	6	10			
English corporation stocks, railway and waterworks debenture and preference stocks, colonial stocks, foreign government and railway debenture bonds	1,748,753	4	8			
Other investments	94,915	13	0			
	5,096,079	12	5			
Reserve fund (£567,000 consols; £515,500 local loans stock; £207,600 Transvaal government 3 per cent guaranteed stock)	1,150,000	0	0			
				6,246,079	12	5
Bills discounted:						
(*a*) Three months and under	3,978,249	15	1			
(*b*) Exceeding three months	450,511	13	9			
				4,428,761	8	10
Loans and advances				15,456,759	15	1
Liabilities of customers on acceptances and guaranties, as per contra				3,461,362	2	1
Liabilities of customers for indorsements, as per contra				24,268	11	7
Bank premises, chiefly freehold (at cost or under)				1,455,879	4	1
Other assets, being interest due on investments, etc				137,906	7	7
				45,027,056	2	8

PROFIT AND LOSS ACCOUNT.

	£	s.	d.	£	s.	d.
Interest allowed to customers				171,864	6	6
Salaries, contributions to pension fund, and other expenses at head office and branches				215,749	4	9
Rebate on bills not due				29,077	5	11
Dividend on 229,341 shares at 15s. 6d. per share, equal to a rate of 10 per cent per annum	177,739	5	6			
Balance, being undivided profit carried forward to the next half year	190,607	18	4			
				368,347	3	10
				785,038	1	0
Profit unappropriated on June 30, 1908				193,839	17	7
Gross profit for the half year ending December 31, 1908, after making provision for all bad and doubtful debts and payment of income tax				591,198	3	5
				785,038	1	0

FELIX SCHUSTER, *Governor*,
JOHN TROTTER, *Deputy Governor*,
HENRY J. B. KENDALL,
Directors.
J. E. W. HOULDING, *Manager*.
C. H. R. WEIDEMANN, *Chief Accountant*.

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF THE UNION OF LONDON & SMITHS BANK (LIMITED).

We have audited the above balance sheet with the books at the head office and with the returns from the branches. We have satisfied ourselves as to the correctness of the cash and have verified the investments held by the bank, the securities held against money at call and short notice and the bills discounted. We have obtained all the information and explanations we have required. In our opinion such balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of our information and the explanations given to us and as shown by the books of the company.

WM. B. PEAT,
C. W. M. KEMP,
ARTHUR F. WHINNEY,
Auditors.

It will be observed that the above balance sheet shows the bank's deposit and current accounts separately stated, whereas the other joint stock banks put them together in one item. It also states separately cash in hand and cash at the Bank of England, though its competitors give them also in one item. It separates its loans and advances from its bills discounted, though many, but not all, of the other joint stock banks put these items together. Many of the country banks do not even show a separate statement of their cash in hand. In the appended specimen of a north country bank's balance sheet it will be observed that the cash in hand is included with the cash at call and short notice, that is to say, cash that has been loaned, and, though probably easily recalled if required, is not actually in the bank's possession.

LIABILITIES.

	£	s.	d.	£	s.	d.
Capital				300,000	0	0
Reserve fund				305,000	0	0
Notes in circulation				5,520	0	0
Unpaid dividends				204	5	0
Amount due by the bank on current accounts, deposits, drafts on London agents, etc				3,837,794	9	3
Rebate on bills and interest on deposits				11,838	14	10
Balance of profit and loss account	39,738	16	4			
Less interim dividend paid in August last	15,000	0	0			
				24,738	16	4
				4,485,096	5	5

ASSETS.

	£	s.	d.	£	s.	d.
Cash on hand, at call, and at short notice				815,846	12	0
£250,000 consols	207,500	0	0			
Other British government securities	215,660	7	6			
Colonial government, English railway debenture, and other stocks	381,099	10	7			
				804,259	18	1

	£	s.	d.
Bills on hand	657,423	12	2
Advances on current accounts, loans, etc	2,165,566	3	2
Bank premises at Halifax and branches	42,000	0	0
	4,485,096	5	5

Custom has also induced many of the chief joint stock banks to issue a monthly statement of assets and liabilities, which is more or less based upon the statutory form referred to above, though amplified and made to some extent more informing.

Appended is a summary and analysis of all these statements taken from the Times newspaper in the form in which it publishes them once a month. These statements give the position of the various banks on one day at the end of each month. The day in question is chosen by each of the banks, and the dates on which they make up their statements range over the last week or ten days of each month.

Banks' monthly statement.[a]

Bank.	1. Deposits, etc.	2. Acceptances, etc.	3. Cash in hand and at Bank of England.	4. Cash at call and notice.	5. Proportion of column 3 to column 1.	6. Proportion of column 3 to columns 1 and 2.
	£	£	£	£	P. ct.	P. ct.
Capital and Counties	35,395,302	557,524	5,515,924	7,241,053	15.6	15.3
Lloyds	72,443,932	3,662,597	12,187,917	6,265,454	16.8	16.0
London Joint Stock	28,507,780	1,400,358	3,566,847	5,301,915	12.5	11.9
London and County	43,866,938	3,153,873	6,868,436	3,666,969	15.7	14.6
Daily average			7,033,194			
London City and Midland	64,850,909	4,944,508	10,753,256	7,610,117	16.6	15.4

[a] Published in the Times of March 16, 1909, showing the position of the banks at the end of February.

Banks' monthly statement—Continued.

Bank.	1. Deposits, etc.	2. Acceptances, etc.	3. Cash in hand and at Bank of England.	4. Cash at call and notice.	5. Proportion of column 3 to column 1.	6. Proportion of column 3 to columns 1 and 2.
	£	£	£	£	*P. ct.*	*P. ct.*
London and Southwestern	14,591,267	27,770	2,174,837	1,417,330	14.9	14.9
London and Westminster	22,346,851	1,282,281	2,901,403	5,275,375	13.0	12.3
National	12,503,210	1,396,937	1,710,515	2,004,880	13.7	12.3
National Provincial	57,294,363	721,113	9,134,694	4,006,461	15.9	15.7
Parr's	29,590,810	2,863,163	4,846,446	4,826,385	16.4	14.9
Union of London and Smith's	34,465,600	3,503,806	5,565,248	6,542,785	16.1	14.7
Williams Deacon	13,301,799	662,925	2,134,745	1,062,424	16.0	15.3
Total	429,158,771	24,176,855	67,360,268	55,221,148	15.7	14.9
A year ago	397,312,472	24,685,002	61,639,802	45,795,482	15.5	14.6

It is well known that some of the banks call in loans or allow bills to mature without renewing them, in order to show a reasonable proportion of cash in hand in these statements, and in so far as this practice is carried out, the statements are obviously misleading, since they do not show what the position of the bank has been during the month covered, but only upon a certain day in it. And since they are not all made up on the same day, it is thus possible for cash to be called in by one bank for one day, released by it the next day, and passed on to figure in the statement of a competitor; and the system, which was inaugurated at the request of Lord Goschen after the crisis of 1890 in order to insure the greater publicity which he saw to be necessary, has thus led to a certain amount of abuse, and the practice of what is commonly spoken of in Lombard street as "window dressing."

It is commonly urged that these statements would be much more valuable and give a much truer idea of the position of the several banks if they showed the position, not on any one day, but gave the average figures for the preceding period. It is, however, very difficult to bring about reform in this matter, because the banks which publish these periodical statements naturally retort that they see no reason why they should give further publicity as long as many of their competitors issue no such statements at all.

None of the private banks make these periodical statements, and a great amalgamation of them which was converted into a joint stock company in 1894 has not joined the ranks of those which produce monthly statements. So far the only effect of the agitation has been that the London and County Bank publishes the daily average of its cash holding, as well as its cash holding on the day on which the statement was made up, and it seems unlikely that anything further will be done until all the other banks in England have been induced to agree to give a similar amount of publicity.

The specimen of a country bank balance sheet given above shows that even at the end of the half years when all joint stock companies do make a public statement, the important item of cash in hand is not separately given. There is only too good reason to believe that the many country banks which thus conceal the most important item in their position make use of this concealment to work on an extremely narrow cash basis. The following statement was made by a president of the Bankers' Institute who, as chairman of the largest joint stock bank in England, may be taken to have had exceptional opportunities for the exploration of banking accounts. He spoke as follows:

"I may add that a joint stock bank which came into our fold some years ago, whose reputation and position were second to none in the Kingdom, and justly so, too, and was a model of good management in other respects, employed every farthing they possessed, save and except what they required for till money, up to the hilt every day; feeling sure that by means of their investments, which were gilt-edged though not consols, they would always be helped over the stile if pressure came. And that, I may say, is not an exceptional case."

It follows from this state of things, under which country banks, competing keenly in the provinces with the branches of the great London institutions, keep practically no cash reserves at all, that the agitation for more complete and genuine publicity on the part of the great London banks is to some extent unfair, and that reform, if any could ever be carried out, should first apply itself to compelling all the banks to make clearer periodical statements. In this matter the law might well intervene by insuring due publicity and uniform statements from all banks in England. In other respects its regulations might very probably be harmful, but it could not be asking too much from the banks if it compelled them to show periodically genuine statements of their position, giving the averages of the period covered, as is done by the New York banks.

With regard to the liability of shareholders, the law again makes no definite regulation, but it is the general custom for English joint stock companies to have a comparatively small amount of their capital actually paid up, so that there is a heavy reserve liability which can be called in in case of liquidation. All the chief joint stock banks are now registered under limited liability. Since the reserve liability involved by the fact that only a small proportion of their shares is paid up is an important item in their credit, it follows that the directors of banking companies exercise a considerable amount of care concerning the persons into whose names their shares are transferred. They have the right to refuse transfers of shares into the names of persons of whose financial ability to meet the liability in case of need they are not sufficiently assured, and this right is frequently exercised.

It will be observed that the above regulations make no provision with regard to capital and reserve funds, the amount of which is left entirely to the discretion of those responsible for the bank's affairs, and that there is no provision for any inspection, supervision, or examination by government officials, except in the case of those country banks which still retain the right of note issue.

(C) THE PRIVATE BANKS.

Proceeding to the private firms, we find that as far as they are concerned the law has practically nothing to say, always excepting the case of those few country institutions which retain the right of note circulation, with regard to which the regulations are the same as those enumerated for the joint stock companies. Private firms have to make a statement to the Government of the names and addresses of their partners. The number of their partners, which was not to be more than six at the time of the Bank of England's original charter, has now been raised to a possible ten. Above that number they have to register as joint stock companies. There is no provision of any kind for any statement of their assets and liabilities, and though most of them do, in fact, publish half-yearly or yearly balance sheets, there are still one or two private banking institutions which never make public any statement whatever concerning their position. Appended is a balance sheet of a leading private banking firm:

Forty-ninth statement of assets and liabilities of Glyn, Mills, Currie & Co., December 31, 1908.

LIABILITIES.

	£	s.	d.	£	s.	d.
To capital paid up				1,000,000	0	0
To reserve fund				500,000	0	0
To current accounts				10,750,630	13	10
To deposit accounts				4,550,465	14	9
To reduction of the bank premises account				41,847	8	7
Memorandum.						
Liabilities on account of acceptances, indorsements, etc. (covered by securities), not included in balance sheet	1,218,544	8	7			
				16,842,943	17	2

ASSETS.

	£	s.	d.	£	s.	d.
By cash in hand and at Bank of England				2,064,020	2	0
By money at call and at short notice				5,251,750	0	0
By investments:						
Two-and-a-half per cent consols (£1,219,513 at 82)	1,000,000	0	0			

By investments—Continued.						
Transvaal Government 3 per cent stock (£537,635 at 93)	£ 500,000	s. 0	d. 0			
	1,500,000	0	0			
Securities of, or guaranteed by, the British Government	1,049,757	15	4			
Government of India and colonial government securities	95,121	0	0	£	s.	d.
				2,644,878	15	4
By bills discounted, loans, and other securities				6,512,294	19	10
By bank premises (freehold)				370,000	0	0
				16,842,943	17	2

L. CURRIE,
M. G. C. GLYN,
Managing Partners.

JANUARY 11, 1909.

AUDITOR'S CERTIFICATE AND REPORT.

In accordance with the provisions of subsection 2 of section 19 of the companies act 1907, I report that I have examined the above balance sheet with the books of the bank, I have obtained all the information and explanations I have required, and I am of opinion that such balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the bank's affairs according to the best of my information and the explanations given to me, and as shown by the books.

C. W. M. KEMP, F. C. A.,
Public Accountant.

JANUARY 11, 1909.

(D) THE SCOTCH BANKS.

In the case of the Scottish banks the law is very similar in essence to that which governs their English brethren. That is to say, it has laid strict and important regulations upon the note issue, and has left the other important banking functions practically to the discretion of the bankers. But since all the great Scottish banks possess the right of note issue, and regard it as a very valuable asset, whereas in the case of the English banks the note issue is now a negligible part of the banker's function, it will be seen that the regulation laid down by the law is much more important in Scotland than in England. These regulations were largely based upon the principles which dictated Peel's Act of 1844 for regulating the note circulation of the Bank of England and of the English banks. It will be remembered that with regard to English banking Peel laid down that from that time forward no increase in the Bank of England's note issue could be permitted unless backed by an equivalent amount of bullion, and that the English country banks should under no circumstances whatever be permitted to increase their circulation of notes. In Scotland, since there was no leading institution enjoying any monopoly, the regulation which was applied to the Bank of England was applied to all the bankers as a whole. That is to say, the average amount of their circulation was ascertained, and it was laid down that in future any increase in that amount must be backed by an equivalent amount of bullion. It naturally followed from the terms of this act for regulating Scottish banking, passed in 1845, that any new bank thereafter created would not have the right of note issue and the result of this was that the then existing banks were given what amounted to a joint monopoly of the banking field in Scotland.

This fact has no doubt to some extent accounted for the completeness with which the Scottish banks have been able to make a hard and fast combination among themselves with regard to the rates at which they are prepared to do business with their customers. It has protected them from competition, either by any new rival who might arise or by any English bank which might be bold enough to cross the border. It is not for a moment suggested that the Scottish banks have in any way abused the joint monopoly which was thus conferred upon them; it is only implied that the fact of this monopoly has enabled them to work together in a manner which has been found quite impossible by their English counterparts.

To proceed to the details of the act, it may be observed that the average circulation of each bank was arrived at from the figures for the year preceding the 1st of May, 1845. On the basis of these figures the commissioners of stamps and taxes were instructed to give each of the banks a certificate stating the amount of notes which they might in future issue without holding any gold or silver against it, this amount being called the authorized circulation. Above this line each bank must hold gold or silver coin to an amount equal to the excess, and the silver was not allowed to exceed one-fourth of the gold—that is to say, one-fifth of the total bullion held.

The excess circulation was to be arrived at upon an average of four weeks. Weekly accounts had to be rendered to the commissioners of stamps and taxes stating the amount of notes in circulation on the previous Saturday, the gold and silver coin held at the head office of the bank on each day of the week ending on the same Saturday, and the gold and silver coin held at the close of business on that Saturday. At the end of each successive period of four weeks each bank had to show the average amount of circulation during the four weeks and the average amounts of gold and silver coin held at the head office during the four weeks.

The commissioners were instructed to publish these accounts in the London Gazette, and they are also published in the Edinburgh Gazette.

The commissioners of stamps and taxes were empowered to inspect the books and papers of the banks, and to examine the amount of coin held by them at all reasonable times; but this right of inspection never appears to be exercised.

It may be added that, as in the case of the English joint stock banks with a right of note issue, the liabilities of Scottish bank shareholders, in banks which are under the limited liability acts, is unlimited with regard to note issue. Three of the oldest of the Scottish banks, which were organized under charters, are believed to involve no further liability to their shareholders beyond the amount paid up on the shares, but, as in the case of the Bank of England, there is a certain amount of doubt with regard to the question of liability on shareholders.

The Scottish banks regularly publish annual balance sheets, but the system of monthly statements adopted by most of the leading English banks has not penetrated north of the Tweed.

CHAPTER III.

THE BANKING BUSINESS IN ENGLAND AND SCOTLAND.

(A) ENGLISH ARRANGEMENTS.

The general nature of the business done by the English banks consists as elsewhere in taking care of money for one set of customers and lending it to another, a certain proportion being held in cash or invested in marketable securities. In England the bankers are also the chief creators of currency, since by means of the loans that they make in the form of advances and discounts they create deposits for themselves and one another against which the checks are drawn which form by far the most important part of English currency.

As a rule it may be said that whatever be the class of community for which each bank or banking branch is providing facilities, the customers to whom it lends will be chiefly the producing and mercantile classes, and the customers for whom it takes care of money will be the investing classes, that is, the professional, land-owning, and propertied classes, though it will also hold the current balances of the producers and distributors, who are as a rule the most important borrowers.

Owing to the rapid extension of banking by branches, the business in England has lately been democratized to a very remarkable extent. Not many years ago some banks deprecated the drawing of checks by their customers for a smaller amount than £5; nowadays the check is frequently used for the settlement of the smallest retail transaction, and is even drawn for sums smaller than £1. By this development, the alleged advantage of the Scottish banking system, which provides its customers with a credit instrument in the shape of the £1 note, has been largely done away with, since the flexibility and adaptability of the check give it obvious advantages.

The business done by the English banks in the provinces is with all classes, from the small farmer or shopkeeper in rural districts to the large merchants and manufacturers in centers such as Liverpool and Manchester. In all districts they also provide banking facilities for what may be called the private or investing classes, but in their case, as has already been pointed out, the banker acts chiefly as the custodian or guardian of money, while in the case of the mercantile and producing sections of the community he also acts as its provider, making credit and currency for them by means of loans and discounts.

With regard to the rates charged, it is impossible to lay down any rule which would not at once be overwhelmed by exceptions. Banking in England is infinitely flexible. It adapts itself to the case of every borrower and takes into consideration both his standing and the security offered. The arrangements that it makes with its depositors are to a greater extent regulated by use and wont, but even in their case it would be misleading to make too definite statements. Arrangements very frequently vary in accordance with the length of time for which the deposit is placed with the bank, and are sometimes modified by the keenness and business acumen of the depositor, who is occasionally able to squeeze his banker by hints at more favorable accommodation to be obtained from competitors.

The liabilities of banks to the public—that is to say, the money that they receive and take care of for it—are divided into current and deposit accounts. Current accounts are held by the banks on behalf of every kind of customer. Anybody, that is to say, who wishes to make use of banking facilities opens a current account with his banker, either by paying in cash or credit instruments, or by obtaining a loan from the banker, and uses this current account in order to draw checks against it for the purposes of his business if he be a business man, or for his necessary purchases if he be a private investor living on accumulated or inherited capital. This class of account is clearly a convenience provided by the banker to the customer; the checks drawn by the customer involve a large amount of clerical work on the staff of the bank, and unless the account is habitually kept at a sufficiently remunerative level no interest can be allowed upon it by the banker; most banks stipulate that unless the balance is maintained at at least £100 the customer must pay, for the facilities given by means of it, either a regular payment at the end of each half-year or a small commission upon the turnover.

When the current account is provided by means of a loan from the bank, the charge or commission is still made over and above the interest on the loan, and when there is no definite arrangement of a loan, but a customer is allowed to draw checks up to a certain amount by way of overdraft, the commission is charged as well as the rate of interest on the borrowing which the overdraft represents.

Proceeding to the deposit accounts, we may say that these chiefly represent temporary investments on behalf of members of the community who have money in hand which they wish to keep readily available. In some cases they are of a more permanent character, being placed by customers who wish always to have funds available without the expense and delay involved by the realization of securities. The rates allowed upon them in London vary roughly in accordance with the Bank rate and are usually $1\frac{1}{2}$ per cent below it. But it must be remembered that special arrangements are often made with the banks by customers who are prepared to place deposits for longer periods than the one week's notice which is always insisted on in theory, though very rarely enforced in practice. If a customer wished to remove deposit funds immediately, very few bankers would refuse to permit him to do so.

In the provinces the rates allowed to depositors do not fluctuate in accordance with Bank rate, but are kept much steadier. As a general rule their minimum is $2\frac{1}{2}$ per cent, probably because this is the amount allowed to depositors by the post-office savings bank, as was noted in an earlier part of this memorandum, so that the keenness with which modern banks compete for small depositors makes it necessary for them rarely to give less than this rate. Bankers, however, though by this custom they frequently give their depositors during periods of cheap money a higher rate than is apparently warranted by the quotations current in the London market, recoup themselves to some extent when money is dearer by the steadiness which they maintain in the rate allowed to country depositors. That is to say, in districts where $2\frac{1}{2}$ per cent is the normal charge it will only be at times when Bank rate is exceptionally high that depositors will receive more than their usual allowance, so that at periods of comparatively dear money the bargain is to some extent on the side of the banker, though here again, as always, it must be remembered that he is liable to be squeezed by the stress of competition and the keenness of customers who are able to make use of it.

With regard to loans and discounts it need hardly be said that their nature is chiefly dictated by the form of business or industry in which the community for which the bank provides facilities is chiefly employed. The bills discounted vary from the promissory notes of customers for the purposes of temporary borrowing to the large trade acceptances of merchants, shipbuilders, etc. According to the nature of the community served, advances made by the bank will be largely against produce and commodities, or against marketable securities; owing to the greater convenience and simplicity in handling enjoyed by the latter class of collateral, loans against it are generally made on rather more favorable terms.

In the city of London, the business of which is chiefly finance, it follows that the business done by the banks chiefly consists in providing facilities for financial customers; the bills that they discount are largely those accepted by the great accepting houses or by themselves, or by the other banks, and the advances that they make are largely against marketable securities, or against the bills of exchange brought to them as collateral by the bill brokers and discount houses. The current rates for loans quoted in London may be said roughly to express the price at which the bankers are prepared to make these advances to the bill brokers, and owing to the nature of the security and the standing of the borrower are habitually lower than those charged to any other class of customer.

A large business is also done by the banks in making advances to members of the stock exchange for financing the speculative commitments of the public. These advances are made from one account to another on the London Stock Exchange. The account is the term for the settlements which this body carries out twice in every month, and it thus follows that advances of this kind usually run for about a fortnight. Most of the bankers divide these advances into two classes; one, on which they charge a slightly higher rate, they make to their ordinary stock-exchange customers, the other, on slightly more favorable terms, is arranged with a few leading firms who act as money brokers between the banks and the rest of the stock exchange, borrowing in large amounts from the banks and making a small profit by relending to other members of the stock exchange whose standing and borrowing facilities are not quite so high as their own. Some of the banks, however, do not recognize this distinction, but consider themselves sufficiently well informed concerning the position of all their stock-exchange clients to make advances to them directly without the intervention of an intermediary.

As to the acceptances of the banks, they are largely entered into on behalf of their trade customers and, in so far as this is the case, are confined to bills against genuine produce moving into consumption. A commission of one-eighth to one-fourth of 1 per cent is generally charged by the bank for accepting the bills. Of late years, as has been noted above, the extent to which the banks have entered into the acceptance business has shown a considerable increase, and in the case of some of them the acceptance business done is less of a purely commercial character, involving the handling of a good deal of merely financial paper drawn against securities.

(B) SCOTCH ARRANGEMENTS.

In Scotland the arrangements between bankers and their customers are very similar to those prevalent in England, differences between them being a matter of degree rather than of essence. The cash credit system, which is usually pointed to as a characteristic feature of Scottish banking, has been described in an earlier part of this memorandum, and it was then pointed out that this system of allowing a customer to obtain credit with the assistance of the pledge of a friend is by no means unknown in England, and also that in the chief centers of Scotch banking activity the English system of lending chiefly against definite collateral security is now largely prevalent.

But in the matter of the rates charged there is an important difference between English and Scottish banking, which also has been noted above. It lies in the fact that the Scottish banks form a combination which works together in complete harmony and unanimity. There is no possibility in Scotland for a customer who thinks that he might obtain a higher rate for a deposit or a lower rate for an advance to threaten his banker that he will go across the street to a competitor. The Scotch banks stand together and adhere to the rates on which they agree among themselves as being equitable under the circumstances of the money market. The rates that they allow to depositors they usually regulate more or less in accordance with the London Bank rate, but their minimum is 1 per cent and their maximum is 4 per cent. They make no allowance on current accounts and nothing is allowed to depositors except on money which has remained in the hands of the bank for at least thirty days. The rates at which they will make advances or discount bills are equally definite and determined. They are arranged by the banks in accordance with what they consider to be fair from the rates current in the London discount market, but they do not necessarily fluctuate with London's movements, and when they are altered the alterations are by at least one-half of 1 per cent at a time. When it is remembered that the London discount markets fluctuate by sixteenths of 1 per cent it is at once apparent how successfully the Scottish bankers control the price of the commodity that they deal in. But it must be remembered that the control which they exercise is modified to some extent by the competition of the London money market, since their big customers sometimes resent the hard and fast rules of the Scottish monetary system and go south of the Tweed for accommodation.

(C) ENGLISH BANKING ASSOCIATIONS.

The chief organizations or associations of banks other than clearing houses in England are the Institute of Bankers, the Central Association of Bankers, and the Association of English Country Bankers. Since the functions of these associations are being described by another writer who is intimate with the details of their working, it need only be said here that they have little or no practical power in regulating the manner in which the banks conduct their business. They meet to discuss questions of banking practice, but their power over those of their members who do not choose to follow the conclusions arrived at is practically nonexistent. The only regulating influence in English banking is that of the Bank of England, and it is only exercised occasionally and under exceptional circumstances. Occasions have been known on which the governor of the bank has summoned the manager of one of the banks whose action he thought fit to question and administered remonstrance and rebuke; but such an occurrence is extremely rare. Moreover, as has been shown in earlier portions of this memorandum, the Bank of England intervenes and regulates the price of money in London by means of measures which have already been described, namely, by borrowing in order to make its own rate effective, and raising that rate if it thinks it necessary in the interests of the market as a whole. These measures it has to take more or less frequently, but, nevertheless, they are only taken when the circumstances of the case require it, and at other times the London money market is left practically without regulation, with the result that the keen competition between the bankers causes them to create credit at rates which are barely remunerative to themselves and sometimes have an adverse effect in depressing discount rates and turning the foreign exchanges against London. This lack of cohesion and regulation is a necessary result of the enormous extension of the power and business of what are commonly called the clearing banks,[a] that is to say, the chief joint stock banking companies and the few private banks which survive as important factors in the London money market. They are now the chief manufacturers of credit and currency for London and for England, and since there is no legal restriction whatever concerning the proportion of cash to liabilities that they are obliged to hold, or any other detail of their credit-making business, it follows that they work entirely in accordance with the dictates of their own prudence, their large body of accumulated experience, and the fine traditions which influence the best of them.

The working of the English machine is thus distinguished by extraordinary ease and elasticity, the perfection of which is only marred by this lack of cohesion which makes the machine work perhaps rather too easily in normal times and in periods of pronounced monetary abundance. In times of difficulty, when the Bank of England is taking measures to obtain control, the clearing banks usually support it loyally, and work with a view to assisting the objects which it is trying to secure. But in normal times the lack of cohesion sometimes results in over-financing, which has unfortunate subsequent effects. It is clearly desirable that the cooperation between the Bank of England and the clearing banks, which is generally found in times of difficulty, should be extended to the periods of more normal conditions. And it may also be said that some closer agreement with regard to the rates charged among the English banks is perhaps desirable on the lines of the Scottish model, but with less cast-iron inflexibility.

[a] Literally this phrase means the banks which are members of the clearing house.

(D) CONCLUSION.

In summing up the aspects of English banking, we may point, as its most obvious feature, to its complete freedom from restriction and regulation by the law of the country. English bankers are all agreed, and most critics who have studied the flounderings of Peel's Act of 1844 will probably agree with them, that this absence of legal restriction has been of very great benefit to English banking. By a fortunate coincidence the restrictions which Peel's Act attempted to impose actually assisted the banks to proceed along a higher line of development. Peel's Act laid down arbitrary restrictions on the issue of notes, with the result that English banking turned its attention to the development of the most perfectly flexible and adaptable credit instrument, the check. From the experiences of the English system the conclusion would seem to emerge that in a civilized and well-ordered community the less banking is restricted by the legislature the more satisfactory and adaptable its progress is likely to be. At the same time, from the great difficulty that has been experienced by the leading English bankers in inducing the smaller and weaker banks to follow a high ideal of business, it may be concluded that there is one regulation which legislatures could with excellent and wholesome effect lay down upon banking. For the smaller and weaker English banks have been tempted to follow principles which would be dangerous if adhered to by the banking community as a whole, by the complete absence of publicity under which they work. We have seen that the law only requires them to make a wholly unmeaning declaration twice a year, and though they do in fact publish yearly and half-yearly balance sheets, many of them make these statements useless as a guide to their actual position by omitting to state separately the amount of their cash in hand or with other bankers. If the law obliged all bankers in England to publish a uniform balance sheet, or at any rate a balance sheet showing the amount of their cash in hand, and if at the same time regulations were made by which "window-dressing" operations for these balance sheets were impossible, there is no doubt that an important weak spot in English banking would be eliminated.

And the conclusion may thus be arrived at, from the experience of England, that the less the law does for banking the better, except that it is desirable that it should insist upon universal and genuine publicity being applied to the banking community, and that bankers should all be made to show their position, not only on a certain day, but by means of averages, throughout the period covered by the statement. The fear of external criticism among bankers is so great, and the fact that they depend upon the confidence of the public is so clearly grasped by them, that if the amount of publicity implied be only full enough, and if the tests applied to the genuineness of the statements are only sufficiently complete, there seems to be good reason to expect that bankers will, if otherwise left to themselves, take the best possible care of the business that they conduct for their own shareholders and for the community.

Chapter IV.

THE LONDON STOCK EXCHANGE.

(A) THE INSTITUTION OF THE JOBBER.

In several important respects the London Stock Exchange differs widely from similar institutions in other centers; but the most characteristic feature of its organization lies in the division of its members into two classes, brokers and dealers, the latter being more commonly described as jobbers. The broker, as such, buys or sells securities on behalf of another party, who is called his client and pays him a commission; the dealer or jobber provides the market to which the broker applies, the former being prepared to buy or sell any of a certain number of securities in which he specializes and trusting to cover his bargains at a profit by "undoing" them, as it is called, with another broker or jobber.

The broker, of course, is a constant feature on all stock exchanges. He executes the orders of the general public, buying and selling securities on its behalf, arranging their delivery when the bargains are real, or their financing when the dealings are speculative, and charging a commission for his work. The institution of the jobber is peculiar to London, and his existence makes the whole aspect and organization of London's business unique in this respect. In other centers the place of the jobber is supplied, to some extent, by "room traders," by members who specialize on certain securities; but as definitely organized into a separate group, the jobber is only to be found in London. The floor of the London Stock Exchange is divided into groups of these jobbers, who are always to be found in a particular place. Each group constitutes a market in a special class of securities—British government stocks, foreign government bonds, American railroad stocks, South African mining shares, etc.—so that any broker who receives an order to buy or sell any security dealt in in London can walk straight to a certain place in the stock exchange, knowing that he will there find a knot of jobbers prepared to buy or sell it, at a price, and to name the prices at which they will buy or sell before they know which they are to be asked to do. Hence it follows that when asked to name a dealing quotation, they always give a double price, meaning that they will buy at the lower or sell at the higher, trusting to cover the bargain at a profit by means of the margin in their favor which the double price gives them.

The extent of this margin varies according to the freedom of the market in the security that is dealt in. In the case of securities of average marketability in London, such as British and American railway stocks and foreign government bonds, the margin usually quoted is one-fourth of 1 per cent. Thus the quotation for London and Northwestern Railway stock would be 131¼, 131½; for Erie shares, 38 to 38¼; for Russian fives, 99½, 99¾. But in actual dealing, as will be shown later, a skillful broker will probably impel his jobber to come a little closer—that is, to name a rather narrower margin, three-sixteenths or even one-eighth of 1 per cent. In the case of a stock like British consols, the market in which is especially free, the usual quotation gives a margin of one-eighth of 1 per cent—84⅜ to 84½; and when it is a question of mining and industrial shares of small denomination, which are quoted on the basis of so much per share and not in hundreds of stock, the margin is often reduced to 3d, or even less. For instance, the share of the British South Africa Company will be quoted at 29s. to 29s. 3d., because it is evident that a small margin enables the dealer to make a big profit when it applies to each share in every hundred turned over.

The profit made by the jobber or jobbers by means of this margin is called his "turn," and it obviously averages half the margin. If a jobber knows that a stock is changing hands in the market at 99½, he will make his price to a broker who comes to him 99⅜, 99⅝, and having bought at 99⅜ or sold at 99⅝ expects to even himself at 99½. In the case of a mining share his turn may thus only amount to 1½d.; but in the first case he makes a turn of one-eighth of 1 per cent on each £100 stock; in the second he makes 1½d. on each share. Thus if he deals in £1,000 stock he earns ten-eighths of 1 per cent, £1, 5s. 0d.; if in 200 mining shares his turn will be 300d., £1 5s. 0d. again. In the case of securities seldom dealt in, and in which the market is consequently not free, the margin between the buying and selling quotation will be 1 per cent or more, because the chance of the jobber's being able to cover himself quickly and at a profit is obviously lessened by the comparative rarity of sellers and buyers. And sometimes when the market in securities is especially narrow, jobbers do not attempt to "make prices"—that is, to name two quotations at which they are prepared to deal outright—but negotiate the purchase or sale for the broker (who then has to disclose the nature of his business), and charge a "turn" for their trouble and special knowledge.

Illustrating this peculiarity of London Stock Exchange business by a concrete example, we may imagine that a broker receives an order from a client to buy 100 shares in the Union Pacific Railroad. He goes to that part of the "house," as the stock exchange calls itself, in which a seething mass of shouting jobbers is gathered who constitute the American market. He is promptly accosted by one of the jobbers and asked if he has anything to do, and replies that he wants to deal in a few Unions. The jobber, knowing that the current price of Unions is 198¼, intimates that he will buy at 198⅛ and sell at 198⅜; this he does by merely naming the two fractions "an eighth, three-eights," since the figure is supposed to be already known to the broker. The latter by merely looking expectant, or by showing an inclination to move on to another jobber, or by asking his jobber to "come closer," generally induces the latter to quote a narrower margin. "Three-sixteenths, three-eighths," says the jobber, guessing him to be probably a buyer. The broker shakes his head and goes on to another jobber, and finally either succeeds in getting his shares at 198$\frac{5}{16}$, or at least satisfies himself that 198⅜ is the best that he can do for his client.

The broker is thus protected by the fact that the jobber does not know, when naming his price, whether he will be made to buy or sell the shares, for, having made the price, he is bound to accept the bargain whichever way the broker may declare himself; and, as has been shown, the broker, unless he definitely asks for a price to be made on a certain basis, can always go from one jobber to another trying to get a price made which suits his client's business. Competition between one jobber and another enables the broker to deal on the narrowest possible margin, and tends continually to reduce the "turns" which the jobbers earn.

It must be noted that when a jobber makes a price without the number of shares or amount of stock being stated, he is bound to deal, in even sums, up to the amount of either £1,000 stock or bonds, or the equivalent in foreign currency; 100 shares of a market value of £1 or under; 50 shares of a market value of £1 to £15; 10 shares of a market value of over £15; or 100 American shares of $100.

If, when the jobber has named his original price, the broker asks him to "come closer," the former is at once released from his obligation to deal at the price originally named. The capacity of jobbers to deal readily and freely, and at close prices, is obviously increased when they are not always anxious to keep their accounts even, and cover every bargain, but are prepared to "run a book" as it is called, taking stock when it is offered freely and being ready to carry it for a time, or if the market is the other way, facing the position of being "short." Their power thus to act as merchants rather than mere dealers has been lessened by the great increase that has taken place in recent years in their number; since the consequent diminution in the volume of business done by each, and the narrowing of turns, has made them less able to take the greater risk involved by running a book. Those who still do so, however, have the advantage of getting more custom from the brokers, and they are thus better able to tell what the outside public is doing in the stocks in which they specialize.

When acting as a pure dealer, the jobber is always liable to the risk that the market may have gone against him before he can undo his bargain. If a number of brokers are buying or selling simultaneously this may easily happen, and the jobber requires a very active and alert intelligence in order to keep closely in touch with the true state of the market. He is not bound to make a price if he is asked to do so, and sometimes when the market is altogether demoralized it happens that jobbers refuse to deal on the system described above. This is quite a rare occurrence, however, and as a rule it is expected of them that they should be prepared to provide a market and take the risks of their position. The jobber's business is on the whole a profitable one, and when the market is active and free he makes profits rapidly, the volume of his turnover fully compensating him for the narrowness of the margin on which he works. His office expenses are small when compared with those of the broker, who has to conduct correspondence with clients, and from the nature of his business he has less reason to fear bad debts; for the jobber, as such, deals only with other members of the stock exchange, brokers or other jobbers, and they have to meet their debts on settling day, or declare themselves defaulters. But the broker deals for outside clients, and if they are unable to meet their speculative losses the broker has to pay and take his chance of recovering the debt by means of legal proceedings.

The justification of the jobber lies in the ease and freedom which his existence imparts to business in London. London's business is so diverse, and the number of different securities there dealt in is so great, that if every broker who received an order had to look for another who wanted to buy what he wanted to sell or vice versa, the work which is now done could never be got through. The English public, which only comprehends the system in a very hazy manner, often blunders into a theory that the jobber is an expensive luxury, and can not understand why it should have to pay the jobber's turn as well as the broker's commission. But in fact the jobber is an ingenious example of the division of labor and without him the brokers would have to charge their clients extra commissions, which would more than make up for the saving of the jobber's turn, and much of the business that is now done readily and quickly could not be got through at all.

In recent years there has been a tendency toward the blurring of the line that divides the two classes of members of the London Stock Exchange. Certain of the brokers have taken to specializing in various securities and making prices in them like jobbers, to the detriment of the business of the latter, and a practice has also now been developed, by which brokers with orders to execute, sometimes find it advisable to do their business with outside firms instead of with the jobbers in the House. This was especially the case with South African shares, large orders in which were frequently transacted with the South African firms, and American bonds in which the Anglo-American houses were often able to provide dealing facilities on more favorable terms than the jobbers. And since the brokers who dealt outside the House received a commission from both parties, it was plausibly urged by the jobbers who opposed the system that it led to their sometimes doing so even when their clients' interests would have been best served by a bargain with a jobber.

While the brokers were thus encroaching on, or ignoring, the jobbers in the transaction of business, the latter were at the same time retaliating by opening business connections outside the stock exchange. The most notable example of this process was the development of arbitrage business between Wall street and the jobber in the American market in London, and of similar transactions between the English provincial stock exchanges and the jobbers in the various markets. Formerly the provincial brokers when they had an order to execute in London sent the order to a firm of London brokers; but many of them gradually adopted the plan of opening up direct relations with a firm of jobbers in each of the principal markets in the London Stock Exchange and doing a business with them, similar to arbitrage in securities with a foreign center, but commonly called "shunting." The provincial broker, being kept advised of the state of the market in London by his allied jobber, bought and sold in Liverpool, or wherever else he might be established, and covered his bargains in London, dividing the profits or losses with the jobber. From the nature of these relations it followed that the provincial brokers were unable to avail themselves of one of the most important safeguards which the English system gives to the London brokers in dealing for their clients, namely, their power of going on from one jobber to another, if they believe that they can so get better terms for their clients. The provincial broker was evidently in the hands of the jobber with whom he entered into relations, and it was consequently contended that his client's business was not done any more cheaply for the elimination of the commission paid to the London broker, which earned for the client the power to take advantage of the higgling of the market.

In any case the tendency by which brokers and jobbers were encroaching on one another's functions and breaking down the boundary which originally divided the two classes of members was noted with strong disapproval by a majority of their number, and led in 1908 to a reaction which produced an amendment of the rules, by which the functions of the two classes were more clearly defined and brokers and jobbers were expressly forbidden to poach on one another's preserves. No alteration was made in the matter of arbitrage transactions with foreign centers, but "shunting" business with provincial exchanges was forbidden. Critics of this reform promptly demonstrated its illogical nature, but the English mind is never afraid of disregarding logic. Jobbers were restricted to their original function of making prices for brokers who came to them with business to do, and brokers were forbidden to do business except with jobbers, unless they had first ascertained that they could thereby buy or sell on more favorable terms, and if they found that they could deal to greater advantage outside, they were forbidden to take two commissions.

These measures were strongly objected to by an important section of the members of the stock exchange, most of the leading firms opposing them. Since these leading firms had built up or increased their business under the freer conditions previously prevalent, it was natural that they should regard as reactionary and undesirable a change which modified these conditions profoundly. But the rank and file of the members took the contrary view, being apparently convinced that the institution of the jobber is a useful and indispensable wheel in London's machinery, enabling it to conduct an enormously diversified business with remarkable economy and dispatch, and that a tendency under which the distinction between him and the broker was being gradually eliminated had to be checked. And the 1909 election of the committee for general purposes, which is responsible for the framing and interpretation of the rules governing these details of business, emphatically indorsed the reform of 1908 by which the division of members into brokers and jobbers was defined more strictly and more rigorously enforced. But it should be added that the majority of the leading firms persist in the view that this "reform" is a step backward, and since the jobbers constitute a majority of the members, and their existence was threatened by the tendency against which the new rules were directed, their emphatic indorsement of them must have been to some extent biased by considerations of personal interest.

(B) CONSTITUTION AND MEMBERSHIP.

As compared with the New York Exchange or the Paris Bourse, the London Stock Exchange has hitherto made very inadequate stipulations for the financial strength and stability of its members. And it is generally supposed that this neglect of a very important detail arose from the nature of its constitution. It is practically a proprietary club, owned by shareholders in whose eyes the extent of the annual profits and the bulk of the dividends they receive are naturally the most important consideration. From their point of view, since the chief source of revenue of the company was the annual subscriptions of the members, it followed that a rapid and constant increase in their numbers was the consummation most of all to be desired, and that any attempt at an examination of their financial status was almost entirely left out. The consequence of this defect is that a considerable number of members are supported by resources which are quite inadequate when compared with the standard of New York or Paris, and that in this respect the London Stock Exchange is a less helpful handmaid to the English banking system than it might be. Since it is highly important to bankers that the securities which they handle, invest in, and advance against, should be readily realizable in time of difficulty, it follows that the ability of the stock exchange to suffer shocks with equanimity is a matter of great moment from the banking point of view. And it can not be doubted that the number of members whose resources are comparatively slender, and the consequent comparatively high proportion of failures among them, give a certain amount of instability to markets in London. But it is easy to exaggerate the importance of this consideration, and the great aggregate wealth of the members, and the ease and elasticity with which the English banking system provides credit facilities, go far toward mitigating it.

Some attempt has been made at reform in this connection, though the direct object aimed at by the reformers was not, perhaps, an increase in the financial stability of the members so much as a restriction in the increase in their numbers and the creation of a vested interest for the existing members of their body. The proprietors, or shareholders, in the stock exchange were all of them necessarily members of it, but members were not necessarily shareholders, and this fact tended to a diversity of interest. As has been shown, the shareholders from the point of view of an increasing revenue desired a constant addition to the number of the members, from whose entrance fees and subscriptions their revenue was derived. The members, as a whole, especially in times when the volume of business was small, naturally considered that the constant addition to their number was an inconvenient process, since it tended to whet the edge of competition and so reduce the commissions earned by the brokers and the turns made by the jobbers. (For it should be noted that in London the commissions charged have not [a] hitherto been in any way regulated by the governing authority, but are left to arrangement between brokers and their clients.) From the point of view of the public, this increase of competition and cheapening of stock exchange facilities was an obvious gain, but against it we have to set the disadvantage caused by the comparative insecurity arising out of the constant influx of members whose financial resources were limited. From the public's point of view, as well as that of the bankers, it is highly important that the members of the institution which buys and sells securities for it should be well supplied with capital and credit. If a considerable number of them are comparatively poor, the fear of default by clients or of being locked up with securities that can not be realized except at a loss, has an exaggerated effect on their nerves and on their actions in times when markets are demoral-

[a] June, 1909. The question of an authorized scale is now engaging the attention of the committee.

ized by any political or financial accident; and consequently a leaven of weakness among the members of the stock exchange, who are apt to rush to realize and reduce commitments on behalf of themselves or their clients at the first hint of difficulty or trouble, has some effect in diminishing the stability of markets.

Formerly the utmost that was required of anyone aspiring to become a member of the London Stock Exchange was that he should pay an entrance fee of £510, and find three members who would be sureties for him to the extent of £500 each for a period of four years; that is to say, if he failed before this period had passed, his sureties were bound to pay up to that amount to his creditors on the stock exchange. Afterwards he stood on his own legs, and since his entrance fee had passed to the shareholders, there was nothing but his own capital that any creditor could depend on. Concerning the amount of his capital, there was no stipulation or inquiry, and instances have been known of members beginning business with £500, or less.

By new rules made in 1904 each candidate for admission to membership must obtain a nomination either from a member willing to retire in his favor, or from one who has retired within the previous twelve months, or from the legal representatives of one who has died within the previous twelve months; and also has to become a proprietor in the stock exchange by acquiring one or more shares.

The object of these regulations was to insure that henceforward members of the "house" should be possessed of something of which they could dispose on retirement, but since one of the rules embodying them laid it down that the right of nomination should not be exercised by a defaulter, they did not go far toward strengthening the position of creditors in case of failure.

A certain number of candidates for election may be admitted each year without nomination; the number is fixed annually by the committee, and these nominated candidates are confined to the ranks of clerks who have served for three years in the "house" or four years in the settling room. It should be explained that a clerk in the "house" is one who has the right of entry to the stock exchange itself in which the business of dealing is carried on (he is not necessarily empowered to deal, and can not be, until he has served two years as a clerk in the "house;" if he is, he is called an authorized clerk). A settling room clerk only has the right of entry to the rooms in which the business of checking bargains is done and part of the detail work of the settlement is carried out. Clerks in the "house" and settling room clerks wear distinctive badges. Those who desire to become members without the expense of procuring a nomination must have served four years in the "house" or settling room, with a minimum service in the "house" of three years.

Clerks of this standing are also privileged in the matter of sureties or recommenders, since they are only required to find two who will guarantee them to the extent of £300 for four years. Other applicants must find three recommenders, who will each engage to pay £500 to their creditors if they default within four years. In any case the recommenders must be members of the stock exchange of not less than four years' standing, who have fulfilled all their engagements and are not indemnified. Applicants who enter with two sureties only have to pay half the entrance fee charged to the less privileged class. It is 500 guineas for the latter, 250 guineas for the former.

The recommenders have to answer, concerning the candidate whom they recommend, certain questions, as to whether he has ever been bankrupt, etc., and among them, "Would you take his check for £3,000 in the ordinary way of business?" But it must not be supposed that an affirmative answer to this question implies that the candidate has £3,000 of his own. It does imply that in the opinion of the recommender he would not draw such a check unless there were funds at his back to meet it; but it is only an expression of opinion and does not in any way bind the recommender. This inquiry is an institution of old standing, and it has not prevented the introduction of many members whose resources were far below the sum named in it.

It should be noted that clerks who before their employment on the stock exchange were engaged as principals in any other business must produce three sureties for £500.

To return to the acquisition of proprietorship that is now necessary before admission, in this case again the way is made easier for candidates who have served a qualifying period as clerks; they have to acquire one share in the company that owns the stock exchange, whereas those who come in with three sureties must become possessed of three shares. By this process, in course of time all members of the stock exchange will ultimately be share-holders, and the diversity in the interests of the proprietors and members will thus gradually be abolished.

Summing up the payments and preliminaries that have to be gone through before an applicant can become a member of the stock exchange, we find that he now has (1) to pay an entrance fee of £525, if entering with three sureties, or £262 10s. 0d. if entering with two sureties; (2) to buy a nomination (now, June, 1909, said to be worth £100 to £125), unless specially admitted by leave of the committee; (3) to buy one share (priced now at £177) if a clerk of four years' standing, or three shares if not, or if previously a principal in some other business; (4) to obtain two sureties (whom he must not indemnify) for £300 for four years if a clerk of four years' standing, or three sureties for £500 if not, or if previously a principal in some other business.

The most that he can be required to pay is thus £1,181, and the least £439 10s. 0d. If he becomes a defaulter he forfeits the right of nomination, and so the minimum that he must certainly be possessed of in that case is one share in the stock exchange. In Paris each agent de change has to buy a seat, costing about £60,000 and show that he possesses a working capital of £20,000, and deposit £12,000 making a total necessary capital of about £92,000, and his solvency is guaranteed by all the rest; and in New York, each member has a seat to dispose of, the value of which ranges about £16,000; and it is thus evident that the financial strength of the members of the London Stock Exchange is, comparatively, extremely limited, and the much greater frequency of failures in London is thus easily accounted for.

This weakness of the London Stock Exchange, proceeding from the limited financial resources of many of the members, has arisen largely from the fact that it is a proprietary establishment conducted for the profit of a body of shareholders, which profit was most obviously secured by the rapid increase in the number of members. This increase has tended to cheapening of stock exchange facilities through competition and so increased the difficulty of making money rapidly among the members, and made them more reluctant to take risks in order to support markets, and more likely to be nervous when any shock occurs.

(C) THE GOVERNMENT OF THE EXCHANGE.

The diversity of interest between the shareholders and members also necessitates dual control. There are two committees, one composed of nine members, and called the trustees and managers, or more commonly the managers. This committee is practically the board of the company that owns the stock exchange building, and is elected by the shareholders. It decides questions of entrance fees and subscriptions and the disposition of the company's revenue. There is also the committee for general purposes, commonly spoken of as the committee, which consists of thirty, elected by the members of the stock exchange; it regulates the relations between members, as such, in their business dealings, punishes them with suspension or expulsion if they break the letter or the spirit of its rules, settles all questions connected with the intricacies of market operations, and decides concerning the granting of settlements and quotations to new securities. It has no revenue to handle, and if it desires any expenditure can only make recommendations to the managers. In practice this system of dual control works quite smoothly, and the new rule, which makes every new member a share-holder, will gradually abolish the diversity of interest that brought it into being.

(D) THE SETTLEMENT AND OTHER DETAILS.

Business in the London Stock Exchange is complicated by the fact that a large number of the securities in which it deals are not to bearer, but registered and transferable by deed. In the case of a bearer security, the buyer pays his check, or passes over currency or any acceptable form of credit instruments, takes his bonds or shares, the possession of which is in itself evidence that he is their owner, and the bargain is concluded. And thus, in settling business in securities of this kind, it is merely a question of bringing the real buyer and the real seller together through the machinery of the clearing house and the thing is done.

But when registered stock and shares are transferred, the process is much more complicated, for in this case nothing passes from seller to buyer which gives the latter immediate possession. A holder of these securities is registered as such in the books of the company, or, in the case of government and municipal stocks, of the bank or other agent that keeps the register, and only possesses a certificate stating that he is so registered, which is a mere memorandum carrying no evidence of title. The transfer from one holder to another is effected by a deed of transfer, to which this certificate is usually attached, and consequently before the bargain can be completed it is necessary that the selling broker should be informed of the name, address, and style of the transferee to whom the stock or shares are to be passed, so that he may be enabled to make out a deed of transfer, signifying that, in consideration of such and such a sum paid by A the transferee, B the transferrer sells to him so much stock or so many shares. This deed, duly stamped and either certified or accompanied by the certificate, being delivered to the buying broker, he pays the consideration money and lodges the deed with the company, whose securities are transferred, or with the agents of the Government or municipality, and his client the transferee is then registered as their possessor.

The complication introduced by this necessity for the preparation of a deed of transfer makes the business of the settlement in London a lengthy process. It involves the preparation by the buying broker of a form called a ticket, stating the name, address, and description of the client to whom the stock is to be transferred, and this ticket is passed to his seller, and so on through intermediate sellers to the real seller, or the party who is prepared to deliver the stock. In the case of most active securities this passing-on process is effected through the clearing house, but in others the ticket is passed on by one firm to another in the settling room.

Hence it is that four days are required for the fortnightly settlements at which all bargains in London are completed, unless specially executed for cash or for a later settlement. The first two days are called the contango, carry-over, or continuation days; on the first of them the account in mining shares is carried over; on the second, the account in other markets, except the consols market; on them brokers who have bought or sold securities for clients who do not intend to take them up or deliver them, but propose to continue the bargains with a view to covering them at a profit, make arrangements to this end. Every bargain by the rules of the house has to be completed at the settlement, and therefore stock which has been bought and is not meant to be taken up has, on contango day, to be sold for cash and simultaneously bought for the new account. These carry-over bargains are all entered at the "making up" price which is fixed by the dealers at noon on contango day. And since a buyer is thus released from his obligation to find cash for his purchase he is charged a rate for the accommodation. This rate varies according to the state of the market in the particular stock—in cases where there is a large bull account in a market well supplied with stock the rate is frequently out of all proportion to the rate ruling for money; but when a stock happens to be oversold the rate may "run off" and a bull may continue his stock "even," or is sometimes paid a "backwardation"—a fine paid by bears of stock that they can not deliver. A large proportion of stock open on speculative account is thus settled by bringing the bulls and bears together, and any balance of stock open is arranged by jobbers or brokers taking up the stock for the speculator on his paying stamp and fee and a fair rate for the accommodation.

The third day of the London settlement is devoted to the passing of tickets described above, setting forth the names into which stock and shares are to be transferred, and this day is consequently called ticket day or name day.

On the fourth day bearer securities and transfer deeds of registered stocks are delivered to the buyers and the consideration money is paid; but it should be observed that ten days' grace are allowed for the delivery of registered stock, to give time for the seller to sign the transfer and for the deed to be certified. It often happens, of course, that the seller is not parting with the whole of his holding in a stock, and therefore is not prepared to give up his certificate to be attached to the transfer deed and delivered to the buyer. In these cases the certificate and transfer deed are forwarded either directly to the company, or through the secretary of the share and loan department of the stock exchange, and the transfer deed is certified as in order. And a certain amount of time is obviously required for the execution of these formalities and for the procuring of the signature in cases where the transferer may happen to be abroad. On this last day of the settlement, which is usually called pay day or account day or settling day, all differences are paid arising out of speculative transactions.

It should be added that if a seller of stock does not receive a ticket by the proper time on ticket day, informing him into whose name it is to be transferred, he can "sell it out"—that is, sell it to some other buyer, and any consequent loss falls on the party who is responsible for the delay in passing the ticket. Similarly, a buyer who has passed a ticket and has not had the transfer deed delivered after the ten days of grace allowed, can "buy it in"—that is, buy the stock for cash from some other seller.

These details of the settlement are generally carried out by clerks, and it must not be supposed that the business of the "house" is seriously interfered with for three days every fortnight; some interruption there may be, in operations that members carry out on their own account, but any orders that come in from clients are attended to as usual.

There is yet another class of security in London, besides bearer and registered, namely, inscribed stocks. These are chiefly government and municipal stocks, and British consols are included among them. Inscribed stocks can only be transferred by the actual attendance of the transferrer, who is identified by his broker as the real owner of the stock, or by a power of attorney executed by him in favor of his broker.

Modern tendencies appear to be in favor of the growth of bearer securities, owing to their more convenient handling, and since the strong prejudice in their favor which exists abroad gives them a freer market on the continental bourses, it is becoming usual to give holders of inscribed and registered stock the option of obtaining bearer certificates. This has long been done in the case of British consols, of which foreign investors frequently hold large amounts. It should be mentioned that the settlements in consols and the other securities dealt in in the consols market are not fortnightly but monthly. A great deal of the business in these stocks, however, is carried out for cash, and is settled at once by immediate transfer and payment.

(E) THE OFFICIAL LIST.

A daily list is published by the managers of the stock exchange under the authority of the committee, giving the prices, at 3.30 p. m., of about 5,000 securities officially quoted. It also gives the amount, authorized and outstanding, of each security, and states its face value and the amount paid up on it, the date at which it was last ex dividend, and the amount of the dividend then deducted. By the side of the quotation is a space, in which are printed any "marks" or records of business done that members may wish to have officially reported. These marks by no means cover all the business done, for there is no obligation on any member to mark every bargain that he transacts; and though some old-fashioned brokers adopt the practice of marking all their business, as far as possible, it is the exception rather than the rule for a bargain to be marked. The marking is done by the insertion of a slip of paper with the security dealt in and the price dealt at, and the name of the firm marking it, into a box provided for the purpose. The note is transferred by an official to the marking board, which is thus during the day a record of actual bargains, or some of them, and is finally printed in the Official List.

Before a security can be granted a quotation in the list certain formalities have to be observed, which are set out as follows in an appendix to the rules of the committee:

SPECIAL SETTLEMENTS.

The following documents and particulars should be sent to the secretary of the share and loan department when application is made for a special settlement:

SCRIP OR BONDS OF NEW LOANS.

A specimen of the scrip or bond.

A copy of the prospectus, circular, or advertisement relating to the issue.

A statutory declaration stating—

1. The amount allotted (*a*) to the public, (*b*) to others.

2. The distinctive numbers and denomination of each class of scrip or bond.
3. The amount paid up thereon.
4. That the scrip or bonds are ready to be delivered.

SHARES OF NEW COMPANIES.

The certificate of incorporation.

A specimen of the share certificate.

A copy of the prospectus—the statement in lieu of prospectus as filed with the registrar of joint stock companies—circular, or advertisement relating to the issue.

A specimen call letter.

Certified printed copies of contracts relating to the issue of shares credited as fully or partly paid.

A letter from the secretary of the company stating—

1. That the share certificates are ready to be issued.
2. The distinctive numbers of the shares allotted (*a*) to the public, (*b*) to the venders.
3. The particulars of the company's capital.
4. The nominal amount of each share, and the amount paid in cash or credited as paid on each share.
5. In cases where the whole of the capital has not been issued at the time the application is made, whether the unissued shares are venders' shares or are held in reserve for future issue.

STOCK OR DEBENTURE STOCK OF NEW COMPANIES.

A specimen of the scrip or stock certificate.

A copy of the prospectus—the statement in lieu of prospectus as filed with the registrar of joint stock companies—circular, or advertisement relating to the issue.

A letter from the secretary of the company, stating:

1. The amount allotted (*a*) to the public, (*b*) to others.
2. The amount paid in cash per £100 stock.
3. That the scrip or stock is ready to be issued.

OFFICIAL QUOTATIONS.

CONDITIONS PRECEDENT TO AN APPLICATION FOR OFFICIAL QUOTATION.

1. That the prospectus—
   - Shall have been publicly advertised;
   - Agrees substantially with the act of Parliament or articles of association;
   - Provides for the issue of not less than one-half of the authorized capital and for the payment of 10 per cent upon the amount subscribed;
   - If offering debentures or debenture stock, states fully the terms of redemption.
   - In cases where a company has sold an issue of debentures or debenture stock which is subsequently offered for public subscription either by the company or any subsequent purchaser, states the authority for the issue and all conditions of sale.

2. That two-thirds of the amount proposed to be issued of any class of shares or securities, whether such issue be the whole or a part of the authorized amount, shall have been applied for by and unconditionally allotted to the public, shares or securities granted in lieu of money payments not being considered to form a part of such public allotment.

3. That the articles of association, and the trust deed where such is required, contain the provisions specified hereafter.

4. That the certificate or bond is in the form approved.

ARTICLES OF ASSOCIATION.

Articles of association should contain the following provisions:

1. That none of the funds of the company shall be employed in the purchase of or in loans upon the security of its own shares.

2. That directors must hold a share qualification.

3. That the borrowing powers of the board are limited.

4. That the nonforfeiture of dividends is secured.

5. That the common form of transfer shall be used.

6. That all share and stock certificates shall be issued under the common seal of the company and shall bear the signatures of one or more directors and the secretary.

7. That fully paid shares shall be free from all lien.

8. That the interest of a director in any contract shall be disclosed before execution, and that such director shall not vote in respect thereof.

9. That the directors shall have power at any time and from time to time to appoint any other qualified person as a director either to fill a casual vacancy or as an addition to the board, but so that the total number of directors shall not at any time exceed the maximum number fixed, but that any director so appointed shall hold office only until the next following ordinary general meeting of the company, and shall then be eligible for reelection.

10. That a printed copy of the report, accompanied by the balance sheet and statement of accounts, shall, at least seven days previous to the general meeting, be delivered or sent by post to the registered address of every member, and that two copies of each of these documents shall at the same time be forwarded to the Secretary of the Share and Loan Department, the Stock Exchange, London.

11. That the charge for a new share certificate issued to replace one that has been worn out, lost, or destroyed shall not exceed 1 shilling.

TRUST DEEDS.

Trust deeds should contain the following provisions:

1. Where provision is made that the security shall be repayable at a premium, either at a fixed date or at any

time upon notice having been given, the trust deed must further provide that should the company go into voluntary liquidation for the purpose of amalgamation or reconstruction the security shall not be repayable at a lower price.

2. The following clause should be inserted in all deeds: "The statutory power of appointing new trustees hereof shall be vested in the company, but a trustee so appointed must in the first place be approved of by a resolution of the debenture (or debenture stock) holders passed in the manner specified in the .... schedule hereto. A corporation or company may be appointed a trustee of these presents."

3. In the clause regulating the convening of meetings of the debenture (or debenture stock) holders, the following words should be inserted, "and the trustee or trustees shall do so upon a requisition in writing signed by holders of at least one-tenth of the nominal amount of debentures (or debenture stock) for the time being outstanding."

4. The clause defining an "extraordinary resolution" must provide that "the expression 'extraordinary resolution' means a resolution passed at a meeting of the debenture (or debenture stock) holders duly convened and held at which a clear majority in value of the whole of the debenture (or debenture stock) holders is present in person or by proxy and carried by a majority consisting of not less than three-fourths of the persons voting thereat upon a show of hands, and if a poll is demanded then by a majority consisting of not less than three-fourths in value of the votes given on such poll."

5. Should debentures or debenture stock be entitled "first mortgage," provision must be made for the creation of a specific first mortgage in favor of the debenture or debenture stock holders.

SHARE AND STOCK CERTIFICATES.

All certificates should state on their face the authority under which the company is constituted and the amount of the authorized capital of the company.

The following footnote should appear on all stock and share certificates: "The company will not transfer any stock [shares] without the production of a certificate relating to such stock [shares]; which certificate must be surrendered before any deed of transfer, whether for the whole or any portion thereof, can be registered or a new certificate issued in exchange."

Where the capital of a company consists of more than one class of shares of the same denomination, the distinctive numbers of the shares of each class must be printed on the face of the share certificates.

All preference share certificates should bear on their face a statement of the company's capital and the conditions, both as to capital and dividends, under which the shares are issued.

Debentures and debenture stock certificates should, in addition to legal requirements, state on their face the authority under which the company is constituted, the nominal capital of the company, the dates when the interest on the debentures or debenture stock is payable, and the authority under which the issue is made (i. e., articles of association and resolutions), and on their back the conditions of issue, redemption, and transfer.

BONDS.

Bonds must specify the amount and conditions of the loan, the powers under which it has been contracted, and the numbers and denominations of the bonds issued, and in the case of a loan issued either wholly or partly in London those issued in London must bear the autographic signature of the London agents or contractors.

NEW COMPANIES.

Before the application form can be issued for signature there must be supplied—

A copy of the prospectus.

Two copies of the articles of association.

In the case of debentures or debenture stock the trust deed [where possible before execution].

After the application form has been signed there must also be supplied in the case of shares—

The certificate of incorporation, and the certificate that the company is entitled to commence business.

Two certified copies of the prospectus, indorsed with the date when first advertised.

Two certified copies of the memorandum and articles of association.

The original letters of application.

The allotment book containing a list of applicants, the number applied for by each, and the result of each application, with a summary signed by the chairman and secretary.

Should the allotment have taken place at an interval of six months or more before the date of the application, a certified list of present shareholders will also be required.

A copy of the letter of allotment and the date when posted.

A specimen of the share certificates.

The bankers' pass book, accompanied by a certificate on a special form from the company's bankers, stating the amount of deposits received by them, and the number of shares on which such deposits (i. e., application money only, being £........ per share) were paid.

Authenticated copies of all concessions and similar documents, with notarially certified printed translations, and certified printed copies of all contracts and agreements.

A statutory declaration by the chairman and secretary, stating the following particulars:

1. That the prospectus complies with the provisions of the companies acts.
2. That all documents required by the companies acts have been duly filed with the registrar of joint stock companies, and the dates of filing.
3. The number of shares applied for by the public.
4. The number of shares allotted unconditionally to the public (Nos. .... to ....), and the amount per share paid thereon in cash.
5. The number of shares allotted for a consideration other than cash (being Nos. .... to ....).
6. The amount of deposits paid, and that such deposits are absolutely free from any lien.
7. That the share certificates are ready for delivery, that the purchase of the properties has been completed and the purchase money paid, and that no impediment exists to the settlement of the account.
8. The total number of allottees and the largest number of shares (*a*) applied for by and (*b*) allotted to any one applicant.

After the application form has been signed there must be supplied in the case of debentures and debenture stock—

The certificate of incorporation, or act of Parliament, and the certificate that the company is entitled to commence business.

A certified printed copy of the mortgage deed or other similar document, and the official certificate of the registration of the mortgage or charge.

Certified copies of the articles of association, resolutions, or other authority for the present issue.

Two certified copies of the prospectus.

The original letters of application.

The allotment book containing a list of applicants, the amount applied for by each, and the result of each application, with a summary of the whole signed by the chairman and secretary.

Should the allotment have taken place at an interval of six months or more before the date of the application, a certified list of present stockholders will also be required.

A copy of the allotment letter and the date when posted.

A specimen of the debentures or debenture stock certificate, and of the scrip where scrip is issued; certificates of debenture stock alloted to vendors in lieu of money payments being enfaced "issued to vendors."

A copy of the last published Report and Accounts.

The bankers' pass book, accompanied by a certificate, on a special form, from the company's bankers, stating the amount of deposits received by them and the amount of debentures or debenture stock on which such deposits (i.e., application money only, being £—— per debenture) were paid.

A statutory declaration by the chairman and secretary, stating:

1. That the prospectus complies with the provisions of the companies acts, and that all documents required by the companies acts have been duly filed with the registrar of joint-stock companies, and the dates of filing.
2. The amount of stock applied for by the public.
3. The amount unconditionally allotted to the public (Nos. .... to ....).
4. The amount, viz: £............, per cent, paid thereon in cash.

5. The amount allotted for a consideration other than cash (Nos. .... to ....).
6. The total amount of deposits, and that such deposits are absolutely free from any lien.
7. That the debentures or debenture stock certificates are ready for delivery, and that there is no impediment to the settlement of the account.
8. That a trust deed has been executed and completed, if such be the case.
9. The effect of such trust deed, and the nature of the charge created thereby in favor of the debenture holders.
10. The total number of allottees.
11. The largest amount of debentures or debenture stock (*a*) applied for by, and (*b*) allotted to any one applicant.

A statutory declaration by the chairman and secretary, stating:

1. The total amount of the authorized capital of the company, and how constituted.
2. The number of shares allotted unconditionally to the public (Nos. .... to ....), and the amount paid on each share in cash.
3. The number of shares taken by concessionnaires, owners of property, contractors or other parties not included in the public allotment (being Nos. .... to ....).
4. That the share certificates have been delivered; that the purchase of the properties has been completed and the purchase money paid.

SCRIP.

In addition to the requirements made in the case of definitive stock or bonds, a specimen of the scrip certificate must be supplied.

After the application form has been signed there must be supplied in the case of further issues—

A king's printers' copy of the act of Parliament authorizing, resolutions, etc., creating, and circular or prospectus offering, new issue.

If shares have been issued credited as fully or partly paid, certified printed copies of the contracts relating thereto.

A copy of the allotment letter.

A copy of the last report and accounts.

A specimen of the share certificate.

The allotment book unless the allotment is pro rata.

A statutory declaration by the secretary stating:

1. That the prospectus or circular complies with the provisions of the companies acts.
2. That all documents required by the companies acts have been duly filed with the registrar of joint stock companies, and the dates of filing.
3. That the shares (Nos. .... to ....) have been applied for by and unconditionally allotted to the shareholders or the public or sold upon the market, as the case may be.
4. The amount per share paid in cash.
5. The total number of allottees, and the largest number of shares applied for by and allotted to any one applicant.
6. That certificates are ready to be issued and that there is no impediment to the settlement of the account. It must also be stated whether or not the shares are in all respects identical with those already quoted in the official list.

The statement that shares are in all respects identical means that—

They are of the same nominal value, and that the same amount per share has been called up.

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They carry the same rights as to unrestricted transfer, attendance and voting at meetings, and in all other respects.

They are entitled to dividend at the same rate and for the same period, so that at the next ensuing distribution the dividend payable on each share will amount to exactly the same sum.

The statement that stock is in all respects identical means that—

All the stock is entitled to the same rights as to unrestricted transfer, and in all other respects.

All the stock is entitled to dividend at the same rate and for the same period, so that at the next ensuing distribution the dividend payable on each £100 of the stock will amount to exactly the same sum.

After the application form has been signed there must be supplied in the case of vendors' shares—

A certified list of the present holders of the vendors' shares.

A certified copy of the last published report and accounts of the company.

A specimen of the share certificate.

A statutory declaration by the secretary stating:

1. That the vendors' shares (Nos. —— to ——) have all been issued and certificates delivered;
2. That the shares are in all respects identical with those already quoted in the official list.

After the application form has been signed there must be supplied in the case of old companies—

The certificate of incorporation, or act of Parliament, and the certificate that the company is entitled to commence business.

Authenticated copies of all concessions and similar documents, with notarially certified printed translations.

Certified copies of all prospectuses, original or otherwise, indorsed with the date when first advertised.

Two certified copies of the memorandum and articles of association.

A specimen of the share certificate and of the allotment letter.

A certified copy of present register of shareholders.

Certified printed copies of contracts, agreements, etc., together with copies of all contracts relating to the issue of shares credited as fully or partly paid.

A certified copy of the company's last published report and accounts.

A short history of the company, setting forth its origin, progress, dividends, etc., the number of transfers registered during the last twelve months, and the number of shares represented by such transfers.

Statutory declaration by the chairman and secretary, stating the following particulars:

1. That the prospectus complied with the provisions of the companies acts.
2. That all documents required by the companies acts have been duly filed with the registrar of joint stock companies, and the dates of filing.
3. The number of shares applied for by the public.
4. The number of shares allotted unconditionally to the public (Nos. —— to ——), and the amount per share paid thereon in cash.
5. The number of shares allotted for a consideration other than cash (being Nos. —— to ——).
6. That the share certificates have been delivered; that the purchase of the properties has been completed and the purchase money paid.

After the application form has been signed there must be supplied in the case of colonial and foreign companies—

The certificate of incorporation, or act of Parliament, or other similar document.

Two copies of the statutes or articles of association or notarial translations of the same.

A certified list of present shareholders.

A specimen of the share certificate.

Copies of all agreements, concessions, deeds, etc., or notarially certified printed translations of the same.

A certified copy of last published report and accounts, or translation of the same.

Official evidence of quotation in the country to which they belong or where the issue has been made.

A short history of the establishment and progress of the company from its incorporation to the present time, including particulars as to the issue of the capital.

A declaration stating—

1. The number of shares allotted.
2. The amount per share paid in cash.
3. That the shares are ready for delivery, and that no impediment exists to the settlement of the account.

After the application form has been signed, there must be supplied in the case of reconstructed companies—

The certificate of incorporation, and the certificate that the company is entitled to commence business.

A statement of the plan of reconstruction, together with certified copies of all resolutions passed and circulars issued in connection with the reconstruction.

The allotment book, with a summary signed by the chairman and secretary.

The allotment letter, and the date when posted.

A specimen of the share certificate.

Two certified copies of the memorandum and articles of association.

Certified printed copies of all contracts, agreements, etc.

Copies of all contracts relating to the issue of fully or partly paid shares.

A statutory declaration by the chairman and secretary stating—

1. That all documents required by the companies acts have been duly filed with the registrar of joint stock companies and dates of filing.
2. The authorized capital of the company.
3. The number of shares to which shareholders in the old company were entitled; the number and distinctive numbers of shares unconditionally allotted to such shareholders; and the amount per share (*a*) paid thereon in cash, and (*b*) credited as paid up.
4. The number and distinctive numbers of shares applied for by and allotted unconditionally to the public, and the amount per share (*a*) credited as paid up, and (*b*) paid thereon in cash.
5. That the share certificates have been or are ready to be delivered, and that there is no impediment to the settlement of the account.

After the application form has been signed the following documents must be supplied in the case of loans—

Details of the creation of the loan, and the authority under which it is issued, including authenticated copies of concessions, etc., with notarially certified translations.

The authority to the agents or contractors to receive subscriptions.

A certified copy of the prospectus.

Evidence that all bonds issued and payable abroad bear the signature of some properly authorized person.

A specimen bond together with a bond duly executed, or scrip certificate if issued.

Statutory declaration by the agents, stating—

1. The amount allotted unconditionally to the public.
2. That the required amount, viz., £............ per cent has been paid thereon in cash.
3. That the bonds are ready for delivery, and that there is no impediment to the settlement of the account.
4. The numbers and denominations of those bonds which bear the autographic signature of the London agents or contractors.

After the application form has been signed the following documents must be supplied in the case of bonds quoted abroad—

Official evidence of quotation in the country to which they belong or where the issue has been made.

Notarially certified printed translations of all prospectuses, and of the laws creating and authorizing the loan.

A specimen bond, together with a bond duly executed.

An official certificate setting forth—

1. The authorized and issued amounts of the loan, and the terms of issue.
2. The distinctive numbers and denominations of the bonds.
3. Evidence that all bonds bear the signature of some properly authorized person.

THE HISTORY OF THE SEPARATION OF THE DEPARTMENTS OF THE BANK OF ENGLAND.

By Sir R. H. Inglis Palgrave, F. R. S.

Chapter I.

HISTORY OF THE SEPARATION.

The separation of the issue department from the banking department of the Bank of England was carried into effect so many years since (it dates from the passing of the bank act by Sir Robert Peel, in the year 1844) that hardly anyone now living can remember the time before the change was made, when the accounts did not appear as they do at present. The form of statement now published weekly appears probably to many of those who study it as the plan on which the statement of a note-issuing bank would naturally be drawn up, and they are hardly aware that the Bank of England is practically the only bank that follows or ever has followed this method of keeping its accounts. Before the year 1844 the accounts of the Bank of England were drawn up on the form followed at the present time by the Bank of France, the Bank of Germany, the Bank of the Netherlands, the Bank of Belgium, and, indeed, by all the other great issuing banks of the world. I add, to make this point clear, the balance sheet of the Bank of England—both according to the ordinary weekly statement and arranged to correspond with the forms employed by the other banks—and the balance sheets of the banks of France, of Germany, of the Netherlands, and of Belgium. The return of the Bank of England is of January 6, 1910. The dates of the balance sheets of the other banks are stated on them. The weekly publications of these banks do not give all the details required. Hence I have thought it well to give the annual balance sheets of these banks. No other statement than the weekly returns is published by the Bank of England.

BANK OF ENGLAND.

ISSUE DEPARTMENT.

LIABILITIES.		ASSETS.	
Notes issued	£51,241,210	Government debt	£11,015,100
		Other securities	7,434,900
		Gold coin and bullion	32,791,210
	51,241,210		51,241,210

BANKING DEPARTMENT.

Proprietors' capital	£14,553,000	Government securities	£17,507,945
Rest	3,360,154	Other securities	36,211,089
Public deposits [a]	9,936,777	Notes	22,375,490
Other deposits	49,139,180	Gold and silver coin	912,633
Seven-day and other bills	18,046		
	77,007,157		77,007,157

[a] Including exchequer, savings banks, commissioners of national debt, and dividend accounts.

J. G. NAIRNE, *Chief Cashier.*

Dated January 6, 1910.

The above is the statement as it appears in the weekly returns.

Balance sheet, January 6, 1910.

[Arranged so that it corresponds in form with the balance sheets of the other banks given here.]

LIABILITIES.		ASSETS.	
Capital and rest	£17,913,154	Gold coin and bullion and silver coin	£33,703,843
Notes in circulation	28,865,720	Government securities in both departments	28,523,045
Seven-day and other bills	18,046	Other securities	43,654,989
Public deposits	9,936,777		
Other deposits	49,139,180		
	105,872,877		105,872,877

NOTE.—All per contra entries, as those of the notes of the banks held by themselves, etc., are omitted, so as to show the real position of the accounts.

BANK OF FRANCE.

Balance sheet, December 31, 1908.

[Francs converted as 25=£1.]

LIABILITIES.		
Capital of the bank		£7,300,000
Reserve and profits in addition to capital		1,700,774
Notes payable to bearer in circulation (head office and branches)		197,972,403
Drafts		914,397
Current account with the treasury		7,199,491
Current accounts and deposit accounts:		
Paris	£22,780,727	
Branches	2,721,524	
		25,502,251
Dividends unpaid, etc.		1,876,386
		242,465,702

ASSETS.		
Coin and bullion at Paris and at the branches		£175,401,607
Bills due yesterday to be received this day		1,757
Amount of bills:		
Paris	£9,920,192	
Branches	18,886,626	
		28,806,818
Advances on securities:		
Paris	£6,332,341	
Branches	14,478,603	
		20,810,944
Advances to Government (laws of June 9, 1857, June 13, 1878, November 17, 1897)		7,200,000
Government stock reserve fund		519,230
Disposable funds, government stock		3,985,234
Immovable funds, government stock (law of June 9, 1857)		4,000,000
Amount appropriated to special reserve		336,298
Office and furniture of the bank and buildings at the branches, etc.		1,403,814
		242,465,702

NOTE.—All per contra entries, as those of the notes of the banks held by themselves, etc., are omitted so as to show the real position of the accounts.

IMPERIAL BANK OF GERMANY.

Balance sheet, December 31, 1908.

[Marks converted as 20=£1.]

LIABILITIES.	
Capital and reserve	£12,458,581
Notes in circulation	98,771,474
Amount due on clearing and current accounts	33,244,291
Deposits (not bearing interest)	25,167
Sundry liabilities and reserve for doubtful debts	720,072
Net profits for 1907	1,537,287
	146,756,872

ASSETS.		
Gold in bars	£16,792,075	
German gold coin	21,620,898	
		£38,412,973
Divisional money		10,594,046
		49,007,019
Notes of imperial treasury (Reichskassenscheinen)		2,876,243
Notes of other banks		505,105
Bills held:		
Due within 15 days		22,660,590
Due at later dates		28,939,529
		51,600,119
Bills on foreign places		6,457,493
		58,057,612
Loans		8,796,468
Securities		19,724,627
Value of real property belonging to the bank		2,849,450
Sundry assets		4,940,348
		146,756,872

NOTE.—All per contra entries, as those of the notes of the banks held by themselves, etc., are omitted so as to show the real position of the accounts.

BANK OF THE NETHERLANDS.

Balance sheet, March 31, 1909.

[Guilders converted as 12=£1.]

LIABILITIES.		ASSETS.	
Capital	£1,666,667	Coin, bullion, etc	£13,665,502
Reserve	435,955	Inland bills	3,514,247
Notes in circulation	22,798,206	Foreign bills	1,550,309
Transfers	173,200	Loan accounts	4,144,246
Current accounts	539,849	Advances on current accounts	1,882,021
Discount on—		Investments:	
Inland bills	10,521	Capital	332,662
Foreign bills	3,060	Reserve	432,708
Sundry liabilities	59,598	Sundry assets, buildings	255,721
Net profit for distribution	90,360		
	25,777,416		25,777,416

NOTE.—All per contra entries, as those of the notes of the banks held by themselves, etc., are omitted so as to show the real position of the accounts.

NATIONAL BANK OF BELGIUM.

Balance sheet, December 31, 1908.

[Francs converted as 25=£1.]

LIABILITIES.		ASSETS.	
Capital paid up	£2,000,000	Specie and bullion	£6,326,529
Reserve fund	1,444,899	Bills discounted [a]	27,159,971
Notes in circulation	32,275,122	Securities due for collection	193,849
Current accounts	4,028,662	Advances on government securities	2,056,765
Stamp duty, share of profits due to the Government, employees superannuation, provident funds, dividends due, etc	1,029,776	Government and reserve fund securities	3,418,343
		Securities for current accounts, etc	1,623,002
	40,778,459		40,778,459

[a] Bills in Belgium, £19,738,332; foreign bills, £7,421,639. Total, £27,159,971.

NOTE.—All per contra entries, as those of the notes of the banks held by themselves, etc., are omitted so as to show the real position of the accounts.

I will now endeavor to explain the reasons which induced Sir Robert Peel, who was the author of the Bank Acts of 1844–45, the acts which, as far as the issue of notes is concerned, govern the banking system of the United Kingdom at the present date—and incidentally the amount of the notes held in the Banking Department, which forms the reserve of the Bank of England—to make this alteration and to overcome, as he had to do, all the objections which were felt by most of the business men and the economists of his time to the great change that he thus introduced in the method of the statement of the accounts of the Bank of England, which is the very center and heart of the banking system of Great Britain. The division of the two departments is not only the outward sign of a great change in the method of conducting one large portion of its business, which Sir R. Peel introduced, but it provides the machinery by which that change is carried into effect—a change which affects the course of business in a very material way.

The primary reason which induced Sir Robert Peel to adopt this arrangement is to be found in the fact that he was a great supporter of that form of opinion respecting the influence of the paper currency of the country on business in general, which is known under the name of the "Currency principle." As the expressions of opinion on this point go back to a period considerably earlier than the introduction of the Bank Act, and many years have hence passed since this subject was originally discussed by business men and economists, it will be necessary to explain the meaning of the term before proceeding further. One of the best descriptions of the theory is to be found in the "Investigations in Currency and Finance" of Prof. W. Stanley Jevons, published in 1884. The currency theory, he states, "attributes every fluctuation of prices to an extension of the bank-note circulation" (p. 33). Jevons refers (p. 107 of the same book) to the subject again: "It was the mistaken notion of some few persons that convertible Bank notes might have a peculiar efficacy in regulating prices and sowing the seeds of fluctuations." Although those who held this opinion were at that period comparatively few in number, they were sufficiently powerful to cause their opinions to influence the legislation of the time. Another description, given by Mr. William Newmarch in his address as president of the Section of Economic Science, at the meeting of the British Association, Manchester, 1861, will also be of service, as it puts the subject before us from a different point of view. "There used to be received, with scarcely any dissentients, three principal doctrines relating to a Convertible Paper Currency. It used to be held that fluctuations in the amount of bank notes in the hands of the public operated in some direct manner on prices—that consequently the convertible paper currency must be properly regulated, so that vicious fluctuations of prices might be prevented—and thirdly, that what were called appreciation and depreciation of the currency,[a] and not the operations of supply and demand, and capital and credit, govern the foreign exchanges and produce overtrading and lead to financial disasters and panics."

"But," Mr. Newmarch continues, "by a persevering and systematic application of the test of observation and experiment, it has been proved, by evidence so extensive and various that we may well claim for it the force of a demonstration—first, that fluctuations in the amount of a paper circulation strictly convertible into coin does not govern prices at all, but that prices are governed by supply and demand, and by operations of capital and credit. Second, that due and rigid enforcement of cash payment is the only wholesome regulation which a paper

[a] In speaking thus of the "appreciation and depreciation of the currency," Mr. Newmarch obviously referred to what he had just mentioned, "the convertible paper currency."

circulation requires—and, thirdly, that bank notes are no more than the mere small change of the ledger, and that the phenomena which are really worth attention are not infinitesimal fluctuations in the amount of bank notes, but changes in the rate of interest." (Address of Mr. William Newmarch, printed in the Journal of the Statistical Society of London, December, 1861, vol. xxiv, pp. 463–464.) The importance of this treatise is recognized by foreigners as well as by our own authorities. In reference to this I have quoted further on the opinions of Dr. N. G. Pierson, the well-known Dutch economist, who was at one time Governor of the Bank of the Netherlands, on the subject.

I have described above the general principles which those who held the currency principle or theory maintained. It now remains to explain the opinions of those who held the "banking principle." To describe this we shall in the first place quote from the writings of Mr. Thomas Tooke, who maintains "that the theory of the currency principle, according to the exposition of its promulgators, involves the error of confounding convertible with inconvertible paper; as regards its issue, and its effects in circulation up to the point of its convertibility."

Mr. Tooke continues: "By the same authorities it is assumed, as an axiom, that a purely metallic circulation is the type or model of a perfect currency; and that, therefore, a mixed circulation of coin and paper ought to be made to conform in amount to the same variations as would be incidental to a purely metallic currency. I, and those who with me are opposed to the doctrine of the currency theory, as adopted by Sir Robert Peel and embodied in the act of 1844, readily admit so much of it as relates to this assumption." With regard to the banking system Mr. Tooke says: "We are willing to consider a metallic currency as the type of that to which our mixed circulation of coin and paper ought to conform; but, further, we contend that it has so conformed, and must so conform, while the paper is strictly convertible." (Tooke's History of Prices, vol. iv, p. 218.)

Having thus given a rough sketch of the two theories respecting the issue of notes which prevailed in the time of Sir Robert Peel, of which the one which is termed the "Currency Theory" is, as mentioned before, the basis of the Bank Act of 1844, I will go on with the history of the changes which he made in the management of the Bank of England.

The discussions respecting the separation of the two departments of the note issue and of banking, which took place in the year 1844, go back at least as far as 1832, 1836, and 1837.

The particular form according to which the restrictions of the note circulation of the Bank of England was carried out in the Act of 1844 had been thought of several years earlier by the directors of the Bank of England, as is shown in the extracts from their evidence given before committees of the House of Commons which follow.

There had been at a somewhat earlier date much fluctuation in money matters, partly arising from the disturbed state of Europe toward the close of the eighteenth century, the wars in which England was engaged, and the suspension of specie payments which took place in 1797. Business gradually returned to more normal conditions and cash payments were resumed in 1823, permission having been given to the bank to defer doing so to 1825 had this been necessary. (Committee on the Bank Charter in 1832.)

The advisability of a restriction on the issue of notes was maintained by Sir Robert Peel in the debates of the House of Commons on the Bank Act; the subject is perhaps explained more clearly in his speech of April 25, 1845. His words were: "With regard to the Bank of England, the limitation imposed upon the issues of the bank on securities was £14,000,000. The bank was permitted to issue promissory notes to the extent of £14,000,000 on securities; but in regard to any additional issue, that issue could only take place on specie, the public being entitled to demand notes in exchange for specie, or coin in exchange for notes, and the whole of the circulation of the Bank of England beyond £14,000,000 being determined by the free action of the public demanding either notes or gold, as they might require. With regard to the issues of the other banking establishments (in England and Wales), the provision made was this—that in respect to every private bank of issue, or joint-stock bank of issue, an average amount of its circulation for the twelve weeks preceding the 27th April, 1844, was taken; and those banks were required to confine their future issues of their own paper within that limit. There was no prohibition to their increase of the issue of promissory notes, provided that, beyond the prescribed limit, the issues should be of Bank of England paper, that Bank of England paper being founded on gold. I apprehend that the House sanctioned these measures on the following assumptions:—That the standard value, or standard of value, in this country is a certain quantity of gold, definite in point of weight, and definite in point of fineness; and that a promissory note being an undertaking to pay a pound, the issuer is bound to deliver neither more nor less to the holder of that note than a definite quantity of gold of a definite degree of fineness. The House assumed, too, that the issue of that promissory paper might fairly be subject to regulations to which other forms of paper credit need not necessarily be subject; that the issue of promissory notes representing gold, and acting as substitutes for gold, differed in character and effect from other forms of paper credit; that those who issued them were in possession of a valuable privilege—valuable to themselves, and important to the country; and that this House had a perfect right at any time to subject the issuers of that paper to such restrictions as might be deemed expedient for the public good. There was another assumption on which the House also acted, that with a perfectly unregulated competition in the issue of paper, there was no necessary guarantee for the permanence of the convertibility of that paper, or, I should rather say, that though there might be the guarantee of permanent convertibility, yet there was no guarantee, where competition was perfectly unrestricted and unlimited, against the occasional necessity of sudden and violent contractions of the circulation, leaving, indeed, the note convertible into gold, but deranging the monetary transactions of the country, and shaking all confidence in private, and even in public credit."—Sir Robert Peel had already referred to the subject on May 6, 1844. He then said: "I therefore propose, with respect to the Bank of England, that it should continue in possession of its present privileges of Issue, but that there should be a complete separation of the business of banking from that of Issue; that there should be a department of Issue separate from the department of Banking, with separate officers and separate accounts. I propose that to the Issue department should be transferred the whole amount of bullion now in possession of the Bank, and that the Issue of Bank Notes should hereafter take place on two foundations, and two foundations only—first, on a definite amount of public securities; secondly, exclusively upon bullion. The action of the public will regulate the amount of that portion of the note circulation which is issued upon bullion. With respect to the banking business of the Bank, I propose that it should be governed on precisely the same principles as would regulate any other Body dealing with Bank of England notes. The fixed amount of securities on which I propose that the Bank of England should issue notes is £14,000,000, the whole of the remainder of the circulation to be issued exclusively on the foundation of bullion."

I had better at this point recapitulate the history of what occurred at this period. It was a favorite opinion of the advocates of the Bank Act of 1844 that the immediate result of the division of the business into the two departments, issue and banking, would be to deprive the bank at once of the power and the responsibility of "regulating the currency." The issue of notes being placed under the restrictions explained in the speech of Sir Robert Peel of May 6, 1844, from which I have just quoted, the bank was to be, with reference to all its other business, in a position as free as that of any other banking company.

The cause of these restrictions was, as I have said, the belief "that by an expansion or contraction of the issues of bank notes at pleasure, the prices of commodities can be increased or diminished." This theory was based on the idea that banks could issue notes to a larger amount than the necessities of the country required, and that these notes would remain in circulation indefinitely. This idea had gained acceptance during the period of an inconvertible currency of Bank of England notes which lasted while the suspension of specie payments was continued (1797–1823) and was associated also, without proper consideration, with the influence of a convertible currency. As a convertible currency can be immediately exchanged for coin it can not be supposed that any notes, not actually required for use, would remain in circulation at all, as those persons who held them would pay them in to their accounts with their bankers and the bankers in their turn would convert them into money.

To understand the question thoroughly is of very great importance, as on it were based that change in the arrangements of the Bank of England which, as has been mentioned above, led to the division of the two departments of "issue" and of "banking" and also that line of argument which maintains that the whole of the note circulation of the country ought to be centered on one single bank of issue.

The grounds on which Sir Robert Peel acted received a good deal of criticism at the time, particularly from Mr. Thomas Tooke and Mr. William Newmarch. (Mr. Newmarch was for many years the secretary and manager of Glyn's Bank.) They were summarized by the Right Hon. James Wilson in his work on Capital, Currency, and Banking, under five heads—"Five assumptions," Mr. Wilson calls them, as he does not consider that any one of them was proved.

"*First*, That bank notes though payable in coin, at the option of the holder, are still liable to be issued in excess, and are consequently subject to depreciation.

"*Second*, That convertibility is not alone a sufficient guarantee that a mixed currency of bank notes and coin shall conform, in its variations, to the same laws that would regulate a purely metallic currency.

"*Third*, That issuers of bank notes have power to increase or decrease the circulation at pleasure.

"*Fourth*, That, by expansion or contraction of the issues of bank notes at pleasure, the prices of commodities can be increased or diminished; and,

"*Fifth*, That, by such increase or diminution of prices, the foreign exchanges will be corrected, and an undue influx or efflux of bullion, as the case may be, will be arrested.

I believe, with Mr. Wilson, that these "five propositions fairly represent the principles involved in Sir Robert

Peel's measure." Having stated these opinions, I must now go on with the history. I have endeavored to show that the principles on which the "currency theory" is based do not correctly represent the circumstances in the case of a note issue carried on with absolute convertibility at pleasure, and that they have hence no foundation whatever on fact. I have also endeavored to trace the reasons which apparently had led Sir Robert Peel to adopt this line of argument. While stating this, I would desire most carefully to guard against appearing to have any sympathy with those who desire to weaken in any way the immediate convertibility of the note circulation at the option of the holder.

Having thus explained Mr. Wilson's opinions, I can now continue the history of the circumstances under which the separation of the two departments of "issue" and "banking" took place. I referred on a previous page to the fact that the origin of this idea appears to date a considerable distance further back than the Act of 1844, and to have been connected with the arrangement spoken of by Mr. G. W. Norman in his evidence before the Committee of the House of Commons on the Bank Charter (1832), that the Bank desired in the regular course of business "to keep the general amount of securities about on a level." (This statement occurs in answer 2452.) Mr. Norman was asked in question 2459: "You state that the present principle of the Bank is, that having a certain amount of liabilities consisting of notes and of deposits, you thought it a proper principle to maintain one-third of that in bullion in ordinary times?" Mr.

Norman proceeded to explain this by replying that this principle applied "at a period when the currency is full," and further went on to "describe the currency as being full when the Exchanges were at par, or rather on the point of becoming unfavorable." This idea, that of retaining the securities at a fixed point, became rooted in the minds of those in whose hands the direction of the bank lay. It was expressed very clearly by Mr. J. Horsley Palmer, the governor of the Bank of England, when he was examined, as also was Mr. Norman, one of the directors, before the Committee of 1832, that the principle of the proportion of keeping the amount of one-third of the liabilities in bullion was the proper one to follow. In reckoning the liabilities, the deposits were included by Mr. Palmer, as well as the circulation. This appears to have been the first idea. But, as time went on, the notes became considered as the proper object of protection, rather than the liabilities in the way of deposits. Thus, when Sir Robert Peel had to consider, in 1844, the question of the renewal of the bank charter, he found this arrangement for a division of the two departments ready to his hand. He found also a stout supporter in Lord Overstone (then Mr. S. Jones Loyd), who, both in his evidence before the Select Committee of the House of Commons on Banks of Issue, in 1840, in several pamphlets, in letters addressed to the Times newspaper, and by all the means in his power, strove to influence the public mind toward the separation of the two departments. In these pamphlets Mr. S. Jones Loyd criticised the management of the circulation at various periods, both before 1839 and during that year. Nothing is more striking in reading these remarks than the manner in which the circulation is spoken of, and the great importance which is ascribed to the necessity of regulating it so as to influence the foreign exchanges.

As I gave above the observations made by Mr. James Wilson on the Act of 1844, it will be advisable to contrast these with Mr. S. Jones Loyd's arguments in favor of the alteration.

"The only object of the proposed separation of the departments of the Bank of England is to obtain an effectual security for the regulation of the amount of the paper circulation of the country in correspondence with the fluctuations of the bullion; such regulation being deemed to be essential for the certain maintenance, under all circumstances, of the convertibility of paper issues into specie.

"The present union of banking functions with management of the circulation, not only in the same parties, but in the same system of accounts, is deemed to be incompatible with the accomplishment of this object, for the following reasons:

"1. Because the paper circulation is thus issued upon mercantile securities, and there is, therefore, a very strong tendency to increase its amount with rising prices and to diminish its amount with falling prices; which is the reverse of what would take place with a metallic circulation.

"2. Because, as the issuers also receive deposits as well as issue notes, they are subjected to a strong temptation to meet the demand of depositors by an improper increase of paper issues instead of a realization of securities.

"3. Because the connection of the issuers with trade and commerce creates a strong inducement to aid and support public and mercantile credit, during a period of pressure, by improper increase of issues.

"4. Because the mismanagement of the circulation seems in almost all cases to be distinctly traceable to these causes.

"5. Because the union of the two functions, of circulation and deposit, is found to cause inevitable confusion both in reasoning and in action. This appears in the measures of the Bank of England and in the defence which has been made of them—similarly as regards the country issues[a]—in the confusion of ideas prevalent amongst the public respecting the connection between the amount of circulation and the amount of liabilities."

With these remarks of Mr. S. Jones Loyd, it is well to compare those of Sir Robert Peel, in his speech of the 6th of May, 1844, on the renewal of the Bank Charter, as they give the detail of the plan of keeping the accounts of the bank which has been followed to the present time:

"I have stated that the issues of the Bank are to be upon bullion and upon a fixed amount of securities. We propose that £14,000,000 should be that amount of securities. Seeing no advantage in a change, we propose to continue upon the present terms the existing loan of £11,000,000 made by the Bank to the Government, at 3

[a] The "country issues" were the notes issued by the provincial Banks of England and Wales at that period. They amounted in 1845 to £7,700,000, having been considerably larger in previous years.

per cent. This debt of the Government to the Bank is to be assigned as part of the security on which the issues of the Bank are to take place. There will then remain £3,000,000 of additional securities, Exchequer Bills or other securities, over which the Bank is to have entire control. We propose that the Bank should have a right, in case of necessity, to limit its issues upon that portion of the securities, viz, £3,000,000. Circumstances might possibly arise in which the Bank might find it necessary to restrict its issues within the amount of £14,000,000. In that case the Bank will have full power to diminish the £3,000,000 of securities which are to be deposited, in addition to the £11,000,000 of debt assigned. I can hardly conceive a case in which it would be advisable to limit the issues to less than £11,000,000. I have said that the Bank shall be restricted from issuing notes upon securities to any greater extent than £14,000,000." Further in the same speech the manner in which the operation was to be carried out was described: "Two Departments of the Bank will be constituted: one for the issue of notes, the other for the transaction of the ordinary business of banking. The bullion now in the possession of the Bank will be transferred to the Issue Department. The issue of notes will be restricted to an issue of £14,000,000 [a] upon securities—the remainder being issued upon bullion—and governed in amount by the fluctuations in the stock of bullion."

The duty of the officials of the Bank under these circumstances is strictly limited to exchanging notes for

[a] Increased, at date of writing (June, 1910), to £18,450,000 by authority given in section V of the act of 1844.

bullion and bullion for notes. The Bank is bound by law to purchase gold bullion from whomsoever offers it at £3 17s. 9d. per ounce of standard quality. The issue department may be held not to be virtually a department of the bank. "It is a self-acting institution of the State, working on the bank's premises, and absolutely beyond the control of the bank directors."

In the words of Mr. Neaves, a former Governor of the Bank: "The issue department is out of our hands altogether; we are mere trustees under the act of Parliament to see that these securities are placed there and kept up to that amount, and in no case can any creditor of the Bank touch that which is reserved for a note holder."

The advisability of restriction had thus firm hold of Sir Robert Peel's mind.

The principle that the amount of the notes in circulation were not to exceed the coin which it displaced was also distinctly asserted in Sir Robert Peel's speech on the Note Circulation in Scotland and Ireland of April 25, 1845. After describing the method according to which the average note issue was to be computed, he added: "The average amount of the issues of each bank, and in this I include the Bank of Ireland, is to be that to which they are entitled by the average from their past circulation. They are to continue within that amount of circulation, and if there be an excess, then that excess shall be issued on specie." * * * "There will thus be a weekly return of the gold held by the bank; and, in case of excess of issue, a certificate that that excess of issue is met. The return will be made to the Government weekly, and the publication by the Stamp Office will be monthly. The question may be put, in the event of an issue beyond the permitted amount, upon what that issue shall be made? Shall it be made exclusively upon gold coin; or shall silver be permitted to form part of the foundation of this issue? I think it will be of great advantage to permit silver coin to constitute part of that foundation."

Sir Robert Peel thus established an arrangement similar to that which regulated the issue of Bank of England notes with regard to the note issues then existing of the local banks in Ireland and Scotland. The average amount of circulation at the time when the act was passed was regarded as the authorized limit. Specie was to be held for any excess over the limit. The coin thus set apart does not in any way form a security for the note circulation. It is only held and set apart in compliance with the theory of the currency principle that a circulating medium formed of paper and specie should fluctuate exactly as a circulation of specie would have fluctuated.

Later on in the same speech Sir Robert Peel continued: "I impose no limitation in the amount of the issues. I permit to Ireland and to Scotland an unrestricted amount of issue, provided only it take place on the deposit of that which it professes to represent and excludes from the circulation—the coin of the realm. But I leave to the banks of Ireland and Scotland that privilege which they have so long enjoyed, and to which I find they attach so much importance—the privilege of continuing the issue of £1 and £2 notes."

Corresponding directions are given in the acts regulating the issue of bank notes in Ireland and Scotland, both of the date of the 21st July, 1845, as to the manner in which the circulation of notes issued at that time was to be estimated, and as to the mode of ascertaining the average amount of bank notes of each banker in circulation and gold coin during the four weeks to which each return extended, and further what should be taken in the account of coin held by any banker, the silver coin included not being allowed to exceed the proportion of one-quarter of gold (sects. xvi, xix, and xx of the act relating to Ireland (8° and 9° Victoriae, cap. 37) and sections vi, x, and xi of the act referring to Scotland (8° and 9° Victoriae, cap. 38)). The difference between the two acts consists in the fact that with regard to the Irish banks, the specie was to be held at "the several head offices or principal places of issue in Ireland of such banker, such head offices or principal places of issue not exceeding four in number." In the case of Scotland "the monthly average amount of gold and silver coin held by such banker at the head office or principal place of issue."

As practically the only unused supply of gold coin in the United Kingdom is that held by the Bank of England the effect of these provisions of the bank acts is to transfer every fluctuation in the note circulation of Scotland, where the issue is always above the authorized limit, and many of those in Ireland, where the issue as a rule is closer to the authorized limit, directly to the reserve of the Bank of England. Hence as a rule the specie held against the note circulation, both in Scotland and in Ireland, corresponds very closely in its movements with the note circulation, fluctuating as the note circulation fluctuates.

The specie held by the Scotch and Irish banks has reference far more to the note circulation than to their customer's requirements for cash. The influence of these demands extends beyond the requirements of the Scotch and Irish banks. It will be found on examination that as a rule the months in which the note circulation in Scotland and Ireland, the specie held, and the bank rate are highest, in the majority of instances correspond.

I will continue my history of the circumstances which led to this division of the two departments.

The evidence of Mr. James Morris, one of the Directors of the Bank, given to the Committee of the House of Lords on Commercial Distress in 1848 was to the effect that the Bank had ever since 1840 carried on its business in relation to the circulation upon the system established by the Act of 1844.

This idea had indeed been started earlier than 1840. Thus Mr. J. Horsley Palmer, a Director and at one time Governor of the Bank of England, stated before the Committee of the House of Commons on the Bank Charter in 1832 that in ordinary times the principle of the Bank in managing its business was to keep about two-thirds of their available resources obtained from deposits and notes in circulation in securities bearing interest and the remainder in coin and bullion.

Mr. Horsley Palmer had made a similar statement before the Committee of the House of Commons in 1840. (See his evidence on pages 224–225.) This is also mentioned in Tooke's History of Prices. (Vol. III, pp. 92–95.) The rule which, according to the evidence of the Bank Directors, was understood to be laid down "was, that their securities should be kept at a nearly uniform amount, and their bullion at about one third of their liabilities." This rule, however, according to Tooke, appears not to have been derived from any particular principle, but from the fact that during the four years from 1828–1832 the securities had been kept tolerably uniform in amount. The difficulties in the way of keeping the proportion uniform appear to have been practically insuperable.

One very serious difficulty in the management of the business as required by the Act of 1844 does not lie in the proportion of the bullion held by the Bank to the securities, but in the fact that the requirements of the Act of 1844 compel the supply of notes in a period of pressure to be strictly limited in accordance with the law. It is the fear that a further supply cannot be obtained which has caused the greatest difficulties in a time of panic. There have been four serious crises since the act of 1844 came into operation, those of 1847, 1857, 1866, and 1890, the Baring crisis. During this last there was no pressure on the bank, owing to the support given to the house of Baring by the principal banking houses of the country and to the precautions taken by the Bank of England to provide a large addition to the bullion they held, but in the three earlier crises the pressure on the Bank of England for notes was very severe. It must be remembered in connection with this that it is expressly stated by Section VI of the Bank Act of 1845, relating to Ireland, that while Bank of England notes are not legal tender in Ireland, and by Section XV of the corresponding Act of 1845, relating to Scotland, that they are not legal tender in Scotland, Bank of England notes have been legal tender in England and Wales since the Act of 1833. As notes are more convenient for transmission than specie, there has been at times of pressure a great demand for them by banks, since they are, as legal tender, equal to gold, and can be sent by post to branch offices in remote districts of the country with far greater ease than gold can be. This was the case in 1847. The crisis in that year became acute on October 1, when the Bank of England refused to make advances on public securities. It was not, however, till the 25th of October that an official letter was sent to the bank allowing it to exceed the limit of the act. The effect of the Government letter in allaying the panic was complete. When the anxiety as to obtaining bank notes or gold was removed the immediate pressure shortly disappeared. In the next crisis, that of 1857, the treasury letter, dated November 12, 1857, permitted £2,000,000 to be added to the securities in the issue department. As a matter of fact the limits of the Act were only exceeded on that occasion in the returns of 18th and 25th of November. In 1866 permission to relax the Act was given, but the reserve of notes was never below £415,000. This figure appeared in the bank return of June 1. I have been informed, and I have every reason to believe it was the case, that the Bank of England requested all the bankers in Lombard street to pay in every evening all the notes they had drawn during the day, and that this arrangement saved the bank from exceeding the limits of the act. On these occasions the gold bullion in the bank was never less than £6,000,000 in 1847 and 1857, or £11,400,000 in 1866. To make this matter clear I subjoin a table showing the amount of the reserve of the bank during the most acute points of the crises of 1847, 1857, and 1866. It will be seen by this table that the bank reserve was reduced to a very low point in 1847, 1857, and 1866, while the bullion in the issue department was still of considerable amount. The figures are as follows on the dates in question:

Date.	Bank reserve.	Bullion.
Nov. 1, 1847	£1,547,000	£6,745,000
Nov. 11, 1857	957,000	6,666,000
June 1, 1866	415,000	11,434,000

TABLE A.

Amount of gold bullion held, also of the reserve of notes and the rate of discount charged during the crises of 1847, 1857, and 1866.

Year and month.	Gold bullion in bank.	Reserve of notes.	Rate of discount.
			Per cent.
Sept. 1, 1847	£7,545,000	£4,488,000	5½
Oct. 1, 1847	7,185,000	4,112,000	6
Nov. 1, 1847	*6,745,000*	*1,547,000*	8
Dec. 1, 1847	8,315,000	4,228,000	7
Jan. 1, 1848	10,262,000	7,786,000	5
Sept. 1, 1857	10,564,000	5,830,000	5½
Oct. 1, 1857	10,681,000	6,014,000	6
Nov. 1, 1857	8,777,000	3,485,000	8
Nov. 11, 1857	6,666,000	[b] 957,000	10
Nov. 18 1857 [a]	6,079,000	[c] 1,148,000	10
Nov. 25, 1857 [a]	6,784,000	1,918,000	10
Dec. 1, 1857	6,895,000	2,268,000	10
Jan. 1, 1858	10,905,000	6,064,000	8
Mar. 1, 1866	13,113,000	7,345,000	7
Apr. 1, 1866	13,502,000	6,881,000	6
May 1, 1866	13,005,000	5,884,000	7
June 1, 1866	*11,434,000*	*415,000*	10
July 1, 1866	14,170,000	4,346,000	10
Aug. 1, 1866	12,893,000	2,630,000	[d] 10

[a] £2,000,000 was, under authority of treasury letter, November 12, 1857, added to the securities in the issue department in the returns from November 18 to December 23, 1857, both inclusive. The strict limits of the act of 1844 were only exceeded in the returns of November 18 and 25, 1857.

[b] Rate raised to 9 per cent November 5.

[c] Rate raised to 10 per cent November 9; remained at 10 per cent till December 24, when it was lowered to 8 per cent.

[d] Reduced to 8 per cent August 6.

It is of course impossible to conjecture now what alterations Sir Robert Peel might have proposed in the Act had his life been prolonged beyond 1850, but in the following passage of his speech, December 3, 1847, he admitted his disappointment in the failure of one of the three purposes of the Act of 1844, and threw the blame of its failure on the Bank Directors:

"There seems to have been some misapprehension as to the object contemplated by that Act; that which we contemplated was that its future effect would be to prevent the recurrence of those convulsions which had heretofore frequently taken place. It had previously been thought, and might afterwards have been expected, that the Bank of England would have taken precautions against the ill-regulated issue of its treasure, and, therefore, the bill contained no imperative regulation affecting the banking department. We did hope that after the panic of 1826, after that of 1836, after that also of 1839, we did hope that the Bank of England would have confined itself to those principles of banking which their own directors admitted to be just, but from which they had admitted their own departure, though prescribed in part by their own regulations. In that hope I am bound to acknowledge that we have been disappointed. Seeing commercial difficulty coming, seeing the approach of a panic, they still did not conform to those regulations; commercial houses were swept away which had long been insolvent; other houses, which under different circumstances might have proved perfectly solvent, suffered from the failures of those whose inability to meet the demands against them was previously well known.

The Bill has not sufficed to prevent these results, and so far, also, I admit that we have been disappointed; for the bill was intended to impose, if not a legal, at least a moral restraint on the Bank, and we hoped that it would prevent the necessity of having recourse to measures of extreme stringency. In that hope, likewise, I admit that we have been disappointed; for this I must contend, that it was in the power of the Bank, had it taken early precautions, if not to prevent all the evils that have arisen, at least greatly to diminish their force. If the Bank had possessed the resolution to meet the difficulty of a contraction of its issues by raising the rate of discount, by refusing much of the accommodation which they granted between the years 1844 and 1846—if they had only been firm and persevering in those precautions, the necessity for any extensive interference with their operations might have been prevented; it might not then have been necessary for the Government to authorize that violation of the provision, the sole end and object of which was to constrain the Bank of England and prevent a recurrence of the panics of 1836 and 1839. Here I think I may be permitted to refer to what I said on the second reading of the Bill of 1844; at the close of the speech which I then made I thus expressed my opinions:—

"The ministers were not wild enough to suppose that this measure would prevent all undue speculation, or insure an invariable paper currency; but there was a species of speculation dependent on an undue issue of paper which they hoped the measure would check. Speculation could not be prevented in a commercial community, but it might be aggravated by a species of paper credit within the control of Parliament; and though ministers did not aim at checking legitimate speculation—though they admitted they could not prevent illegitimate speculation—which was, perhaps, necessarily incident to mercantile enterprise, particularly in a country like this, still they asked Parliament, by assenting to this measure, not to aggravate evils which it could not control, nor refuse to check those which came properly within its jurisdiction."

Having now sketched out the history of the reasons which led to the division of the two departments of the Bank of England and of what occurred in the crises of 1847, 1857, and 1866, I will continue the statement by some remarks on the general effect of that measure, and of proposals which have been made to mitigate the severity of its action.

The legislation of 1844, it will be seen, put into force, by way of legal enactment, an arrangement which had been made some years previously by the directors for their own personal guidance. Such an arrangement may be a very useful guide to a Board, a valuable reminder to them in their deliberations of the course which they ought to take. But when the strictness of this rigid rule is fixed and rendered absolute by legislation, the whole advantage of the skill and intelligence of those who have the management is rendered powerless by the existence of a rule, the working of which they are only allowed to witness and not in any degree to control. Yet circumstances occasionally arise which may render the keeping the rule impossible. Mr. Jones Loyd foresaw this clearly. In his pamphlet entitled "Thoughts on the Separation of the Departments of the Bank of England," published originally in 1840, he remarks: VIII. "One difficulty has been suggested as liable to attend the plan of a strict regulation of the paper circulation in accordance with the bullion, which deserves attention. In this country an immense mass of liabilities exist which are subject to be paid on demand, and if, in consequence of panic or any other cause influencing a great number of persons simultaneously, the payment of a large portion of these liabilities should be demanded at the same time, either the circulation must be largely increased or the parties liable to such demands must be seriously embarrassed." After some other remarks, including the possibility of a demand on the Government on account of the savings banks, which demand would be greatly increased at the present time, he says: "The Government has subjected itself to a simultaneous demand, to the extent of the deposits in these banks, fifteen or sixteen millions. What would be the effect of such a demand should it occur?"

At the time of writing (1910) this demand on behalf of the savings banks, it will be remembered, would be more than twelve times the amount named above, while no provision has been made to meet it. Mr. Jones Loyd continued: VIII. 5. "If, after all, the danger is deemed to be of such a nature as to require an efficient provision against it—this is to be found, not in the general abandonment of the attempt to place the management of the circulation under some fixed principle; but in that power, which all Governments must necessarily possess, of exercising special interference in cases of unforeseen emergency and great state necessity." The deliberate establishment of a law, while foreseeing at the same time that it was certain to be broken, seems a strange thing. Yet this was done when the Act of 1844 was passed. It is now matter of history that three times since Sir Robert Peel established the division of the two departments, in 1847, 1857, and 1866, permission has had to be given to suspend the law, and although the law has only been actually infringed on one occasion, the principle was the same on all three.

So strongly was the inconvenience felt of the existence of a law which it periodically becomes necessary to suspend that in 1873, when Mr. R. Lowe (afterwards Lord Sherbrooke) was Chancellor of the Exchequer, a bill was brought by him into Parliament to "provide for authorizing in certain contingencies a temporary increase of the amount of Bank of England Notes issued in exchange for securities." The provisions of this bill, however, were so cumbrous and exacting—requiring that, among other things, the rate of minimum interest on advances made under it should be "not less than 12 per cent," and that the excess of issue was not to be allowed unless "the foreign exchanges are favorable to this country"—that it was felt to be unworkable and was allowed to drop. To make this matter perfectly clear I will add the text of the bill.

The text of the bill proposed by Lord Sherbrooke (then Mr. Robert Lowe) in 1873, to allow the Bank of England to exceed in certain contingencies the limits fixed for the issue by the Act of 1844 is printed here in full:

"(*36 Vict.*) *Bank of England Notes.*

"A BILL To provide for authorising in certain contingencies a temporary increase of the amount of Bank of England Notes issued in exchange for securities. A. D. 1873.

"Be it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:

"1. Whenever the First Lord of Her Majesty's Treasury and the Chancellor of the Exchequer after communication with the Governor and Deputy Governor of the Bank of England are satisfied—

Power to authorise temporary and special issue of Bank of England notes.

(1) That the minimum rate of interest then being charged by the Governor and Company of the Bank of England on discounts and temporary advances is not less than *twelve per cent.* per annum; and

(2) That the foreign exchanges are favourable to this country; and

(3) That a large portion of the existing amount of Bank of England and other bank notes in circulation is rendered ineffective for its ordinary purpose by reason of internal panic:

they may, by order under their hands, empower the issue department of the Bank of England to make, in excess of the authorised issue, a special and temporary issue of Bank of England notes, by delivering the same into the banking department in exchange for and on the credit of an equal amount of Government securities to be transferred to the issue department, and the said Governor and Company shall pay interest into the Exchequer on the amount of notes so issued by them at such rate being not less than *twelve per cent.* per annum, as may from time to time be fixed by the First Lord of the Treasury and Chancellor of the Exchequer, and in addition thereto the amount of any further profit which they may derive from the said issue.

"2. The First Lord of the Treasury and the Chancellor of the Exchequer may, if they think it expedient, by order under their hands, rescind and vary any order made in pursuance of this Act, and make any new order in pursuance of this Act.

Order may be rescinded or varied.

"3. *There shall be paid to the said Governor and Company such sum, not exceeding the rate of two per cent. on the amount of such issue, as may be agreed upon between the said First Lord of the Treasury and Chancellor of the Exchequer on the one part, and the said Governor and Deputy Governor of the Bank of England on the other part, to be a fair allowance to the Bank for the risk, expense, and trouble incurred by it in making such issue.*

Remuneration to bank for expense of special issue.

"4. A copy of every order made under this Act shall be forthwith published in such manner as the First Lord of the Treasury and the Chancellor of the Exchequer consider best calculated for giving public and general notice thereof, and shall be laid before both Houses of Parliament within fourteen days after it is made,

Publication and return of order to Parliament.

or if Parliament be not then sitting, within fourteen days after the then next meeting of Parliament.

"5. This Act may be cited as the Bank of England Notes Act, 1873, and shall be construed as one with the Act of the session of the seventh and eighth years of the reign of Her present Majesty, chapter thirty-two, intituled "An Act to regulate the issue of bank notes, and for giving to the Governor and Company of the Bank of England certain privileges for a limited period."

Construction of Act and short title.

[The paragraphs in italics are thus in the original print of the bill.]

Chapter II.

THE SEPARATION OF THE TWO DEPARTMENTS AND THE RATE OF DISCOUNT.

To continue the history of what has occurred. Strong apprehension was expressed before the separation of the two departments was made that the division would lead to more frequent disturbance of the rate of discount charged by the Bank. These are referred to by Tooke, Volume V, of the History of Prices, page 555:

"The arguments *à priori* which, previously to the passing of the Act of 1844, I adduced for the purpose of showing the greater liability to frequent and violent transitions in the state of credit, and in the rate of interest, which would attend the management of the Bank of England in a Divided, than in an Undivided, state of the two departments, have been abundantly confirmed and exemplified by the actual working of the measure since its enactment to the present time."

Tooke referred to this subject in his History of Prices, in the chapter on the anticipations respecting the Act of 1844, Volume IV, page 281, in which he says: "A careful consideration of the various plans which have been submitted to the public for carrying out the currency principle, has led to a confirmation of the opinion which I have before expressed, that under a complete separation of the functions of issue and banking, the transitions would be more abrupt and violent than under the existing system; unless, and upon this, in my opinion, the question hinges, the deposit or banking department were bound to hold a much larger reserve than seems to be contemplated by any of the plans which I have seen."

Though the reserve has been considerably increased since the time when Tooke wrote, yet this increase does not appear to have reached the point which he thought necessary, in proportion to the demands made on it.

The tables at the end of this chapter show the minimum rates of discount charged, and the number of the changes in the rate at the banks of England, France, Germany, the Netherlands, from the year 1844 to 1909, and Belgium from the year 1851. It is, of course, impossible to compare exactly the position of business in one country and another, and the demands on the Bank of England are very different in character from those which fall on the banks either of France or of Germany. At the same time, it is an interesting thing to examine this statement, which shows how numerous and how severe the variations in the rate in England have been.

It is also useful to compare the practice of one great bank with that of another. The circumstances of business in this country are, as mentioned before, so different from those of other countries, that it is difficult to compare them closely with each other; but no one can doubt the great advantages which industry and commerce derive from having, as far as is possible, a fairly even rate of discount for sound mercantile paper, nor how greatly those periods of unhealthy excitement, which have occasionally developed into commercial crises, have been fostered by long periods of very low rates of interest in the money market.

It is also, of course, impossible to argue what might have occurred had the separation of the two departments of the Bank of England not taken place, but, as a matter of history, there can be no question that the fluctuations in the rate of interest which have occurred since have been exceedingly numerous and severe, more so, in fact, than in the case of any other great bank of Europe. No doubt the demands for gold on the London money market are more sudden and greater than on any other money market in Europe, but the question arises whether they have not been accentuated and rendered more severe than they otherwise would have been through the division of the Issue and Banking Departments at the Bank of England.

The statements which follow show—

1. The number of changes in the minimum rate of discount charged by the Banks of England, France, Germany, and the Netherlands for the years 1844–1909, and of Belgium for the years 1851–1909.

2. The highest and lowest rate charged and the amount of fluctuation in the rate in the course of the twelvemonth at the same banks for the same period.

3. The number of days for which each rate was charged by the same banks, and for the same periods arranged from the lowest rate to the highest.

4. The number of days for which each rate was charged by the same banks and the same periods arranged from the largest number of days to the smallest.

A study of these tables will enable us to compare in a general way what has occurred at each of the five banks in respect of the rate charged on the bills offered them for discount.

Table I shows that the number of changes in the rate of discount at the Bank of England has been nearly four times as large as at the Bank of France, and more than twice as large as at the Bank of Germany, the Bank of the Netherlands, and the Bank of Belgium. The figures are:

Number of changes, 1844 to 1909.

Bank of England	443
Bank of France	115
Bank of Germany	196
Bank of the Netherlands	188
Bank of Belgium [a]	192

It should also be noted that at the Bank of England there have occurred during the whole period only 2 years when no change in the rate of discount took place, while at the Bank of France there have been 27, at the Bank of Germany 10, at the Bank of the Netherlands 15, and at the Bank of Belgium 11.

Table II shows that the fluctuations between the highest and lowest rate charged for the twelvemonth has been more severe at the Bank of England than at either the Bank of France, the Bank of Germany, the Bank of the Netherlands, or the Bank of Belgium.

The severest fluctuation that has occurred at the Bank of England was in the year 1866. The lowest rate in that year was 3½ per cent, the highest rate 10 per cent; the

[a] From 1851 to 1909.

fluctuation accordingly was 6½ per cent. In five other years the fluctuation varied from 5 per cent to 6 per cent.

The fluctuations in order of severity from 6½ per cent to 5 per cent at the Bank of England were as follows:

Year.	Lowest rate.	Highest rate.	Fluctuation.
	Per cent.	*Per cent.*	*Per cent.*
1866	3½	10	6½
1873	3	9	6
1858	2½	8	5½
1847	3	8	5
1861	3	8	5
1863	3	8	5

On looking through the table stating these fluctuations many other occasions will be seen on which the fluctuations at the Bank of England, though not so severe, were very sharp, as, for instance, in the year 1857, when though the total fluctuation was only 4½ per cent it was between a rate of 5½ per cent and 10 per cent. Fluctuations of this description are very trying to business.

At the Bank of France, on the other hand, no fluctuation more severe than 3½ per cent is recorded, and this only on two occasions. These were:

Year.	Lowest rate.	Highest rate.	Fluctuation.
	Per cent.	*Per cent.*	*Per cent.*
1863	3½	7	3½
1864	4½	8	3½

At the Bank of Germany no fluctuation more severe than 5 per cent has occurred, and only one of that extent:

Year.	Lowest rate.	Highest rate.	Fluctuation.
	Per cent.	*Per cent.*	*Per cent.*
1866	4	9	5

At the Bank of the Netherlands no fluctuation more severe than 4 per cent has occurred and only one of that extent:

Year.	Lowest rate.	Highest rate.	Fluctuation.
	Per cent.	*Per cent.*	*Per cent.*
1858	3	7	4

At the Bank of Belgium no fluctuation more severe than 3½ per cent has occurred. This has been the case on two occasions.

Year.	Lowest rate.	Highest rate.	Fluctuation.
	Per cent.	*Per cent.*	*Per cent.*
1870	2½	6	3½
1873	3½	7	3½

Table III shows that higher rates, those from 8 per cent and upward, were more frequently charged at the Bank of England than by the other banks, none of those Banks having charged 10 per cent at all, at the Bank of France and the Bank of Germany 9 per cent and 8 per cent having been charged only for very short periods, and at the banks of the Netherlands and of Belgium the rate never having exceeded 7 per cent.

Table IV shows that while the number of days at low rates at the Bank of England is large, it is not so large as at the Bank of France. The average rate at the Bank of England is lower than at the Bank of Germany, but the high rates at the Bank of England have been continued for a much longer time, as an examination of the tables will show.

The proportion of the specie held to the liabilities on deposits and notes in circulation as shown on the balance sheets of the five banks given on pages 150–152 in this memorandum differs very greatly. This is shown in the following table:

Proportion of specie to liabilities on deposits and notes in circulation.

	Per cent.
Bank of England	38.4
Bank of France	75.3
Bank of Germany	37.1
Bank of the Netherlands	58
Bank of Belgium	17.4

No doubt the Bank of England is more exposed to foreign demands on its banking reserve than any other bank in Europe. That the business of the Bank of England is managed with much care and skill is well known, but it appears from the figures given in the tables which follow that the division into the two departments exposes the bank to difficulties which the other banks do not experience, and that the number of changes in the rate of discount is greater and the range of the fluctuations also distinctly wider than at any of the other banks.

TABLE I.—*Rate of discount—Number of changes in each year at the banks of England, France, Germany, Holland (1844–1909), and Belgium (1851–1909).*

Year.	Bank of England.			Bank of France.			Bank of Germany.		
	Rise.	Fall.	Total.	Rise.	Fall.	Total.	Rise.	Fall.	Total.
	Per ct.	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*
1844	------	1	1		No change.		1	------	1
1845	2	------	2		No change.		1	1	2
1846	------	1	1		No change.		1	1	2
1847	6	3	9	1	1	2	------	1	1
1848	------	3	3		No change.		1	1	2
1849	------	1	1		No change.		------	1	1
1850	1	------	1		No change.			No change.	
1851		No change.			No change.			No change.	
1852	------	2	2	------	1	1		No change.	
1853	6	------	6	1	------	1	1	------	1
1854	1	1	2	1	1	2	------	1	1
1855	4	4	8	2	------	2	1	------	1
1856	2	5	7	1	1	2	3	1	4
1857	6	3	9	4	4	8	4	2	6
1858	------	6	6	------	4	4	1	4	5
1859	2	3	5	1	1	2	1	1	2
1860	8	3	11	1	------	1		No change.	
1861	3	8	11	4	3	7		No change.	
1862	2	3	5	1	3	4		No change.	
1863	8	4	12	5	3	8	1	------	1
1864	7	8	15	4	7	11	3	1	4
1865	8	8	16	2	4	6	3	2	5
1866	5	9	14	2	5	7	1	7	8
1867	------	3	3	------	2	2		No change.	
1868	2	------	2		No change.			No change.	
1869	3	4	7		No change.		1	------	1
1870	4	6	10	4	------	4	2	3	5
1871	4	6	10	1	1	2	------	2	2
1872	9	5	14	------	1	1	1	------	1
1873	11	13	24	2	2	4	3	4	7
1874	6	7	13	------	2	2	2	2	4
1875	5	7	12		No change.		2	3	5
1876	1	4	5	------	1	1	3	3	6
1877	4	3	7	------	1	1	3	4	7
1878	6	4	10	1	------	1	1	2	3
1879	------	5	5	1	1	2	2	3	5
1880	1	1	2	1	1	2	2	3	5
1881	4	2	6	2	------	2	2	1	3
1882	3	3	6	------	3	3	2	2	4
1883	1	5	6	------	1	1	------	1	1

TABLE I.—*Rate of discount—Number of changes in each year at the banks of England, France, Germany, Holland (1844–1909), and Belgium (1851–1909)*—Continued.

Year.	Bank of England.			Bank of France.			Bank of Germany.		
	Rise.	Fall.	Total.	Rise.	Fall.	Total.	Rise.	Fall.	Total.
	Per ct.	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*
1884	4	3	7	No change.			No change.		
1885	2	5	7	No change.			1	2	3
1886	4	3	7	No change.			3	2	5
1887	2	4	6	No change.			------	2	2
1888	4	5	9	2	2	4	2	------	2
1889	4	4	8	------	2	2	2	2	4
1890	4	7	11	No change.			2	1	3
1891	5	7	12	No change.			1	3	4
1892	1	3	4	------	1	1	1	1	2
1893	6	6	12	No change.			2	1	3
1894	------	2	2	No change.			------	2	2
1895	No change.			------	1	1	1	------	1
1896	3	------	3	No change.			2	1	3
1897	2	4	6	No change.			2	3	5
1898	3	3	6	1	------	1	4	2	6
1899	4	2	6	2	------	2	4	3	7
1900	1	5	6	1	3	4	------	3	3
1901	2	4	6	No change.			1	3	4
1902	1	2	3	No change.			1	2	3
1903	1	2	3	No change.			1	1	2
1904	------	2	2	No change.			1	------	1
1905	2	1	3	No change.			4	3	7
1906	4	2	6	No change.			3	2	5
1907	4	3	7	2	------	2	2	2	4
1908	------	6	6	------	2	2	------	6	6
1909	4	2	6	No change.			2	1	3
	202	241	443	50	65	115	91	105	196

TABLE I.—*Rate of discount—Number of changes in each year at the banks of England, France, Germany, Holland (1844–1909), and Belgium (1851–1909)*—Continued.

Year.	Bank of Holland.			Bank of Belgium.		
	Rise.	Fall.	Total.	Rise.	Fall.	Total.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent*
1844	No change.			(a)	(a)	(a)
1845	5	--------	5	(a)	(a)	(a)
1846	--------	2	2	(a)	(a)	(a)
1847	1	--------	1	(a)	(a)	(a)
1848	1	3	4	(a)	(a)	(a)
1849	--------	1	1	(a)	(a)	(a)
1850	--------	1	1	(a)	(a)	(a)
1851	No change.			No change.		
1852	No change.			--------	1	1
1853	2	--------	2	No change.		
1854	No change.			No change.		
1855	2	--------	2	No change.		
1856	3	--------	3	1	--------	1
1857	5	3	8	3	1	4
1858	--------	6	6	--------	4	4
1859	No change.			1	1	2
1860	No change.			1	1	2
1861	2	--------	2	3	2	5
1862	2	2	4	1	2	3
1863	4	2	6	3	--------	3
1864	5	4	9	2	4	6
1865	6	5	11	3	3	6
1866	4	7	11	2	4	6
1867	2	4	6	--------	1	1
1868	--------	2	2	No change.		
1869	5	--------	5	No change.		
1870	4	8	12	2	3	5
1871	--------	2	2	5	6	11
1872	5	1	6	6	3	9
1873	4	5	9	9	8	17
1874	--------	3	3	3	6	9
1875	--------	1	1	3	6	9
1876	No change.			--------	2	2
1877	No change.			1	1	2
1878	2	--------	2	2	1	3
1879	--------	2	2	1	3	4
1880	No change.			1	1	2
1881	3	--------	3	4	3	7

[a] Operations commenced in 1851.

TABLE 1.—*Rate of discount—Number of changes in each year at the banks of England, France, Germany, Holland (1844–1909), and Belgium (1851–1909)*—Continued.

Year.	Bank of Holland.			Bank of Belgium.		
	Rise.	Fall.	Total.	Rise.	Fall.	Total.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
1882	5	3	8	4	6	10
1883	--------	4	4	--------	1	1
1884	--------	1	1	1	1	2
1885	--------	1	1	1	3	6
1886	No change.			2	4	4
1887	No change.			2	--------	2
1888	No change.			4	2	6
1889	No change.			1	3	4
1890	4	--------	4	--------	2	2
1891	--------	3	3	No change.		
1892	--------	1	1	--------	1	1
1893	4	2	6	1	--------	1
1894	--------	2	2	No change.		
1895	No change.			--------	1	1
1896	2	--------	2	1	--------	1
1897	--------	1	1	No change.		
1898	--------	1	1	1	--------	1
1899	4	--------	4	4	2	6
1900	--------	3	3	--------	2	2
1901	1	--------	1	--------	2	2
1902	No change.			No change.		
1903	1	--------	1	1	2	3
1904	--------	1	1	No change.		
1905	1	1	2	1	--------	1
1906	3	--------	3	1	2	3
1907	1	2	3	3	--------	3
1908	--------	3	3	--------	5	5
1909	1	1	2	1	--------	1
	94	94	188	86	106	192

TABLE II.—*Lowest and highest rates charged and extent of fluctuation during each year, Banks of England, France, Germany, Holland (1844–1909), and Belgium (1851–1909).*

Year.	Bank of England.			Bank of France.			Bank of Germany.		
	Lowest rate.	Highest rate.	Fluctuation.	Lowest rate.	Highest rate.	Fluctuation.	Lowest rate.	Highest rate.	Fluctuation.
	Per ct.	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*
1844	No change.			No change.			4	4½	½
1845	2½	3½	1	No change.			4	5	1
1846	3	3½	½	No change.			4	5	1
1847	3	8	5	4	5	1	4½	5	½
1848	3	5	2	No change.			4½	5	½
1849	2½	3	½	No change.			4	4½	½
1850	2½	3	½	No change.			No change.		
1851	No change.			No change.			No change.		
1852	2	2½	½	3	4	1	No change.		
1853	2	5	3	3	4	1	4	5	1
1854	5	5½	½	4	5	1	4	5	1
1855	3½	7	3½	4	6	2	4	4½	½
1856	4½	7	2½	5	6	1	4	6	2
1857	5½	10	4½	5	9	4	5	7½	2½
1858	2½	8	5½	3	5	2	4	6½	2½
1859	2½	4½	2	3	4	1	4	5	1
1860	2½	6	3½	3½	4½	1	No change.		
1861	3	8	5	4½	7	2½	No change.		
1862	2	3	1	3½	5	1½	No change.		
1863	3	8	5	3½	7	3½	4	4½	½
1864	6	9	3	4½	8	3½	4½	7	2½
1865	3	7	4	3	5	2	4	7	3
1866	3½	10	6½	3	5	2	4	9	5
1867	2	3½	1½	2½	3	½	No change.		
1868	2	3	1	No change.			No change.		
1869	2½	4½	2	No change.			4	5	1
1870	2½	6	3½	2½	6	3½	4	8	4
1871	2	5	3	5	6	1	4	5	1
1872	3	7	4	5	6	1	4	5	1
1873	3	9	6	5	7	2	4	6	2
1874	2½	6	3½	4	5	1	4	6	2
1875	2	6	4	No change.			4	6	2
1876	2	5	3	3	4	1	3½	6	2½
1877	2	5	3	2	3	1	4	5½	1½
1878	2	6	4	2	3	1	4	5	1
1879	2	5	3	2	3	1	3	4½	1½
1880	2½	3	½	2½	3½	1	4	5½	1½
1881	2½	5	2½	3½	5	1½	4	5½	1½

TABLE II.—*Lowest and highest rates charged and extent of fluctuation during each year, Banks of England, France, Germany, Holland (1844–1909), and Belgium 1851–1909)*—Continued.

Year.	Bank of England.			Bank of France.			Bank of Germany.		
	Lowest rate.	Highest rate.	Fluctuation.	Lowest rate.	Highest rate.	Fluctuation.	Lowest rate.	Highest rate.	Fluctuation.
	Per ct.	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*	*Per ct.*
1882	3	6	3	3½	5	1½	4	6	2
1883	3	5	2	3	3½	½	4	5	1
1884	2	5	3	No change.			No change.		
1885	2	5	3	No change.			4	5	1
1886	2	5	3	No change.			3	5	2
1887	2	5	3	No change.			3	5	2
1888	2	5	3	2½	4½	2	3	4½	1½
1889	2½	6	3½	3	4	1	3	5	2
1890	3	6	3	No change.			4	5½	1½
1891	2½	5	2½	No change.			3	5½	2½
1892	2	3½	1½	2½	3	½	3	4	1
1893	2½	5	2½	No change.			3	5	2
1894	2	3	1	No change.			3	5	2
1895	No change.			2	2½	½	3	4	1
1896	2	4	2	No change.			3	5	2
1897	2	4	2	No change.			3	5	2
1898	2½	4	1½	2	3	1	3	6	3
1899	3	6	3	3	4½	1½	4	7	3
1900	3	6	3	3	4½	1½	5	7	2
1901	3	5	2	No change.			3½	4½	1
1902	3	4	1	No change.			3	4	1
1903	3	4	1	No change.			3½	4	½
1904	3	3½	½	No change.			4	5	1
1905	2½	4	1½	No change.			3	6	3
1906	3½	6	2½	No change.			4½	7	2½
1907	4	7	3	3½	4	½	5½	7½	2
1908	2½	6	3½	3	3½	½	4	6½	2½
1909	2½	5	2½	No change.			3½	5	1½

TABLE II.—*Lowest and highest rates charged and extent of fluctuation during each year, Banks of England, France, Germany, Holland (1844–1909), and Belgium (1851–1909)*—Continued.

Year.	Bank of Holland.			Bank of Belgium.		
	Lowest rate.	Highest rate.	Fluctuation.	Lowest rate.	Highest rate.	Fluctuation.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
1844		No change.		(a)	(a)	(a)
1845	2½	5½	3	(a)	(a)	(a)
1846	4	5½	1½	(a)	(a)	(a)
1847	4	5	1	(a)	(a)	(a)
1848	3	5	2	(a)	(a)	(a)
1849	2½	3	½	(a)	(a)	(a)
1850	2	2½	½	(a)	(a)	(a)
1851		No change.			No change.	
1852		No change.		3	4	1
1853	2	3	1		No change.	
1854		No change.			No change.	
1855	3	4	1		No change.	
1856	4	5½	1½	3	4	1
1857	4	7	3	3½	5½	2
1858	3	7	4	3	5	2
1859		No change.		3	4	1
1860		No change.		3	4	1
1861	3	4	1	3	5	2
1862	3½	4	½	3	4	1
1863	3	5	2	3	5½	2½
1864	4½	7	2½	4	6	2
1865	3	6	3	3	6	3
1866	4½	7	2½	3	6	3
1867	2½	4½	2	2½	3	½
1868	2½	3½	1		No change.	
1869	2½	5	2½		No change.	
1870	3	6	3	2½	6	3½
1871	3	4	1	2½	5½	3
1872	2½	5	2½	2½	5½	3
1873	4	6½	2½	3½	7	3½
1874	3½	5	1½	3½	6	2½
1875	3	3½	½	3	4½	1½
1876		No change.		2½	3½	1
1877		No change.		2½	3½	1
1878	3	4	1	2½	4½	2
1879	3	4	1	2½	4	1½
1880		No change.		3	3½	½

a Operations commenced 1851.

TABLE II.—*Lowest and highest rates charged and extent of fluctuation during each year, Banks of England, France, Germany, Holland (1844–1909), and Belgium (1851–1909)*—Continued.

Year.	Bank of Holland.			Bank of Belgium.		
	Lowest rate.	Highest rate.	Fluctuation.	Lowest rate.	Highest rate.	Fluctuation.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
1881	3½	4½	1	3½	5½	2
1882	3½	5½	2	3½	6	2½
1883	3½	5½	2	3½	4	½
1884	3	3½	½	3	4	1
1885	2½	3	½	3	4	1
1886		No change.		2½	4	1½
1887		No change.		2½	3½	1
1888		No change.		2½	5	2½
1889		No change.		3	5	2
1890	2½	4½	2	3	4	1
1891	3	4½	1½		No change.	
1892	2½	3	½	2½	3	½
1893	2½	5	2½	2½	3	½
1894	2½	3½	1		No change.	
1895		No change.		2½	3	½
1896	2½	3½	1	2½	3	½
1897	3	3½	½		No change.	
1898	2½	3	½	3	4	1
1899	2½	5	2½	3½	5	1½
1900	3½	5	1½	4	5	1
1901	3	3½	½	3	4	1
1902		No change.			No change.	
1903	3	3½	½	3	4	1
1904	3	3½	½		No change.	
1905	2½	3	½	3	4	1
1906	3	5	2	3½	4½	1
1907	5	6	1	4	6	2
1908	3	5	2	3	6	3
1909	2½	3	½	3	3½	½

TABLE III.—*Rate of discount, 1844–1909—The number of days at each rate arranged from the lowest rate to the highest.*

BANK OF ENGLAND.

[Lowest rate, 2 per cent; highest rate, 10 per cent.]

Rate per cent.	Number of days.	Number of days per cent of total. (Total = 1,000.)
2	3,409	143
2¼	28	1
2½	3,599	151
3	5,859	246
3½	1,921	80
4	3,772	158
4½	608	26
5	2,195	92
5½	263	11
6	975	41
6½	91	4
7	633	26
8	268	11
9	95	4
10	141	6
	23,857	1,000

BANK OF FRANCE.

[Lowest rate, 2 per cent; highest rate, 9 per cent.]

Rate per cent.	Number of days.	Number of days per cent of total. (Total = 1,000.)
2	2,735	115
2½	2,579	108
3	7,828	329
3½	2,060	86
4	4,579	192
4½	353	15
5	2,061	86
5½	120	5
6	1,170	49
6½	8	----------
7	286	12
7½	21	1
8	41	2
9	16	----------
	23,857	1,000

TABLE III.—*Rate of discount, 1844–1909—The number of days at each rate arranged from the lowest rate to the highest*—Continued.

IMPERIAL BANK OF GERMANY.

[Lowest rate, 3 per cent; highest rate, 9 per cent.]

Rate per cent.	Number of days.	Number of days per cent of total. (Total = 1,000.)
3	3,073	129
3½	644	27
4	12,192	511
4½	1,626	68
5	4,094	172
5½	707	30
6	970	41
6½	72	3
7	269	11
7½	110	5
8	37	1
9	63	2
	23,857	1,000

BANK OF THE NETHERLANDS.

[Lowest rate, 2 per cent; highest rate, 7 per cent.]

Rate per cent.	Number of days.	Number of days per cent of total. (Total = 1,000.)
2	1,328	56
2½	5,058	212
3	8,013	336
3½	3,737	157
4	2,167	91
4½	811	34
5	1,823	76
5½	375	16
6	260	11
6½	150	6
7	135	5
	23,857	1,000

TABLE III.—*Rate of discount, 1844–1909—The number of days at each rate arranged from the lowest rate to the highest*—Continued.

NATIONAL BANK OF BELGIUM.

[Lowest rate, 2½ per cent; highest rate, 7 per cent.]

Rate per cent.	Number of days.	Number of days per cent of total. (Total = 1,000.)
2½	3,169	147
3	9,412	437
3½	2,965	138
4	3,416	159
4½	698	32
5	944	44
5½	378	18
6	540	25
7	27	------------
	21,549	1,000

TABLE IV.—*Rate of discount, 1844–1909—The number of days at each rate arranged from the highest number of days to the lowest.*

BANK OF ENGLAND.

Number of days.	Rate per cent.	Number of days per cent of total. (Total= 1,000.)
5,859	3	246
3,772	4	158
3,559	2½	151
3,409	2	143
2,195	5	92
1,921	3½	80
975	6	41
633	7	26
608	4½	26
268	8	11
263	5½	11
141	10	6
95	9	4
91	6½	4
28	2¼	1
23,857	------------	1,000

TABLE IV.—*Rate of discount, 1844–1909—The number of days at each rate arranged from the highest number of days to the lowest*—Continued.

BANK OF FRANCE.

Number of days.	Rate per cent.	Number of days per cent of total. (Total= 1,000.)
7,828	3	329
4,579	4	192
2,735	2	115
2,579	2½	108
2,061	5	86
2,060	3½	86
1,170	6	49
353	4½	15
286	7	12
120	5½	5
41	8	2
21	7½	1
16	9	------------
8	6½	------------
23,857	------------	1,000

IMPERIAL BANK OF GERMANY.

Number of days.	Rate per cent.	Number of days per cent of total. (Total= 1,000.)
12,192	4	511
4,094	5	172
3,073	3	129
1,626	4½	68
970	6	41
707	5½	30
644	3½	27
269	7	11
110	7½	5
72	6½	3
63	9	2
37	8	1
23,857	------------	1,000

TABLE IV.—*Rate of discount, 1844–1909—The number of days at each rate arranged from the highest number of days to the lowest*—Continued.

BANK OF THE NETHERLANDS.

Number of days.	Rate per cent.	Number of days per cent of total. (Total= 1,000.)
8,013	3	336
5,058	2½	212
3,737	3½	157
2,167	4	91
1,823	5	76
1,328	2	56
811	4½	34
375	5½	16
260	6	11
150	6½	6
135	7	5
23,857	------------	1,000

BANK OF BELGIUM.

Number of days.	Rate per cent.	Number of days per cent of total. (Total= 1,000.)
9,412	3	437
3,416	4	159
3,169	2½	147
2,965	3½	138
944	5	44
698	4½	32
540	6	25
378	5½	18
27	7	------------
21,549	------------	1,000

Chapter III.

CORRESPONDENCE BETWEEN THE GOVERNMENT AND THE BANK OF ENGLAND DURING THE CRISES OF 1847, 1857, AND 1866.

On each occasion when permission was given to the Bank of England to suspend the Act of 1844 correspondence took place between the Government and the Bank on the subject. This is given in full here to explain what took place.

There is no complete official statement of the correspondence between the Government and the bank during the crises of 1847, 1857, and 1866. The letters which follow are extracted from the report of the Committee of the House of Lords on the Commercial Distress in 1847, from Tooke's History of Prices and from the Economist newspaper. It must be remembered that when the suspension of the Bank Act has been allowed this has never been at the commencement of a period of stress, but not till the anxiety has gone on for some considerable time. The correspondence between the Government and the Bank which took place on the occasion of the crises of 1847, 1857, and 1866, which I subjoin, shows this very clearly. The periods were marked by great commercial distress, by many failures of banks and of business houses which might in an ordinary way have met all their engagements, and there is no doubt that the length of time which was occupied in the correspondence, joined to a feeling of doubt whether the suspension of the bank act would be permitted, added greatly to the anxiety. The high rates charged for discounts and advances also tended to increase this. I write as a man who has lived through the crisis of 1866, with some remembrance even of earlier troubles, and I can bear witness to the misery which has taken place at such periods,—the distress of the working classes through want of employment,—the destruction of property,—the loss of capital,—and of the lives of friends whose constitutions were sapped by the prolonged anxiety.

CORRESPONDENCE BETWEEN THE GOVERNMENT AND THE BANK OF ENGLAND IN THE CRISIS OF 1847.

DOWNING STREET, *October 25, 1847.*

GENTLEMEN: Her Majesty's Government have seen with the deepest regret, the pressure which has existed for some weeks upon the commercial interests of the country, and that this pressure has been aggravated by a want of that confidence which is necessary for carrying on the ordinary dealings of trade.

They have been in hopes that the check given to transactions of a speculative character, the transfer of capital from other countries, the influx of bullion, and the feeling which a knowledge of these circumstances might have been expected to produce, would have removed the prevailing distrust.

They were encouraged in this expectation by the speedy cessation of a similar state of feeling in the month of April last.

These hopes have, however, been disappointed, and Her Majesty's Government have come to the conclusion that the time has arrived when they ought to attempt, by some extraordinary and temporary measure, to restore confidence to the mercantile and manufacturing community.

For this purpose, they recommend to the Directors of the Bank of England, in the present emergency, to enlarge the amount of their discounts and advances, upon approved security; but that, in order to retain this operation within reasonable limits, a high rate of interest should be charged. In present circumstances they would suggest that the rate of interest should not be less than 8 per cent.

If this course should lead to any infringement of the existing law, Her Majesty's Government will be prepared to propose to Parliament on its meeting, a Bill of Indemnity.

They will rely upon the discretion of the Directors to reduce as soon as possible the amount of their notes, if any extraordinary issues should take place, within the limits prescribed by law.

Her Majesty's Government are of opinion that any extra profit derived from this measure should be carried to the account of the public, but the precise mode of doing so must be left to future arrangement.

Her Majesty's Government are not insensible to the evil of any departure from the law which has placed the currency of this country upon a sound basis; but they feel confident that, in the present circumstances, the measure which they have proposed may be safely adopted; and that, at the same time, the main provisions of that law and the vital principle of preserving the convertibility of the bank-note may be fairly maintained.

We have the honor to be, Gentlemen,

Your obedient humble servants,

(Signed) JOHN RUSSELL.
CHARLES WOOD.

The GOVERNOR AND DEPUTY-GOVERNOR OF THE BANK OF ENGLAND.

[Reply.]

BANK OF ENGLAND, *October 25, 1847.*

GENTLEMEN: We have the honor to acknowledge your letter of this day's date, which we have submitted to the Court of Directors, and we enclose a copy of the resolu-thereon; and

We have the honor to be, Sirs,

Your most obedient servants,

(Signed) JAMES MORRIS, *Governor.*

H. J. PRESCOTT, *Deputy-Governor.*

To the FIRST LORD OF THE TREASURY AND THE CHANCELLOR OF THE EXCHEQUER.

Resolved, That this Court do accede to the recommendation contained in the letter from the First Lord of the Treasury and the Chancellor of the Exchequer, dated this day, and addressed to the Governor and Deputy-Governor of the Bank of England, which has just been read:

That the minimum rate of discount on bills not having more than ninety-five days to run be 8 per cent:

That advances be made on bills of exchange, on stock, Exchequer bills, and other approved securities, in sums of not less than £2,000 and for periods to be fixed by the Governors, at the rate of 8 per cent per annum.

The following is the letter addressed by the First Lord of the Treasury and the Chancellor of the Exchequer at midday on Thursday (November 12) to the Bank:

[Taken from "The Economist," November 14, 1857.]

CORRESPONDENCE BETWEEN THE GOVERNMENT AND THE BANK OF ENGLAND IN THE CRISIS OF 1857.

DOWNING STREET, *November 12.*

GENTLEMEN: Her Majesty's Government have observed with great concern the serious consequences which have ensued from the recent failure of certain joint stock banks in England and Scotland, as well as of certain large mercantile firms, chiefly connected with the American trade.

The discredit and distrust which have resulted from these events, and the withdrawal of a large amount of the paper circulation authorized by the existing Bank Acts, appear to Her Majesty's Government to render it necessary for them to inform the Bank of England that if they should be unable in the present emergency to meet the demands for discounts and advances upon approved securities without exceeding the limits of their circulation prescribed by the Act of 1844, the Government will be prepared to propose to Parliament, upon its meeting, a bill of indemnity for any excess so issued.

In order to prevent this temporary relaxation of the law being extended beyond the actual necessities of the occasion, Her Majesty's Government are of opinion that the Bank terms of discount should not be reduced below their present rate.[a]

Her Majesty's Government reserve for future consideration the appropriation of any profit which may arise upon issues in excess of the statutory amount.

Her Majesty's Government are fully impressed with the importance of maintaining the letter of the law, even in a time of considerable mercantile difficulty, but they believe that, for the removal of apprehensions which have checked the course of monetary transactions, such a measure as is now contemplated has become necessary, and they rely upon the discretion and prudence of the Directors for confining its operation within the strict limits of the exigencies of the case.

We have, etc.,

(Signed.) PALMERSTON.
G. C. LEWIS.

The GOVERNOR AND DEPUTY-GOVERNOR OF THE BANK OF ENGLAND.

[a] The rate was 10 per cent; raised to this point November 5.

The following is a copy of a letter addressed by the Directors of the Bank of England to the Government in reference to their issues since the 12th ultimo (November 12, 1857):

[Taken from "The Economist," December 5, 1857.]

BANK OF ENGLAND, *December 2, 1857.*

MY LORD AND SIR, We have the honor to acknowledge the receipt of your letter of the 27th instant (*sic*, in Economist), requesting "such an explanation with respect to the course which the Directors of the Bank of England have pursued in regulating their issues of notes since the 12th instant, as they may be able to furnish for the information of Her Majesty's Government."

In complying with this wish, it may be well to allude to the position of the Bank of England accounts anterior to the receipt of the letter of the 12th.

On the 24th October the bullion in the issue department was £8,777,000; the reserve, £4,079,000; the notes in the hands of the public, £19,766,000; the discounts and advances, £10,262,000; and the deposits, £16,126,000; the rate of discount at the bank being 8 per cent for bills having not more than ninety-five days to run.

In the following week a great shock to credit and a consequent demand on the Bank of England for discounts arose, from the failure of the Liverpool Borough Bank, whose re-discounted bills were largely held by the bill brokers and others in London. The effects of this and other failures, however, up to this time, had not occasioned any alarming pressure on the resources of the Bank, or great disquietude in commercial affairs in London.

On the 5th of November the reserve was £2,944,000, the bullion in the issue department £7,919,000, and the deposits £17,265,000. The rate of discount was advanced to 9 per cent and on the 10th of November to 10 per cent.

The continental drain for gold had ceased, the American demand had become unimportant, and there was at that time little apprehension that the Bank issues would be inadequate to meet the necessities of commerce within the legalized sphere of their circulation.

Upon this state of things, however, supervened the failure of the Western Bank of Scotland, and the City of Glasgow Bank, and the renewed discredit in Ireland, causing an increased action upon the English circulation, by the abstraction in four weeks of upward of £2,000,000 of gold, to supply the wants of Scotland and Ireland; of which amounts more than £1,000,000 was sent to Scotland, and £280,000 to Ireland, between the 5th and 12th of November.

This drain was in its nature sudden and irresistible, and acted necessarily in diminution of the reserve, which on the 11th had decreased to £1,462,000 and the bullion to £6,666,000.

The public became alarmed, large deposits accumulated in the Bank of England, money dealers having vast sums lent to them upon call were themselves obliged to resort to the Bank of England for increased supplies, and for some days nearly the whole of the requirements of commerce were thrown on the Bank. Thus, on the 12th, it discounted and advanced to the amount of £2,373,000, which still left a reserve at night of £581,000.

Such was the state of the Bank of England accounts on the 12th, the day of the publication of the letter from the Treasury. The demand for discounts and advances continued to increase till the 21st, when they reached their maximum of £21,616,000.

The public have also required a much larger quantity of notes than usual at this season, the amount in their hands having risen on the 21st to £21,544,000.

The Bank have, since the 12th, under the authority of the letter from the Treasury, issued £2,000,000 of notes in excess of the limits of the circulation prescribed by the Act of 1844, and have passed securities to the issue department to that amount.

That, however, is not the measure of the amount actually parted with by the Bank, which has not exceeded £928,000, the remainder of the £2,000,000 having been retained as a reserve of notes in the banking department, which, at the same time, also held £407,020 in coin.

We subjoin a statement of accounts from the 11th November to the 28th, inclusive, from which it will be apparent that the Bank continued to meet all demands for discounts and advances on approved securities, to remedy the commercial discredit and distress mentioned in your letter of the 12th instant, "as occasioned by the recent failure of certain joint stock banks in England and Scotland, as well as of certain large mercantile firms chiefly connected with the American trade," and aggravated by the subsequent embarrassment of large joint stock banks.

In discounts and advances, the sum supplied to the public between the 12th November and the 1st December amounted in the aggregate to £12,645,000. We have, etc.

(Signed) SHEFFIELD NEAVE, *Governor.*
BONAMY DOBREE, *Deputy Governor.*

To the Right Hon. the FIRST LORD OF THE TREASURY and the Right Hon. the CHANCELLOR OF THE EXCHEQUER.

Statement of accounts.

DR. ISSUE DEPARTMENT.

	Notes issued.		Notes issued.
1857.		1857.	
November 11	£21,141,000	November 21	£22,937,000
12	20,990,000	23	23,123,000
13	23,185,000	24	23,213,000
14	22,801,000	25	23,259,000
16	22,639,000	26	23,305,000
17	22,579,000	27	23,207,000
18	22,555,000	28	23,267,000
19	22,590,000	30	23,310,000
20	22,565,000	December 1	23,337,000

CR.

	Government debt.	Other securities.	Gold coin and bullion.	Total.
1857.				
November 11	£11,015,000	£3,460,000	£6,666,000	£21,141,000
12	11,015,000	3,460,000	6,524,000	20,990,000
13	11,015,000	5,460,000	6,710,000	23,185,000
14	11,015,000	5,460,000	6,326,000	22,801,000
16	11,015,000	5,460,000	6,164,000	22,639,000
17	11,015,000	5,460,000	6,104,000	22,579,000
18	11,015,000	5,460,000	6,080,000	22,555,000
19	11,015,000	5,460,000	6,115,000	22,590,000
20	11,015,000	5,460,000	6,090,000	22,565,000
21	11,015,000	5,460,000	6,462,000	22,937,000
23	11,015,000	5,460,000	6,648,000	23,123,000
24	11,015,000	5,460,000	6,738,000	23,213,000
25	11,015,000	5,460,000	6,784,000	23,259,000
26	11,015,000	5,460,000	6,830,000	23,305,000
27	11,015,000	5,460,000	6,732,000	23,207,000
28	11,015,000	5,460,000	6,792,000	23,267,000
30	11,015,000	5,460,000	6,835,000	23,310,000
December 1	11,015,000	5,460,000	6,862,000	23,337,000

Statement of accounts—Continued.

DR. BANKING DEPARTMENT.

	Proprietors' capital.	Rest.	Public deposits.	Other deposits.	Seven-day and other bills.	Liabilities.
1857.						
November 11	£14,553,000	£3,364,000	£5,315,000	£12,935,000	£853,000	£37,020,000
12	14,553,000	3,400,000	5,329,000	14,154,000	800,000	38,236,000
13	14,553,000	3,400,000	5,489,000	13,772,000	800,000	38,014,000
14	14,553,000	3,400,000	5,408,000	13,875,000	800,000	38,036,000
16	14,553,000	3,400,000	5,392,000	13,832,000	800,000	37,977,000
17	14,553,000	3,400,000	5,421,000	13,665,000	800,000	37,839,000
18	14,553,000	3,433,000	5,484,000	13,959,000	830,000	38,259,000
19	14,553,000	3,400,000	5,480,000	14,715,000	800,000	38,948,000
20	14,553,000	3,400,000	5,682,000	14,855,000	800,000	39,290,000
21	14,553,000	3,400,000	5,687,000	15,136,000	800,000	39,576,000
23	14,553,000	3,400,000	5,692,000	15,234,000	800,000	39,679,000
24	14,553,000	3,400,000	5,750,000	15,076,000	800,000	39,579,000
25	14,553,000	3,447,000	5,788,000	14,952,000	816,000	39,556,000
26	14,553,000	3,500,000	5,770,000	14,764,000	800,000	39,387,000
27	14,553,000	3,500,000	5,957,000	14,699,000	800,000	39,509,000
28	14,553,000	3,500,000	5,973,000	14,576,000	800,000	39,402,000
30	14,553,000	3,500,000	5,988,000	14,593,000	800,000	39,434,000
December 1	14,553,000	3,500,000	6,010,000	14,576,000	800,000	39,439,000

Statement of accounts—Continued.

BANKING DEPARTMENT—Continued.

CR.

	Government securities.	Other securities.	Notes.	Gold and silver coin.	Assets.
1857.					
November 11	£9,445,000	£26,113,000	£958,000	£504,000	£37,020,000
12	9,445,000	28,210,000	131,000	450,000	38,236,000
13	7,356,000	28,844,000	1,814,000	----------	38,014,000
14	7,255,000	29,199,000	1,378,000	204,000	38,036,000
16	7,094,000	29,541,000	1,140,000	202,000	37,977,000
17	6,819,000	29,639,000	1,164,000	217,000	37,839,000
18	6,407,000	30,299,000	1,148,000	405,000	38,259,000
19	6,254,000	31,131,000	1,104,000	459,000	38,948,000
20	6,031,000	31,780,000	1,072,000	407,000	39,290,000
21	6,028,000	31,783,000	1,383,000	382,000	39,576,000
23	5,941,000	31,747,000	1,603,000	388,000	39,679,000
24	5,852,000	31,575,000	1,683,000	469,000	39,579,000
25	5,808,000	31,350,000	1,919,000	479,000	39,556,000
26	5,808,000	31,386,000	1,757,000	436,000	39,387,000
27	5,808,000	31,594,000	1,658,000	449,000	39,509,000
28	5,808,000	31,345,000	1,816,000	433,000	39,402,000
30	5,808,000	31,198,000	1,985,000	443,000	39,434,000
December 1	5,671,000	31,248,000	2,057,000	463,000	39,439,000

N. B.—In the above statement it will be observed that the accounts of November 11 and 12 are framed upon the authorized issue of £14,475,000 on securities; while those of the 13th and subsequent days are framed in conformity with an issue on securities extended to £16,475,000. The returns of the 11th, 18th, and 25th are accurate, the others are approximative only, inasmuch as special returns from the branches affecting minor items in the account are rendered weekly.

Statement of accounts—Continued.

BANKING DEPARTMENT—Continued.

	Notes with the public.		Notes with the public.
1857.		1857.	
November 11	£20,183,000	November 21	£21,554,000
12	20,868,000	23	21,520,000
13	21,371,000	24	21,529,000
14	21,423,000	25	21,340,000
16	21,499,000	26	21,548,000
17	21,415,000	27	21,549,000
18	21,407,000	28	21,451,000
19	21,486,000	30	21,325,000
20	21,493,000	December 1	21,280,000

M. MARSHALL, *Chief Cashier.*

BANK OF ENGLAND, *December 3, 1857.*

CORRESPONDENCE BETWEEN THE GOVERNMENT AND THE BANK OF ENGLAND IN THE CRISIS OF 1866.

[Taken from "The Economist," May 19, 1866.]

RELAXATION OF THE BANK ACT.

The following is the correspondence that has taken place between the Governor of the Bank of England and the Ministry on the subject of the recent pressure in the money market—

[Copy.]

BANK OF ENGLAND, *May 11, 1866.*

SIR,—We consider it to be our duty to lay before the Government the facts relating to the extraordinary demands for assistance which have been made upon the Bank of England to-day, in consequence of the failure of Messrs. Overend, Gurney & Co.

We have advanced to the bankers, bill brokers, and merchants in London during the day upwards of £4,000,000 sterling upon the security of Government stock and bills of exchange—an unprecedented sum to lend in one day, and which, therefore, we suppose would be sufficient to meet all their requirements, although the proportion of this sum which may have been sent to the country must materially affect the question.

We commenced this morning with a reserve of £5,727,-000, which has been drawn upon so largely that we can not calculate on having so much as £3,000,000 this evening, making a fair allowance for what may be remaining at the branches.

We have not refused any legitimate application for assistance, and unless the money taken from the Bank is entirely withdrawn from circulation there is no reason to suppose that this reserve is insufficient.

We have the honor to be, Sir, your obedient servants,

(Signed) H. L. HOLLAND, *Governor.*

(Signed) THOS. NEWMAN HUNT, *Deputy-Governor.*

The Right Hon. the CHANCELLOR OF THE EXCHEQUER, *M. P., etc., etc.*

To the Governor and Deputy-Governor of the Bank of England.

GENTLEMEN,—We have the honor to acknowledge the receipt of your letter of this day to the Chancellor of the Exchequer, in which you state the course of action at the Bank of England, under the circumstances of sudden anxiety, which have arisen since the stoppage of Messrs. Overend, Gurney & Co. (Limited) yesterday.

We learn with regret that the Bank reserve, which stood so recently as last night at a sum of about five millions and three quarters, has been reduced in a single day by the liberal answer of the Bank to the demands of commerce during the hours of business and by its great anxiety to avert disaster, to little more than half of that amount, or a sum (actual for London and estimated for the branches) not greatly exceeding three millions.

The accounts and representations which have reached Her Majesty's Government during the day exhibit the state of things in the City as one of extraordinary distress and apprehension. Indeed, deputations composed of persons of the greatest weight and influence, and representing alike the private and joint stock banks of London, have presented themselves in Downing street and urged with unanimity and with earnestness the necessity of some intervention on the part of the State to allay the anxiety which prevails, and which appears to have amounted, through great part of the day, to absolute panic.

There are some important points in which the present crisis differs from those of 1847 and 1857. Those periods were periods of mercantile distress, but the vital consideration of banking credit does not appear to have been involved in them, as it is in the present crisis.

Again, the course of affairs was comparatively slow and measured; whereas the shock has in this instance arrived with an intense rapidity, and the opportunity for deliberation is narrowed in proportion. Lastly, the reserve of the Bank of England has suffered a diminution without precedent relatively to the time in which it has been brought about, and in view especially of this circumstance Her Majesty's Government can not doubt that it is their duty to adopt without delay the measures which seem to them best calculated to compose the public mind, and to arrest the calamities which may threaten trade and industry. If, then, the Directors of the Bank of England, proceeding upon the prudent rules of action by which their administration is usually governed, shall find that in order to meet the wants of legitimate commerce, it be requisite to extend their discounts and advances upon approved securities, so as to require issues of notes beyond the limits fixed by law, Her Majesty's Government recommend that this necessity should be met immediately upon its occurrence, and in that event they will not fail to make application to Parliament for its sanction.

No such discount or advance, however, should be granted at a rate of interest of less than *ten per cent*, and Her Majesty's Government reserve it to themselves to recommend, if they should see fit, the imposition of a higher rate. After deduction by the Bank of whatever it may consider to be a fair charge for its risk, expense, and trouble, the profits of these advances will accrue to the public.

We have the honor to be, Gentlemen, your obedient servants,

(Signed) RUSSELL.
(Signed) W. E. GLADSTONE.

DOWNING STREET, *May 11, 1866.*

BANK OF ENGLAND, *May 12, 1866.*

To the Right Hon. Earl Russell and the Right Hon. W. E. Gladstone, M. P.

MY LORD AND SIR—Having laid before the Court of Directors the letter received from you yesterday, with respect to a further issue of notes, if necessary, beyond the limit fixed by the Act of 1844, we have now the honor to enclose a copy of the resolutions of the Court thereupon.—

We have the honor to be, my Lord and Sir, your most obedient servants,

(Signed) H. L. HOLLAND, *Governor.*
(Signed) THOS. N. HUNT, *Deputy Governor.*

Copy of Resolutions Enclosed.

At a Court of Directors of the Bank on Saturday, the 12th of May, 1866:—

Resolved,—That the governors be requested to inform the First Lord of the Treasury and the Chancellor of Exchequer that the Court is prepared to act in conformity with the letter addressed to them yesterday.

Resolved,—That the *minimum* rate of discount on bills not having more than ninety-five days to run be raised from 9 to 10 per cent.

HAMMOND CHUBB, *Secretary.*

The comments of the editor of "The Economist" at the time were as follows. They are found in "The Economist," May 26, 1866, and will assist the reader to understand the circumstances of the crisis.

THE PRACTICAL EFFECT OF THE ACT OF 1844.

"The main use of the law is that it compels the Bank to act at an early stage during a foreign drain of bullion. They must *with* the Act raise the rate of discount; they ought not to raise it *without* the Act. It accomplishes this end in a most effectual manner. It separates the banking reserve on which a foreign drain always acts, and therefore makes such a drain of more instant importance than it would be otherwise. The Bank is cut into two halves, and the half which feels the foreign drain has to be kept solvent without going to the half which does not feel it. Accordingly the Bank Directors must act early and promptly; if they did not, the Banking Department would be bare, as it was in 1857 and 1847, before they had aroused themselves to act as they ought. During the cotton drain the Act of 1844 worked in this manner. It made the Bank directors act whether they would or no, and so kept a large bullion reserve in the country.

"Of course the Bank directors might have been wise enough to act as promptly and wisely without any legislation. But before the Act of 1844 they did not do so. We have, rightly or wrongly, but by incurable custom and habit, committed the custody of the Bank reserve of the country to a single establishment. Without the Act of 1844 we should have to rely on their discretion only; but the Act of 1844 makes the danger of neglecting a drain of bullion so tremendous and so palpable that no Bank directors can neglect it.

"But this advantage of the Act of 1844 is purchased at the cost of three great evils:—

"1. That a panic is necessarily aggravated. It is absurd to talk of the present state of the money market as having been caused by the Act of 1844. If it had been it would have been cured by the Treasury Letter and the suspension of that Act. But it has not been so cured. The profound distrust created by diffused bad business still exists. But the Act of 1844, for a day, engendered artificial fear. As we have shown, the auxiliary credit currency, the currency of banking credit, having been impaired and injured, more notes, more primary credit currency, is wanted to supply its place. On what is called "Overend's Friday," the want of such currency was palpable, and it was given. The Act of 1844 is responsible not for the present want of credit, but for the difference between the acute agony which preceded the relief from the Treasury and the slow suffering which we still feel. Certainly, Peel's Act is a legal ligament which inflames panic into frenzy.

"2. What is of little consequence in comparison, but yet is of some:—The Act of 1844 makes the quarterly payments of the dividends and the salaries very serious matters, whereas otherwise they would scarcely be felt. The banking reserve being isolated, any considerable amount of notes withdrawn from it, even for internal purposes, makes a marked change, and unless the matter is most delicately managed by the Bank, and most heedful preparations are made beforehand, the rate of interest is raised unnecessarily. Whether a few more notes or not go out to the public is immaterial if we make up the account in the "old form," or as the accounts of the Bank of France are made up; but the loss of those notes at critical instants, is made most important by the Act of 1844.

"3. There is a danger from Sir Robert Peel's Act we now experience for the first time; its suspension is liable to cause foreign discredit. And this defect is most serious. The good of the Act of 1844 is that it compels the directors to raise the rate of interest, and so attract money from abroad. The high value of money makes foreign nations lend it to us. But as no similar legislation to the Act of 1844 prevails out of England, foreigners are puzzled by the frenzy it excites, and the necessity of an extra legal intervention to allay it. They fancy that cash payments have been suspended,—our Foreign Office has to write a letter to explain the matter. As England in times of dear money is a systematic borrower, lives on international credit, the existence of an Act which must at such times often be suspended, and which, when suspended, creates foreign suspicion, is a serious new difficulty. We never felt it before, because we never acted so well before,—never raised the rate of interest so high before.

"Such are in their barest form the defects and the merits of the Act of 1844. We have stated them in the simplest and shortest way of which they are capable, in order that the practical men of business for whom we are writing may recognize the truth of what we say by the plain testimony of their own experience."

Besides the remarks in the "Economist" newspaper as to the danger of causing discredit of this country abroad, mentioned above, it is well to refer to the fact that "The circular issued at this time by the Earl of Clarendon then at the foreign office, in which it was stated that 'Her Majesty's Government have no reason to apprehend that there is any general want of soundness in the ordinary trade of this country which can give reasonable ground for anxiety or alarm either in this country or abroad,' only served to increase the distrust felt by foreigners."

(History of the Bank of England by A. Andréadès, professor of political science in the University of Athens, p. 361.)

CHAPTER IV.

EXTRACTS FROM EVIDENCE AND REPORTS OF COMMITTEES OF THE HOUSE OF COMMONS, 1832, 1840, 1848, AND HOUSE OF LORDS, 1847–48, ON THE DIVISION OF THE DEPARTMENTS.

The extracts referred to above give an outline of the history of the circumstances which led up to the division of the issue department and the banking department of the Bank of England and of the reasons which caused permission to be given for the suspension of the Act of 1844 in the year 1847. They are taken from various reports of Committees of the House of Commons and House of Lords and from the evidence given before those Committees. Among these I have particularly consulted the Report and Minutes of Evidence taken before the Secret Committee of the House of Commons on the Bank of England Charter (ordered to be printed August 11, 1832), the Select Committee of the House of Commons on Banks of Issue (ordered to be printed August 7, 1840), the Secret Committee of the House of Commons on Commercial Distress (ordered to be printed June 8, 1848), Appendix to the last (ordered to be printed June 8, 1848, and August 2, 1848), and the Report from the Secret Committee of the House of Lords on Commercial Distress, session 1847–48 (ordered to be reprinted February 17, 1857). The best contemporary information as to the history of the country at this period from a commercial point of view is to be found in these Reports. The Enquiry made by the Committee of the House of Lords is the most complete. The quotations I have given are scattered through the Reports and Evidence given to the Committees of both Houses of Parliament. These form several large volumes, but I have endeavored to arrange the quotations so as to give as far as I can a connected statement of the events which led up to the Crisis of 1847 and of the influence which the Division of the two Departments of the Bank of England had on the business of the country at the time. The papers I have prepared will, I hope, put before the Members of the National Monetary Commission as complete a history of these events, in a short compass, as can be given. I have made a memorandum before each separate quotation from the Evidence, of the name of the Questioner, and of the person who gave the answers, so as to enable any reader who desires to continue the investigation to refer to the original documents. The numbers appended to each question and answer are those which occur in the original Parliamentary Paper. There have been no similar Enquiries made by either House of Parliament after any subsequent Crisis.

EXTRACT FROM EVIDENCE BEFORE SECRET COMMITTEE ON BANK OF ENGLAND CHARTER, HOUSE OF COMMONS, 1832.

(Questioner, Viscount Althorp; the answers are from Mr. John Horsley Palmer, then Governor of the Bank of England.)

72. What is the principle by which in ordinary times the Bank is guided in the regulation of their issues?

NOTE.—The advantage of keeping the Bank of England free from the control of the Government is clearly expressed in the evidence of Mr. John Horsley Palmer, at that time governor of the bank, in his answers 551–557, part of the evidence given before the committee of the House of Commons in 1832, on the charter of the Bank of England.—R. H. INGLIS PALGRAVE.

The principle, with reference to the period of a full currency, and consequently a par of exchange, by which the bank is guided in the regulation of their issues (excepting under special circumstances) is to invest and retain in securities, bearing interest, a given proportion of the deposits, and the value received for the notes in circulation, the remainder being held in coin and bullion; the proportions which seem to be desirable, under existing circumstances, may be stated at about two-thirds in securities and one-third in bullion; the circulation of the country, so far as the same may depend upon the Bank, being subsequently regulated by the action of the Foreign Exchanges.

73. By the circulation of the country, do you mean the whole circulation of the country, and not the country circulation?

The whole circulation of the country.

74. When you say that as a general principle you think it desirable to have one-third of bullion in your coffers, against your circulation, you mean to include in that circulation not only your paper out, but all deposits, whether of Government or individuals?

Yes.

75. In short, all liabilities to pay on demand?

Yes.

76. And you hold the liability to pay on demand arising from a deposit, to be an equivalent to a note out?

I hold it to be that sort of liability which the Bank are bound to provide for by a reserve of bullion.

77. Do you think the liability arising from the deposit to be more dangerous to the Bank as to sudden calls, or less dangerous to it than the same amount out in paper?

Less dangerous.

(The questioner, as before, Viscount Althorp. Answers from Mr. John Horsley Palmer.)

76651—10——15

551. You stated in your evidence, that you think a single establishment would be better for the management of the circulation of the country, than having notes issued by different establishments; if that be the case, do you consider that that single establishment ought to be a commercial company, independent of the Government?

I do.

552. Will you state the reason for that opinion?

Because it has the power of giving that commercial aid which I have alluded to in the explanation I have offered to-day.

553. Why would it have the power of giving commercial aid, being independent of the Government, which it would not have if it were not independent of the Government?

I imagine that a commercial bank, formed as the Bank of England is, has the power, from the constitution of its body, of offering assistance to the commercial world which no political bank could offer.

554. Do you think that if the Bank was connected with Government, the power of granting commercial aid, in the way you have described, would be liable to abuse?

If the Bank is formed of commercial individuals, as the Bank of England now is, with a capital totally unconnected with the Government, it appears to me to answer every purpose that is desired.

555. If it was a Government bank, would it have the same facility of giving aid in cases of commercial difficulty, that a commercial body, like the Bank of England has?

I do not think that a bank formed of political individuals, or of commissioners, would have the same general knowledge of the commercial transactions of the country, as a body formed of commercial persons.

556. You think, then, that a knowledge of individuals that apply for aid, which a commercial body possesses, is

essential in order to enable them to give commercial aid properly in times of difficulty?

I think so.

557. Do you think it is also important that that aid should be afforded by a body independent of any political connections or considerations?

I do.

EXTRACT FROM REPORT OF THE COMMITTEE OF THE SELECT COMMITTEE OF THE HOUSE OF COMMONS ON BANKS OF ISSUE, 1840.

I need not quote in detail the evidence given before this Committee, as the Report sums up the whole question as to this division of the two departments with the following words:

In the course of their inquiry into the management of the affairs of the Bank of England the attention of your committee has necessarily been directed to the principle by which it was stated in the evidence taken before the Bank Charter Committee in 1832 that the Bank was in ordinary circumstances guided in the regulation of its issues. The principle has been restated to Your Committee, in Mr. Horsley Palmer's evidence, in the following questions and answers:

EXTRACT FROM EVIDENCE, COMMITTEE OF HOUSE OF COMMONS ON BANKS OF ISSUE, 1840.

[The questioner was Mr. Charles Wood, afterwards Lord Halifax; the answers were from Mr. John Horsley Palmer, a Director and sometime Governor of the Bank of England.]

1142. As it was mainly your evidence given before the Bank Charter Committee in 1832, which contained the exposition of the principle by which in ordinary times the Bank is guided in the regulation of its issues, will you have the goodness to restate that principle to the Committee?

I will restate it in as nearly the same words as I can. The principle, with reference to the period of a full currency, and consequently par of exchange, by which the Bank has been guided in the regulation of its issues, always excepting special circumstances, has been to retain an investment in securities, bearing interest, to the extent of two-thirds of their liabilities, the remaining one-third being held in bullion and coin; the reduction of the circulation, so far as may be dependent upon the Bank being subsequently solely affected by the foreign exchanges or by internal extra demand.

1143. Did you not also state it as desirable, in ordinary circumstances, that the securities should be retained at nearly the same amount?

Yes; the object of retaining a fixed amount of securities by the Bank at the period alluded to and continuing it afterwards, so far as may be practicable, is to throw the action of the increase or decrease in the circulation upon the public, with reference to the state of the foreign exchanges, in the import or export of bullion.

1144. Are the answers which you have now given a fair exposition of the principles upon which the conduct of the Bank has been regulated since the period of the renewal of its charter?

I should say certainly, always taking into consideration the extraordinary circumstances that have intervened.

Your committee would upon this point wish to call the attention of The House to the evidence of the two Bank Directors who have been examined, Mr. Horsley Palmer and Mr. Norman, from which it appears that in several instances since 1832 the rule then laid down has not been adhered to; and doubts have been expressed as to the soundness of its principle, as applicable to the Bank of England, from its mixing up deposits and circulation. It appears, however, at the same time, from the following questions and answers in Mr. Norman's evidence, that the Bank Directors conceive that this rule has received some sort of legislative sanction, in consequence of which they feel bound to adhere to it, as nearly as circumstances will permit, and that on a particular occasion they were fettered by this impression:

1890. Referring to the accounts of the Bank, does it not appear that the drain, in the first quarter of 1839, fell almost entirely on the deposits of the Bank, and in no degree upon the circulation?

I believe that it fell almost wholly upon the deposits.

1891. The effect, then, which you anticipated in a former part of your evidence, from any reduction of circulation during a drain, did not take place during that quarter?

No, not to any considerable extent.

1892. Would it not have been expedient that the Bank should in that quarter have taken some further measures for the reduction of the circulation, looking to the rapid drain which was going on?

The Bank considered itself at that time bound to adhere as nearly as it could to the principle of holding a fixed amount of securities, that principle having been to a certain extent recognized by the legislature and the public; but, if I am asked now, with my present experience, whether it would not have been wise in the Bank to have taken earlier measures, I must say that I think it would have been wise so to do.

Without entering into the question either of the soundness of the rule, or of the degree of sanction which it may be supposed to have received from the Legislature, your Committee are clearly of opinion that such an impression on the part of the Directors of the Bank of England ought not to prevent them from adopting any other principle of management which, after their further experience, and upon mature consideration, they may consider to be better adapted for the primary object of preserving, under all circumstances, the convertibility of their notes."

August 7, 1840.

EXTRACT FROM EVIDENCE, SECRET COMMITTEE ON COMMERCIAL DISTRESS, HOUSE OF COMMONS, 1848.

[The next occasion when these questions came under notice was after the crisis of 1847. The quotations which follow are from the evidence given before the above-named committee. The questioner was Mr. James Wilson, the founder of the Economist newspaper; the answers by Mr. S. Jones Loyd, a leading Banker in London.]

5206. Seeing that formerly the Bank was obliged to pay its notes in bullion, if the Bank had paid proper attention to the obligation that it had to pay those notes, and not to stop payment, would not the Bank's holding at all times a sufficient reserve of gold practically have had the same operation upon the action of the Bank as the operation of the Act of 1844?

The gist of the question turns entirely upon the supposition involved in it, viz, that the Bank paid proper attention to the obligation which it had to pay its notes, and under that supposition it is perfectly true that the operation would be the same as under the Act of 1844; and that at once brings out the distinction between the Act of 1844 and the previous system. The Act of 1819 ordained specie payments, but it took no measures toward securing or carrying out that ordinance. Then the Act of 1844 rendered compulsory the measures which were necessary for securing the convertibility of the notes; if, therefore, you put a case which involves the supposition that the Bank previously did all that it was right for them to do to carry out the Act of 1819, then upon that supposition the course of things preceding the Act of 1844 will be identical with the course of things under the Act of 1844; but we had repeated experience that that could not be relied upon, and that the Bank repeatedly failed in doing what was wise and necessary, and that caused the passing of the Act of 1844. The Act of 1844 is based upon the assumption that repeated experience had proved that that which it was wise and necessary to do in order to secure specie payments had not been done, and it was passed to secure that henceforth it should be done,

5207. Then the Act was passed with a view to make the Bank of England do, under the Act of Parliament, that which they had not formerly done, in the exercise of a wise discretion?

It was passed for the purpose of securing by law the proper course being taken for protecting the convertibility of the note, which we had found, by previous experience, could not be safely intrusted to any discretionary action.

EXTRACT FROM EVIDENCE, SECRET COMMITTEE OF THE HOUSE OF LORDS, COMMERCIAL DISTRESS, 1847–48.

[The Questioner was the Lord President, Henry, Marquess of Lansdowne; the answers by Mr. John Horsley Palmer, a Director of the Bank of England, and formerly Governor.]

730. The Act of 1844 prescribes the same Rule of Action to the Bank whether the Foreign Exchanges are in favor or whether the Foreign Exchanges are against the Country?

Certainly.

731. Do you, from your Experience connected with this Subject, conceive that it is defensible in reasoning or maintainable in Practice that in managing the Bank the same Rule should be applied to the Case whether the Foreign Exchanges be favorable to the Country or adverse to the Country?

I think it is always in the Power of the Bank to protect itself against a Foreign Demand, but it is totally impossible to protect itself against an internal Demand.

732. The Question is with respect to the Restriction imposed upon your Issues for the Accommodation of the Public, whether you think that it is defensible in Theory or maintainable in Practice that you should have the same Rule in managing the Bank when the Exchanges are adverse and when the Exchanges are favorable?

Certainly not.

733. Then in that respect you consider the Act of 1844 to be defective?

Manifestly defective.

EXTRACT FROM EVIDENCE, SECRET COMMITTEE OF THE HOUSE OF LORDS ON COMMERCIAL DISTRESS, 1847–48.

[The Questioner was the Lord President, Henry, Marquess of Lansdowne; answer by Mr. James Morris, Governor of the Bank of England.]

32. Do you think that the Act began to have any Operation upon the practical working of the Bank when the Distress of 1847 began?

Mr. J. MORRIS. I think we worked the Bank upon the System established by the Act of 1844 ever since 1840, though the Accounts were mixed up, because there was no Act of Parliament obliging us to separate them; but, for our own Guidance, there was a Separation. But I maintain that it was not necessary for the Bank of England in the Management of its Affairs to have this Act of Parliament. I maintain that the Bank was bound to act upon the Principle laid down in the Act even though the Act had not existed. I stated so at the time the Act was passed. But I have no doubt that the Government was right in passing it, as a Security for the Public; but it did not establish any new Principle.

EXTRACT FROM EVIDENCE, SECRET COMMITTEE OF THE HOUSE OF LORDS ON COMMERCIAL DISTRESS, 1847–48.

[The Questioner was the Lord President, Henry, Marquess of Lansdowne; answers by Mr. John Horsley Palmer, a Director of the Bank of England, and formerly Governor.]

740. Then does it not follow from the Evidence that you have given that a totally different and opposite Mode of Treatment ought to be observed in the Management of the Currency in those Two cases, comprising a Foreign Efflux and a Home Demand?

I consider that against Foreign Demand there is, as I have already said, no Remedy so effective as an Advance of the Rate of Interest. In the Case of a Home Demand, there would be no just Cause for raising the Rate while the Circulation might be maintained, and even increased, by Accommodation given upon substantial and good Security. In case of a Home Demand, in a Time of Distress of the Nature which occurred in October last, there is a general Abstraction of the circulating Medium, and it is to meet a Demand arising from that Abstraction that the Bank necessarily is applied to, when it can, with perfect Safety to itself, give the Assistance without increasing its Rate of Interest.

741. Is not the Effect of the Act of 1844, under those Circumstances, to deprive the Bank altogether of its free Agency in giving that Accommodation which you think it could under such Circumstances give with Safety to itself?

Certainly.

742. When you say "with Safety to itself," it is hardly necessary to ask whether you imply by that the full Maintenance of the Convertibility of the Notes?

Certainly, always, excepting an internal Discredit of Paper Money, against which nothing can protect the Bank.

QUOTATIONS FROM THE REPORT, SECRET COMMITTEE OF THE HOUSE OF LORDS ON COMMERCIAL DISTRESS, 1847–48, pp. xxxii–xxxiii:

The Conclusion to be drawn from the Authorities and Evidence cited in this and the preceding Sections is that it is an Error to deal solely with the positive Amount of Bank Notes in Circulation, excluding the disturbing Causes which may augment or diminish the Efficiency of those Notes; that to apply one identical Rule to Cases where the Exchanges are adverse, or are favorable, is an Error likewise; that in both these respects the Act of 1844 is defective, and that in consequence of these Defects it aggravated the Distress of 1847, more especially in the Months of September and October, and that it must have a Tendency to lead to the same Results hereafter whenever similar Circumstances shall arise. The Committee will conclude this Branch of the Subject by the following Question and Answer from the Evidence of the Governor of the Bank (Mr. James Morris); questioner, the Lord President, Henry, Marquess of Lansdowne.

148. In those Cases where the Demand for Gold arises from an internal Panic, the Bank of England is restrained in its Banking Operations by the Act of 1844 precisely in the same Manner as it would be restrained if there was a Demand upon the Bank for the Foreign Exchanges. Is not that likely to cause an Aggravation of the Evil in the Case of an "internal Drain?"

That was the Case in October. It is impossible to legislate for a Panic. We all know that a Panic is so devoid of all Reason that you cannot legislate beforehand to meet it. It was for that Purpose that the Government issued the Letter as a Corrective at that particular Moment.

Extract from Evidence, Secret Committee of the House of Lords on Commercial Distress, 1847–48.

[The Questioner was the Lord President, Henry, Marquess of Lansdowne; answers by Mr. James Morris, Governor of the Bank of England].

293 (to Mr. Morris). On general Principles, what are the Causes of an Internal Drain for Gold? Does it arise from Money being in excess and Interest being low, or does it arise from Money being deficient for the Purposes of the Country, and Interest being high?

An internal Drain may arise from Distrust in the Country, or from an increased Demand caused by an increased Want for the larger Transactions of the Country.

294. Then, in these respects, an internal Drain and a foreign Efflux depend upon directly opposite Principles?

Yes.

295. Does not the Act of 1844 deal with these Two Things precisely in the same manner?

Yes.

Extract from Evidence, Secret Committee of the House of Lords on Commercial Distress, 1847–48.

[The Questioner was the Lord President, Henry, Marquess of Landsdowne; answers by Mr. Samuel Gurney,[a]] Mr. Samuel Gurney was asked whether he had formed any opinion on the causes which led to the monetary difficulties of the spring and autumn of 1847. He answered that he had done so, and was then asked.)

[a] Mr. Samuel Gurney was a leading bill broker in the city of London at that time.

1098. Will you be so good as to state that Opinion, accompanying it by any Explanation which you may think proper to give to the Committee?

I was hardly prepared for so very general a Question, but perhaps it will not be unsuitable for me to read a Document which I have prepared, not for this Committee, but to concentrate my Ideas with reference to the Subject of the Question. The Crisis in April, 1847, arose from several Causes. The Failure of the Potato Crop and harvest in 1846, leading to an enormous Importation of Food coming upon an excited State of Price and Transaction, aided by the Bank canvassing for Discount and fomenting Transactions under the new Principle that in the Banking Department they are to act on the same Principle as private Bankers, may be considered as the Causes of that Crisis. These led to an Extent of Demand upon the Bank for Discount and otherwise, the yielding to which led them beyond the Bounds of Prudence, seeing the early Payment of the Dividends was at hand. Under the Currency Act they found themselves under the Necessity suddenly of not only withdrawing their usual Accommodation by way of Discount, but of calling in with a severe and unrelenting Hand the Loans they had made upon the Security of Bills, Exchequer Bills, etc. The Suddenness and Severity of this Change was forced upon the Bank by the Currency Act. Had it not been for that, they would have spread over Months what they felt themselves compelled to do in a few Days, to the serious Derangement of the Money Market and to much alarming Disaster. It is queried, Was this Crisis owing to the Currency Act? I think it cannot be fairly laid to the Act only, but to the Causes before specified. It may, however, with Truth be asserted, that the Force of it and the Evils of it were much aggravated by the Effect of this Act in the Course of Action it forced upon the Bank.

Extract from Evidence, Secret Committee of the House of Lords on Commercial Distress, 1847–48.

[The Questioner was The Lord President, Henry, Marquess of Lansdowne; answers by Mr. George Carr Glyn, M. P., a leading Banker in the city of London at that time.]

1648. Will you be so good as to state what, according to your Opinion, those Causes were, distinguishing those which more particularly affected the Pressure which occurred in April, and those which affected the Pressure which occurred to a still greater Extent, later in the Year?

I consider that the Pressure which occurred in April, 1847, arose principally from the large Importation of Corn and other necessary Articles of Food, and I consider also that the Foreign Exchanges have been affected by the Operation of those Causes, the Pressure in point of fact was necessary, and was carried only to the Extent which was required for the proper Readjustment of the Foreign Exchanges. The Foreign Exchanges were readjusted, and in the course of the Autumn set strongly in favor of this Country. The harvest turning out very good in the months of August and September, large Failures occurred amongst the Speculators in Corn. Those were the first Occurrences of that Description that took place in this Country; subsequently they were followed by large Failures of other mercantile Houses. That went on down to the End of September, the Pressure gradually increasing, but not to the Degree which it arrived at in the Course of the following Month, when there was superadded to all those Causes which had been operating before a great Degree of Discredit and Want of Confidence throughout the Country, which was very much increased by the Failure of Banks in Liverpool and in other Parts of the Country, and during the Week ending the 23d of October by a general Distrust that seemed to operate amongst nearly all Mercantile Classes, and was rapidly extending itself to the Banking Establishments throughout the Country, very much resembling, in point of fact, at that Time, what occurred in the Year 1825. The other Symptoms of 1847 had been entirely dissimilar up to the Middle of October, 1847; but in the last Week before the Issue of the Government Letter the Symptoms of Want of Confidence which presented themselves were very much like those which occurred at the End of 1825. There appeared a Want of Confidence in the Country generally, which caused Country Bankers to look for the assistance of their London Correspondents, and which apparently, if it had not been for the Letter of the Government, would have gone to a very great Extent. In point of fact, the Difference between the Two Periods of April and of October was extremely striking. The Pressure of April was very soon over, and the Bank did every thing within its power for the mercantile Body at the Time. Although they had been obliged to restrict their Operations very much, yet they attended to the Applications made to them, particularly those from Liverpool and some other places. But the Pressure that occurred in October last arose apparently from entirely different Causes. It proceeded from an apprehension on the Part of all mercantile Men that the Want of Confidence was becoming so great that at last the Reserves of the Bank would be driven down so very low, that, in point of fact, Persons who were possessed of property would not be able to convert that Property into Bank of England Notes.

EXTRACT FROM REPORT, SECRET COMMITTEE OF THE HOUSE OF LORDS ON COMMERCIAL DISTRESS, 1847–48.

[The Questioner was the Lord President, Henry, Marquess of Lansdowne; answers by Mr. Samuel Gurney.]

1164. What do you consider to have been the Purpose of the Act of 1844?

The Purpose of the Act of 1844 was to have our Currency on a sound Basis. Such is its Theory.

1165. Do you consider that that Purpose has been effected?

It is my Judgment that the Act has failed in securing Safety.

1166. Was that the Purpose of the Act; was it ever stated as such by high Authority?

I think so, by the Promoters of the Bill, very strongly. My Opinion at the Time was, that it would have that Effect. I thought it was based on a right and sound Theory, and that it would put People so on their Guard that it would prevent Panic. But, though I am not prepared to abandon the Act altogether, I am quite satisfied that it has very much aggravated Panic in Time of Difficulty, and that a relaxing Power must be had; that Occasions will occur when it must be relaxed.

1167. Can you define the Circumstances under which such a relaxing Power could be safely confided to any Authority?

I do not think I can answer that Question better than by giving a few general Explanations of the Panic of last Autumn.

1168. Will you have the goodness to do so?

The Panic of April very soon passed away. It was, however, attended with great temporary Inconvenience, yet it was not so prolonged as to produce Failures. As I stated before, in the Beginning of August the Panic, which spread through the Autumn and lasted till near the End of the Year, commenced by the Failure of many Houses in the Corn Trade. There was a sufficient Cause for these Failures, which were not owing to this Act at all. Alarm increased to the Pressure of other Houses; it shook Credit; and other Houses which were in dubious Condition failed. Alarm increased; great Depreciation in the Value of mercantile

Property followed, and also of funded Property. Afterwards the Pressure reached Houses that ought not to have failed, Houses that had been fairly conducted, and were solvent. Now, so far as this, I think the Act had not much to do with it. The Amount of Bullion in the Bank remained large, not less than eight millions Sterling. About the End of September Alarm spread to a Fear of getting Circulating Medium, in consequence of the Restriction of the Act. The Bank raised their Rate of Interest very high; that increased the Alarm, and a State of extreme Panic was the Consequence. Had it not been for the Alarm the Notes in the Hands of the Public would have been superabundant. We should have had a great Number of Failures and a great Amount of mercantile Calamity at all events, but we should not have had the same degree of Calamity or Panic, neither would the Rate of Interest have been so high. There was no real Cause that the Rate of Interest should have got up to what it did. The Extent of the Calamity was the Effect of the Act and the Act only.

This evidence, given by Mr. Samuel Gurney, is quoted in the Report, which continues: "Many other Statements, Authorities, and Illustrations might be given, exemplifying the same Principles, and proving the evil Consequences of disregarding them; but enough has been stated to prove, in the Judgment of the Committee, that the Inflexibility of the Rule prescribed by the restrictive Clauses of the Act of 1844 is indefensible, when equally applied to a State of varying Circulation; and that its Enforcement in 1847 was an Aggravation of the Commercial Distress, and was therefore wisely set aside by the Authority of the Government on the 23d and 25th of October." [1847.]

EXTRACT FROM REPORT AND EVIDENCE, SECRET COMMITTEE OF THE HOUSE OF LORDS ON COMMERCIAL DISTRESS, 1847–48, page xlviii.

[The Questioner was the Lord President, Henry, Marquess of Lansdowne; extract from answer by Mr. G. C. Glyn, M. P.]

1782. If I were to offer any Suggestion (which I should not have ventured to offer if it had not been asked from me by your Lordships) I should prefer leaving the whole Responsibility of the Circulation in the Hands of the Bank of England. I do not think there is much Advantage in a double Responsibility divided between the Bank of England and the Government. But I consider it would be well that the Bank Court should have in it certain Persons not elected by the Proprietors, who should be appointed under Act of Parliament for a limited Time, or in any other Way which may be deemed advisable, not immediately by the Government or Proprietors, and not removable by the Government, and that they should have, not an absolute Veto upon the Proceedings of the Bank Court, but that if they dissented from the Majority, their Reasons for that Dissent should always be submitted in Writing, and that they should be laid before Parliament, if Parliament saw fit, from Time to Time. I think that the Introduction of these Commissioners and their Protests and Influence would exercise a very wholesome Control upon the Body of Governors, and at the same Time would not deprive them of that Power of which as representing the Proprietors it would not be right that they should be deprived.

1783. Would you add to those Alterations any Regulations with respect to the Management of the Currency with a view to the Exchanges, or to any other Circumstances?

I should leave that to the Court and to those Commissioners to determine as they saw fit from Time to Time.

1784. Do you consider that those Commissioners should be Persons not engaged in trade?

I would rather they were not engaged in Trade. I think you might find People of Experience enough not engaged in Trade who were fit for the Duty, but would not make it an absolute Condition of Eligibility.

1785. Do you mean that they should be appointed for Life?

Not for Life. It is impossible to know beforehand how far a Man may be fit for a Position of that Sort, and therefore I would make the Appointment for Three Years, or for some Period, and renewable.

EXTRACT FROM EVIDENCE, SECRET COMMITTEE OF THE HOUSE OF LORDS ON COMMERCIAL DISTRESS, 1847–48.

[The Questioner was The Lord President, Henry, Marquess of Lansdowne; answers by Mr. G. C. Glyn, M. P.]

1899. You have stated that the Loss of Property and the Diminution of Capital to the commercial Body in the City of London in the last Year, even where there have been no Failures, has been very considerable?

Very considerable indeed.

1900. Beyond anything you have witnessed in the Course of your Life?

Beyond anything in my Experience, certainly.

1901. Has not the commercial Credit of the City of London also in Foreign Countries been very much injured?

Very much more than I ever recollect it before.

1902. Which you consider a very unfortunate circumstance?

Very detrimental.

1903. Supposing the Bank should consider that it is wise for themselves to act upon the Restrictions imposed by the Act of 1844, and that they were not compelled by

Law to do so, would you impose upon them a Restriction to prevent them from so acting?

Certainly not. If they choose to take £14,000,000 as a settled Point, and to act upon that, I have no Objection whatever to their regulating their Transactions with that View; but if they should find, from an extraordinary internal Panic, that the £14,000,000 ought to be £15,-000,000, I would give them the Power of extending their Issues, provided the Exchanges are in favor of this Country.

1904. You would not deprive them of the Power of rigidly acting upon the Principle established by the Law of 1844?

Certainly not. I have no Objection to their taking £14,000,000 as the Standard for their general System.

1905. If you think the Law as it now stands is liable to so much objection, would it not be advisable to prevent the Bank establishing such an objectionable System?

The Objection to the £14,000,000 Clause is, that it is not to be passed at all under any Circumstances. If you leave in the Hands of the Bank of England the Power of passing that, the whole Cause of the Panic in October is removed, according to my View of its Causes.

1906. Will you state what you consider exactly to have been the Cause of the Panic?

The Cause of the Panic, in my opinion, was the Restriction to £14,000,000.

1907. The Public knowing that the Bank could not issue, even if they wished it, beyond £14,000,000?

Yes.

Extract from Report and Evidence, Secret Committee of the House of Lords on Commercial Distress, 1847–48, page 1. (Quotation from the report.)

In Conclusion, the Committee think it right to add, that, whilst they feel deeply the Necessity of a sound System of Legislation for the Bank of England, and for all other Establishments entrusted with the Privilege of issuing Notes used as Substitutes and Representatives of the current Coin of the Realm, they are far from suggesting that it is upon Laws, however wisely framed they may be, that Reliance can or ought exclusively to be placed. The best Banking System may be defeated by imperfect Management; and, on the other hand, the Evils of an imperfect Banking System may be greatly mitigated, if not overcome, by Prudence, Caution, and Resolution. In the Confidence universally and justly placed in the Bank of England the fullest Testimony is borne to the Integrity and good Faith with which its great Transactions have been conducted; and the Opinion of the Committee in this respect is best shown in their Desire to see vested in the Bank a wider Discretion than they possess under the Act of 1844,—a Discretion which the increased Knowledge produced by Experience and Discussion, and in which the Bank of England can hardly fail to participate, will enable them to exercise to the Advantage of their own Corporation, and to their own Honor, and to the permanent Benefit of the Public, and more especially of the Commercial Classes of England.

Chapter V.

REMARKS ON THE BANK ACT OF 1844 BY THE LATE DR. N. G. PIERSON, SOMETIME PRESIDENT OF THE BANK OF THE NETHERLANDS.

After considering this evidence we may turn to Doctor N. G. Pierson's history and criticism of the currency theory and the banking principle and his remarks on the Bank Act of 1844. These give so clear a statement of the questions involved in that Act that I subjoin them here. Doctor N. G. Pierson was for some time President of the Bank of the Netherlands. His practical knowledge of banking renders his opinions the more valuable. He says,—

"On the one side stood the school of the Currency Theory, on the other that of the Banking Principle. The former numbered among its adherents Jones Loyd, better known as Lord Overstone; also Norman and Torrens. The latter school numbered Tooke, Wilson, and Fullarton. The victory rested entirely with the adherents of the Currency Theory, and it is on this theory that the English Bank Law of 1844 is based.

"The authorship of the currency theory is wrongly ascribed to David Ricardo, although it is to him that we are indebted for the grain of truth which it contains. The nature of this theory will appear from what follows.

"If, asks Lord Overstone—who was the first to proclaim the currency theory—there be no bank notes in circulation in a country, can there ever be scarcity of metallic money in that country? Would it be possible, for instance, for the balance of payments of such a country to

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[N. G. Pierson: Principles of Economics, pp. 454-467.]

become so unfavorable as to cause all the metallic money and bullion to be exported? The answer is, that it would not be possible; for, when money is scarce, its value rises, and prices fall. And when prices fall, exports increase and imports diminish, until there is sufficient money and bullion in the country once more. A nation which does not use bank notes can never, in the long-run, have too little metallic money in relation to other things. It may be a poor nation, certainly, but its capital will always include such a proportion of coined money as shall be needful.

"It is different with a country which uses bank notes as well as coined money; for, in such a country, exportation of the latter does not necessarily cause scarcity of money. The balance of payments becomes unfavorable; considerable exports of gold take place; but at the same time, by granting credit, the banks greatly increase their uncovered circulation. Will prices fall in this case too? Will the balance of payments change and cause the exported gold to return to the country? There is no reason to expect that it will, because no deficiency will have arisen in the monetary circulation. In the first of the two cases described, the evil cures itself; in the second, it grows more acute. With a mixed circulation—that is, with a circulation consisting partly of metal and partly of paper—the whole of the metal may disappear without causing any reduction in prices.

"What then are the means which a country using bank notes should adopt in order to prevent the whole of its gold from being exported? The law should prevent the banks from substituting paper for the exported metal; or, better still, it should compel them to reduce their uncovered circulation in proportion to the exports of metal. Suppose the stock of money required in a country to be represented by the figure 100, and to consist entirely of gold; if a quantity of this money corresponding to the figure 10 were to leave the country, there would remain 90, consequently not enough to meet the demand, and this of itself would cause prices to fall. But suppose the needful stock of 100 to consist of 50 parts gold and 50 parts paper. In this case, if, while 10 parts of the metallic money left the country, the paper circulation were increased to 60, the total stock of money would still remain at 100, and therefore suffice to meet the demand. And if a second 10 parts of the metallic money were to leave the country and to be followed by a third and fourth 10 parts, while the paper circulation was increased, at first from 60 to 70, then from 70 to 80, and then from 80 to 90, there would always be a sufficient stock of money in the country, and the exported gold would not return. This must be prevented. A deficiency in the monetary circulation must not be met with paper. Measures must be adopted to prevent the possibility of the whole of the specie and bullion being drained from a country, and the bank notes of that country thus becoming inconvertible.

"Such is the currency theory; now let us examine its defects. First of all, it is not true that a bank invariably does wrong when it supplies a deficiency in the monetary circulation by issuing notes. We forfeit one of the greatest advantages of a well-regulated banking system when we conform strictly to the currency theory. Suppose, for instance, that a crisis has occurred, and that the demand for money has greatly increased in consequence. Will it not have a salutary effect if the bank of issue is able to meet this demand, and would it not be the height of folly to interfere with such action on the part of the bank? Or, suppose that the corn crop has failed, so that it has become necessary to import large quantities of grain for home consumption. Is it not an advantage in such a case not to have to part at a given moment with large quantities of interest-bearing bonds, or cattle, or machinery, or other necessaries, in order to pay for the imports of grain and to be able to pay for them in the meantime by exporting precious metal, for which paper can be temporarily substituted? Steps must be taken to ensure the return of the exported metal; but this need not be done immediately. A well-managed bank always has a larger metallic reserve than it needs in ordinary times, and of which it will therefore be able to spare a part in times of emergency. When the time of stress has passed, the bank will gradually restrict its credits, thus enabling its metallic reserve to accumulate once more. In the meantime it will have rendered a great service to the community, for it will have mitigated the adverse effects of the crop failure by enabling them to be spread over a more extended period of time.

"There is a second mistake in the currency theory. It is not true that, in a country where no bank notes are in circulation, exportation of specie results in an immediate fall in prices and consequently in an alteration in the balance of payments. It would be so if bank *notes* were the only possible substitutes for specie; but bank *deposits* also serve as substitutes for specie. It has already been shown, in the chapter on prices, that bank notes and bank deposits differ only in form, since both take the place of specie when they are not covered by a metallic reserve. Let the needful stock of media of payment be represented by the figure 100, and suppose it to be made up of specie and bank deposits each to the extent of 50. If specie be now exported to the value of 10, but the banks at the same time grant credits to their depositors to the same amount, how is the fall in prices to take place, which the supporters of the currency theory declare to be the inevitable result of the exportation of precious metal from a country where no bank notes are in circulation? A bank of circulation issues notes payable to bearer, with which people pay each other. A deposit bank credits its depositors' accounts and the balances produced in this way also constitute a medium of payment. Wherein does the difference lie? The difference, we repeat, is one of form only.

"The exponents of the currency theory (with the exception, perhaps, of TORRENS) never discerned this. Bank notes are money, said they, and bank deposits are book entries. But we are not concerned here with calling notes and bank deposits by their right names: the question is, what functions they perform; whether both do not supply the place of specie; whether both are not capable of supplying a deficiency in the specie circulation of a country where the cheque is a very common medium of payment. The chief error of Lord OVERSTONE and his followers certainly lay in their not having understood this clearly. Their doctrine was not founded on a true conception of the bank deposit. Between the latter and the bank note they sought to establish a fundamental distinction which does not exist.[a]

"To the credit of their opponents, the "Banking Principle" men, it must be recorded that they did not fall into this error. To them the closeness of the relationship between the bank note and the bank deposit was perfectly clear, and they may be regarded as having rendered a service in making it more widely known. If the controversy between the two schools had been waged round this point alone, we should not have a moment's hesitation in siding absolutely with the latter. But the adherents of the "Banking Principle" have erred so egregiously on another point in the controversy that we find it difficult to determine toward which of the two sides we feel most attracted.

"The point to which we allude relates to the question as to how far a bank can bring itself and the community into danger by an excessive issue of notes. The adherents of the "Banking Principle" hold that no danger can be incurred by either, so long as the notes remain convertible.[b]

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[a] We ought not, however, to neglect to mention what GEORGE CLARE says in his *Money-Market Primer* (London, 1893), page 14: "To understand how differently the note was then regarded, it must be borne in mind that in those days a banker's circulation was his principal liability, and that deposits were, in comparison, but a very small item. In February 1820, to give an instance, the circulation of the Bank of England amounted to £23,000,000 and the total deposits to £4,000,000; while in February 1890, the figures are: Circulation, £23,000,000; deposits, £35,000,000."

[b] The error stands out most clearly in FULLARTON, *On the Regulation of Currencies* (London, 1844), more especially pages 63–65.

"Should they cease to be so, then indeed too large a quantity of them may get into circulation, just as may happen in the case of notes issued by the Government, and declared legal tender by enactment. But if the bank paper be convertible, how can it ever become redundant? What the public has no use for it returns to the bank, whose offices are always ready to accept the paper in exchange for specie. A bank can only put a definite quantity of notes into circulation; any notes which it issues in excess of that quantity get returned to it under an iron law, as it were. This is proved by statistics. When we consult them we are surprised to find how little variation there usually is in the amount of notes in circulation. It was by TOOKE more especially that a clear light was brought to bear upon this, and his conclusions have been fully verified by later investigations. There is, indeed, a remarkable degree of regularity in the demand for bank notes. We do not dispute the contention of the adherents of the "Banking Principle," that, so long as bank paper is convertible, any quantity of it issued in excess of a certain sum gets returned to the bank at once.

"It is strange, however, that people should ever have imagined that this constituted a safeguard against the consequences of imprudent bank management. It is precisely in the return of the notes to the bank that the danger lies. If the notes did not return, the bank that issued them could never get into difficulties. The fact is, however, that these institutions give rise to a very serious condition of things if they issue notes to excess.

"For how do the notes return? By repayment of advances? Do we learn from the statistics, which TOOKE and others have compiled with so much care, that when a bank, by granting credit too freely, issues paper in excess of the requirements of trade, the public repays its outstanding loans, maturing bills are met and no fresh ones are discounted, so that in this way the circulation is once more reduced? Quite the contrary: the statistics show that the redundant notes are offered in exchange for specie, or used in purchasing bullion from the bank, the specie or bullion being then exported. In this way the amount of the circulation continues the same, it is true, but its components are no longer the same; "uncovered" is substituted for "covered" circulation, and the ratio between metallic reserve and note circulation becomes less favorable. This matter has already been explained, but it is so important that we propose to discuss it here once more.

"Besides loans out of its own capital, let us suppose that the bank has granted advances to the amount of £10,000,000; in addition, it has circulated £8,000,000 in notes in return for bullion and specie. The bank has now—

A covered circulation of	£10,000,000
An uncovered circulation of	8,000,000

Thus, its note circulation amounts to £18,000,000, against which it holds a metallic reserve of £8,000,000. It grants loans for a further £2,000,000, but the public does not require more than £18,000,000 in notes; the extra £2,000,000 put into circulation will therefore cause a redundancy of money. It now becomes advantageous to export coin or bullion, and that coin or bullion is obtainable at the bank in exchange for notes. Certainly the £2,000,000 in notes will now return to the bank in accordance with the "Banking Principle." But will this have no effect upon the position of the bank? Its circulation will, before long, be made up as follows:

Uncovered	£12,000,000
Covered	6,000,000

"The note circulation will remain, as before, £18,000,000, but instead of £8,000,000, only £6,000,000 in metal will be held as a reserve against it. The bank may pursue this course for a long time. It may increase its loans up to £18,000,000, the amount of its note circulation remaining all the while at the old figure. But how will matters then stand as regards metallic reserve; that is to say, as regards the convertibility of the notes? The whole of the reserve will have been exhausted.

"TOOKE'S statistics plead against him instead of for him. It is just *because* of there being a limit to the amount of notes which a bank can keep in circulation that an excessive paper issue becomes possible. For the paper issue becomes excessive from the moment that a disproportion exists between the amount of notes in circulation and the amount of metal held in reserve against them.

"'The question of banks of issue will always be misunderstood, and all discussions on the subject mere fencing with big words, so long as people fail to realize that a bank, when issuing paper, is simply an instrument in the hands of the public.' Thus wrote a Dutch adherent of the "Banking Principle" several years ago.[a] So far as

[a] DE GIDS (1863), vol. iii, p. 39.

concerns the *amount* of its circulation, a bank is undoubtedly an instrument in the hands of the public; but it is not the instrument of the public in the matter of the *items* which go to make up that amount, and it is these, more especially, that one has to consider when judging whether a note issue is excessive or not.

"We should not care to give our undivided sympathy to either of the two schools referred to, but that of the "Banking Principle" erred in a more dangerous manner than its rival. If it had got the upper hand in England, the regulation of the banking system in that country would certainly have been far less minute in its character than we now find it; the Bank of England would have been allowed greater freedom of action, and it must be admitted that this would have been productive of a certain advantage in times of crisis. But would this freedom of action never have been abused? Would the events of 1826 and 1839 never have repeated themselves? WALTER BAGEHOT[a] was no adherent of the "Currency Theory," and consequently no admirer of the Bank Act passed in 1844 under the influence of that theory; and yet he has frequently said in his journal, *The Economist*, when he was its editor, that although the Act of 1844 had not prescribed any excellent rules, still it had not left it to the discretion of the Bank Directors to determine what rules should be observed in the management of the Bank, and that this was one of its good features.

[a] Note by Sir R. H. Inglis Palgrave. The expression of Bagehot's opinion on the working of the Bank Act in the crisis of 1866 will be found in the quotations from "The Economist" on page 217.

Section 3.—*The Bank Act of 1844.*

"Let us now examine the main features of the Act of 1844—the "Peel Act," as it is usually called. At first its provisions related to the Bank of England alone, but in 1845 clauses were added having reference to the other banks of issue. We will begin with those relating to the Bank of England. As a justification of the detailed treatment accorded to this part of our subject, it is to be observed that the London money market is of great importance and that its condition is, as a rule, reflected in the Weekly Return of the Bank of England. The Return owes its very peculiar form to the provisions of the Act of 1844.

"The principle accepted is as follows. The Bank issues notes, and it does other banking business as well. In respect to the former it has no freedom of action whatever; in respect to the latter its freedom of action is complete. In other words, the Bank is a bank of issue and also a bank of deposit. In the former capacity it is bound by strict rules; in the latter it may do as it pleases.

"The Bank consists of two departments, an Issue Department and a Banking Department. The Issue Department is a bank of issue pure and simple; a bank of issue, however, which must not allow its paper issue to exceed a certain figure. This department may issue notes up to any figure it pleases, so long as the issue is effected in exchange for gold; but it must not grant credit beyond a certain maximum figure. This maximum, originally fixed at £14,000,000, is increased whenever any other bank of issue in England or Wales abandons or forfeits its right to issue notes. The increase amounts to two-thirds of the amount of the uncovered notes which such bank was authorized to have in circulation. In this way the maximum has by now (February, 1896) grown to £16,800,000.[a] Thus the sum of £16,800,000 may be invested in interest-bearing securities by the Issue Department. The Act contains no provisions restricting the Department in its choice of investments. It may buy bonds and shares, discount bills, or grant loans, according to its discretion.

"But the sum standing at the disposal of the Issue Department for all these purposes is smaller than it appears. There is an inalienable Government Debt amounting to £11,015,000, in which the bulk of the £16,800,000 is invested. The balance amounts to £5,785,000[b] only. Let us see what becomes of that balance. The artificial character of the whole system will thus reveal itself to us.

"The Issue Department gives this sum to its sister branch, the Banking Department, in exchange for £5,785,000[b] in various securities. These securities appear in the Bank Return under the heading of "Other Securities," immediately below the item "Government Debt." Both Departments benefit by this exchange: the one, inasmuch as it secures an investment for the balance of its £16,800,000; the other, inasmuch as it obtains the disposal of bank notes to the amount of £5,785,000.[b] It can employ these in its own business, like any other deposit bank that has borrowed money from another institution.[c] The transaction might also be described by saying that the Banking Department re-discounts a part of its bills of exchange with the other Department, transfers to the other Department a part (viz, £5,785,000)[b] of its loan business.

[a] The amount July, 1910, is £18,450,000.

[b] This figure refers to the issue in February, 1896.

[c] Dr. Pierson does not appear to have been aware that the profit on the amount of the Fixed Issue in excess of that authorized by the Act of 1844 is, in accordance with Sec. IX of the Act, allowed to the public.

"But the Banking Department receives other notes as well. It acts as banker for the Government, to whom it generally owes from £4,000,000 to £9,000,000 ("Public deposits"), and for many private individuals and corporations, to whom it owes variable amounts ("Other Deposits").[a] Of all these sums it invests just as much or as little as it deems most prudent, and it does so in all kinds of ways. It buys Government securities, it discounts bills, and grants loans (the amount due to it in respect of such discounts and loans appears in the Return under "Other Securities"), but, like a prudent banker, it always takes care that a part of the notes which it receives are kept and not invested. For, apart from the comparatively small quantity of specie always kept on hand in the Banking Department, the liabilities of that branch are not secured by any metallic reserve. If the Government or any private depositor draws on the Bank for a portion of what it owes them, the Banking Department can only make use of its stock of notes to meet the demand. It would apply in vain for assistance to the Issue Department. That branch has already given it all the paper which it is authorized to circulate otherwise than in exchange for

[a] The "Other Deposits," also called "Private Deposits," amounted to £25,000,000 sterling at the end of 1885, and to £48,500,000 sterling at the end of 1895. They consist to a very large extent of moneys belonging to private banks, it being the custom of such banks to deposit with the Bank of England such moneys as they are neither obliged to retain for immediate use at their own offices, nor disposed to put out at interest. How far the item "Private deposits" is made up of the deposits of private banks it is impossible to say, for since 1877 it has not been the practice of the Bank of England to publish this figure; the amount must be very large, however. In 1877 all except £11,000,000 of the "Private Deposits" consisted of deposits of private banks.

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gold, and must not issue a single pound sterling beyond that sum. The foregoing shows the principle adopted—Lord OVERSTONE'S theory put into practice.[a]

[a] "For the convenience of the reader we subjoin a balance-sheet of the Bank of England, with a few explanatory observations. This is the weekly Return for December 24, 1894. When comparing it with corresponding weekly returns issued by foreign banks we must bear in mind that assets always appear on the right and liabilities on the left-hand side of an English balance-sheet. In foreign balance-sheets the reverse order is adopted.

ISSUE DEPARTMENT.

Notes Issued	£58,367,000	*Government Debt*	£11,015,000
		Other Securities (the securities taken over by the Bank in exchange for notes)	5,785,000
		Gold coin and bullion	41,567,000
	58,367,000		58,367,000

BANKING DEPARTMENT.

Proprietors' capital	£14,553,000	*Government Securities* (to be carefully distinguished from the *Government Debt* of the Issue Department)	£14,936,000
Rest (undivided profit)	3,090,000	*Other Securites* (chiefly discounted paper)	26,616,000
Public deposits	9,451,000	*Notes*	32,093,000
Other deposits	48,498,000	*Gold and silver coin*	2,065,000
Seven-day and other Bills	118,000		
	75,710,000		75,710,000

[DECEMBER 24, 1894.]

"The expression *Notes Issued* would be quite wrong if it had reference to the Bank as a whole, for, as the above statement shows, no less than £32,093,000 of the total sum of £58,367,000 were in stock at the Bank, so that the real amount of the *Notes Issued* was only £26,274,000. But the expression is used only with reference to the Issue Department, which is regarded as having as little concern with the affairs of the Banking Department as if the latter were a separate corporation."

"The stock of money in the Banking Department is called the "Reserve,"[a] and probably no other banking figure excites the interest of so wide a circle of persons. Scarcely has the Bank issued its weekly Return, when the amount of the "Reserve"—together, in most cases, with the ratio between that amount and the deposits—is telegraphed to nearly every part of the civilized world. No paper, whose practice it is to report on the state of the money market, fails to supply this item of information to its readers, and no wonder, considering how important it is. Imagine the condition of the London market if the "Reserve" were to give out! The notes of the Bank of England might still remain convertible,[b] but the Bank would be unable to meet any demand for the withdrawal of deposits, nor would it be free to increase its credit business in the very slightest degree. This would spell embarrassment for all those who had counted upon receiving assistance from it. In ordinary times sound bills of exchange are regarded almost in the light of money, because money can always be obtained for them. When people find themselves disappointed in this respect, they are apt to become involved in serious difficulties.

"The Peel Act had scarcely been in operation three years when such a state of things very nearly came about. In the autumn of the year 1847 a commercial crisis occurred

[a] The expression "Stock of Notes" is also used, it is true, but in that case "Gold and Silver Coin" is not included.

[b] That is, assuming that it would be permissible for the Issue Department to cash the notes, even when the banking department was no longer able to discharge its obligations, which, from the legal point of view, seems doubtful.

in England. The peculiar feature of a commercial crisis is the strong demand for money which invariably accompanies it. Many people then dispose of their goods, and prefer to do so for ready money. Having sold their goods, they keep their money, as they have no inclination for investing it. Owing to this, the demand for money is increased in a special degree. At such a time a central bank can render signal service, for, by reason of the unshaken confidence which it usually continues to enjoy even in a crisis, it can easily satisfy the demand for money by issuing notes. Under ordinary circumstances a bank, when it increases its uncovered note circulation, diminishes its stock of gold—that is to say, the metallic reserve which it holds against those notes. But in a time of commercial crisis the notes are simply kept and stored; at such a time they serve more as an investment than as a medium of exchange. By issuing notes extensively at such a time, the bank causes no danger; on the contrary, it allays much anxiety. As a rule, a crisis is nowhere so acute as in a place where a central bank either does not exist, or is hampered by too stringent rules in the matter of increasing its note circulation.

"The latter was the case in England in October, 1847, and it then became evident how greatly the Peel Act had hampered the action of the Bank; or rather, what a wonderful mixture of liberty and restraint the provisions of that Act embodied. With regard to deposits the law prescribes no rules whatever; the Bank is free to grant loans on an extensive scale during the time preceding a crisis, provided they be effected by crediting the borrowers' accounts in the books of the Bank, and not by giving them bank notes. But when the crisis has set in, and those who have accounts with the Bank apply for notes to the amount standing to their credit, or ask for new loans—this time in the form of notes,—loans which the Bank could grant more confidently at such a time than at any other, in steps the law and says that no single uncovered bank note shall be circulated over and above so and so many millions of pounds sterling.

"Needless to say, such a rule could not be strictly maintained when its harmful effects were felt. On October 25, 1847, the Government allowed the Bank, subject to certain conditions, to increase, temporarily, its uncovered note circulation beyond the statutory amount. Similar permission was again accorded on November 13, 1857, on the occasion of another crisis; and once again, on May 12, 1866, after the failure of Overend, Gurney & Co. Thus, on three different occasions has the Peel Act been suspended, and on each occasion has its suspension put an end to the crisis. What a curious law, one is tempted to exclaim, which can only remain on the Statute Book because the Government allows it to remain inoperative at the most critical moments!

"But we judge the Peel Act too unfavorably when we confine ourselves to observing how it operates in times of commercial crisis. One good feature of the law is, that it obliges the Bank to make proper provision for a metallic reserve. Moreover, things which the Act should have prescribed have been gradually brought about by custom. Thus, although the Act lays down no rule concerning the

Reserve of the Banking Department—that is to say, concerning the ratio to be maintained between that Reserve and Deposits—yet it is universally looked upon as the duty of the Bank to see that that ratio does not, under ordinary circumstances, fall below two-fifths. It is usually much higher than this.[a] If the Reserve threatens to become too low, the financial papers raise an alarm and remind the Bank of its duty. The effect is salutary. The Act says that the Banking Department shall not receive notes from the Issue Department beyond a fixed sum, now £5,785,000;[b] custom says that out of this sum and out of the notes which the Banking Department receives from the public, that department shall always keep in reserve an amount corresponding approximately to two-fifths of the deposits. Thus law and custom together bring about a condition of things which may be regarded as fairly satisfactory. Since May, 1866, the Government has not had occasion to sanction any suspension of the operation of the Peel Act."

The quotation from Dr. N. G. Pierson's "Principles of Economics," Vol. I, pp. 464–467, is instructive to us as showing the opinion of a man who was both an economist and a practical Banker on the working of the Bank Act of 1844. Doctor Pierson was for several years the President of the Bank of the Netherlands, and must have known from

"*a* From 1844 to 1878 it averaged 39.4, but in recent times it has been much larger. It amounted to 44 per cent of deposits at the end of 1892, 45 per cent at the end of 1893, 63 per cent at the end of 1894, and 58 per cent at the end of 1895

"From 1881 to 1890 it was never less than £9,200,000, and amounted on the average to £13,100,000.

"*b* Amount stated as that of the *Other securities* referred to in the figures of the Issue Department given by Dr. N. G. Pierson, p. 252.

experience that a Bank "when issuing paper is simply an instrument in the hands of the public." Bank notes are now no longer in England the means by which the ordinary business of the country is carried on. They are valued as the representatives of gold, and London being the principal and practically the only free market for gold in Europe, is naturally more exposed to demands for specie than any other monetary center in the world. It is true that for more than forty years "the Government has not had occasion to sanction any suspension of the Peel Act," but the price which has had to be paid for this has been an extremely high one, and the adoption of the arrangements of the Act of 1844 cannot be recommended to any other country.

That a suspension of the Bank Act has not taken place since 1866 is due to the general forethought and care with which the Directors of the Bank of England have conducted their business in times of pressure.

ENGLISH BANKING ORGANIZATIONS.

By Ernest Sykes.

(A) THE INSTITUTE OF BANKERS.

The Institute of Bankers, founded in 1879, is an association of individuals, not of banks, as in the case of the Central Association of Bankers.

Its members consist of

1. Fellows: Elected by the council of the institute.
2. Associates: Who must have been not less than ten years in the service of a bank, or being in a bank are graduates of a university.
3. Certificated associates: Members who have gained the certificate of the institute.
4. Ordinary members: Who must be on the staff of a bank.

The number of members of all grades at the present time (January, 1909) exceeds 7,250.

The primary object of the institute is "to facilitate the consideration and discussion of matters of interest to the profession, and, where advisable, to take measures to further the decisions arrived at."

One of the earliest efforts of the institute in this direction was the codification of the laws of bills of exchange. In 1881 the bills of exchange bill was drafted by Mr. (now Sir Mackenzie) Chalmers on the instructions of the council, introduced in Parliament by Lord Avebury (then Sir John Lubbock), and became law as the bills of exchange act 1882. The act has been adopted in most British colonies and to some extent forms the basis of the New York negotiable instruments law.

In 1889 the factors act was similarly passed, mainly on the initiative of the institute.

Among other matters which have been thoroughly ventilated by the council of the institute may be mentioned the bankruptcy law previous to the act of 1883, the condition of the gold coinage previous to the coinage acts of 1889 and 1891, the bimetallic controversy, and the gold reserve question.

At the present time the council, at the invitation of the Board of Trade, has under consideration the question of an international conference to consider the possibility of a greater unification of the laws of bills of exchange in different countries.

The institute has on many occasions acted as the representative of banking interests in facilitating arrangements with the board of inland revenue, the post-office, and other government departments.

The means by which the consideration and discussion of matters of interest are provided are chiefly by papers read before the members at meetings held usually at monthly intervals during the winter session, October to May, and by the Journal of the Institute, published monthly from October to June, inclusive.

The secondary object of the institute is "to give opportunities for the acquisition of a knowledge of the theory of banking."

With this object lectures on technical subjects are delivered in London and the chief towns of England and Wales, followed by examinations, as a result of which prizes are awarded to the most successful candidates. Annual examinations for the certificate of the institute are held, the subjects of examination being economics, practical banking, commercial law, commercial arithmetic, English composition and banking correspondence, and bookkeeping. In 1908, 3,180 candidates were examined in London and 379 other centers throughout the United Kingdom and the colonies. Prizes are offered both in connection with the annual examinations and also for the best essays received on certain subjects announced yearly by the council.

In nearly all the leading banks the junior members of the staff are encouraged to study the theory of banking, not only by the offer of monetary grants, but also by the increased chances of promotion to more responsible positions which ensue from success in this direction.

There is a reference and circulating library on banking and kindred subjects for the use of members.

The council invite questions dealing with the practical working of a bank, which are answered through the medium of the Journal of the Institute. These questions with the council's replies have been collected in a volume the sixth edition of which will shortly be published. The book has been very serviceable not only to individual members, but also as a means of unifying and assimilating banking practice throughout the country, and of formulating and expressing the custom of bankers as a part of the "law merchant."

The government of the institute is vested in a president, vice-presidents, treasurer, and council, the latter not to exceed twenty-four in number, and meetings are held monthly, or oftener if necessary. Elections for these offices take place at each annual general meeting, at which fellows, associates, and certificated associates are alone entitled to vote.

The president is now (January, 1909) Sir Felix Schuster, Bart., the governor of the Union of London and Smiths Bank (Limited). The other officers are either directors, partners, or high officials of banks, and are all fellows of the institute.

(B) THE CENTRAL ASSOCIATION OF BANKERS.

The Central Association of Bankers was formed in February, 1895, to unite the committees of the London Clearing Bankers, the London West End Bankers, and the English Country Bankers.

It consists at the present of 18 members, representing the London clearing banks, 2 members representing the West End banks, and 10 representatives of the English country banks.

The scope of its work embraces all questions directly or indirectly affecting the banking community, whether arising from legislative proposals or practical working. The association does not, however, attempt to intervene in the internal management of the individual banks represented upon its committee, nor is it in any sense a disciplinary body.

The association is in close touch with the parliamentary committee of bankers with the object of defending and maintaining the interests of bankers in Parliament, but it avoids any intervention in political matters except where the interests of banks and bankers, as such, are involved.

Among the legislative measures in which the association has recently interested itself are the bills of exchange (crossed cheques) act (1906), drafted and introduced at the instance of the association; the debenture and debenture stock bill (1907), drafted at the instance of the association and introduced in the House of Lords by the chairman, Lord Avebury. The bill was afterwards incorporated in the companies act (1907), section 15.

Other acts upon which the influence of the association has been brought to bear in various directions are the companies acts (1900 and 1907), the public trustee act, the limited partnership act, and the prevention of corruption act.

Other questions which engaged the attention of the association have been gold reserves, irregular forms of cheques, municipal borrowing, the custody of valuables, and stamp duties, more especially in 1902, when an extra stamp duty on cheques was proposed and a deputation of the association attended on the Chancellor of the Exchequer.

The association has no regular times of meeting nor any archives. Memoranda are issued from time to time to the members only, dealing with current topics, and a yearly report.

THE LONDON BANKERS CLEARING HOUSE.

By Robert Martin Holland,
Honorable Secretary of the London Bankers Clearing House.

The exact origin of the London Bankers Clearing House will probably never be determined, for, like other institutions whose purpose has been to save time and trouble, its system appears to have been gradually evolved.

The Goldsmith Bankers at the end of the seventeenth century, who combined the care of their customers, money with the manufacture of silver plate, apparently gave each of their depositors a deposit note acknowledging the whole amount deposited.

When the customer wished to draw some of his money, this note was returned and again issued to the customer with an indorsement noting the amount drawn and the balance left; or if desired, a depositor could transfer the whole by indorsement.

The next improvement in method was for the depositor to take several receipts of convenient amounts instead of only one; and this was shortly followed by each banker issuing his own notes payable on demand.

The first printed bank notes were probably those of Messrs. Child & Co., which were issued in 1729.

They bore a vignette of Temple Bar in the left-hand corner and were worded much in the same manner as the notes of the Bank of England are to-day.

A few years later, in order to suit their customers' convenience some of the bankers began to issue printed checks to be filled in by the customer himself. The name of the drawee, the amount that they were drawn for, and the drawer's signature being all that was necessary to render them valid instruments. Such checks for the year 1762 are in the possession of Messrs. Child.

With the growth of the check system, each banker would daily find himself in possession of a number of drafts for the credit of his customers that needed collection at the offices of other bankers. This would necessitate each bank sending out one or more clerks on what became known as "walks" to obtain cash or notes for these drafts from the houses on which they were drawn.

As in London alone there were some fifty or more private firms carrying on a banking business this necessitated a considerable amount of work and was attended with grave risk of robbery.

It is probable, therefore, that arrangements were made by some of the bankers, as it is still done in some country towns, to meet at one bank one week and at another the next for the purpose of exchanging checks.

But in consequence of the number of the London bankers this method would prove awkward, and about the year 1770 we find that the walk clerks from the city and West End banks had made a practice of meeting at lunch time at a public house called the Five Bells in Dove court, Lombard street, close to St. Mary Woolnoth Church, and not so very far from the site of the Bankers Clearing House of to-day. Here in the public room, or according to tradition on the posts in the court outside, each day after lunch a rough system of exchange of checks was carried on between the clerks from each bank, the balances being settled in notes and cash. This rough system of clearing grew to such an extent that the bankers became alarmed at the large amount of notes involved and rented a room for their clerks to meet and exchange drafts.

The first reference to this room, which is believed to have been a private room at the Five Bells, is found in the books of Martins Bank, where "Quarterly charge for use of clearing room, 19s. 6d.," is a charge in 1773. A little later this room was found too small and a larger room was taken at Mrs. Irving's, a private house next door to the Five Bells.

About this time, according to a clearing book dated 1777 in the possession of Messrs. Smith, Payne & Smith's successors, "The Union of London and Smith's Bank" there seem to have been 33 banks in the Clearing House.

This book contains Smith, Payne & Smith's clearing for several days in March, 1777, and the daily clearing would seem to have amounted to about £105,000, the amounts due to the various bankers varying from £4 to £8,680.

The settlement seems to have been very complicated; an exchange of checks was made between bank and bank as far as possible, then further amounts were settled by the handing over of surplus checks on other banks in satisfaction of another bank's deficiency, and finally the ultimate settlement was made in notes and gold.

Mrs. Irving's room in turn proved too small—there were 43 banks in the Clearing House in 1800—despite the bankers having had the first floor taken out and, in order to give more light, a lamp hung from the ceiling, "it being a dismal, dark room."

So in or about 1805, at the instigation of Mr. Snaith, of the firm of Sikes, Snaith & Snaith, who failed in the panic of 1825, Mrs. Irving was pensioned off, and a ground-floor room taken in premises belonging to Messrs. Smith, Payne & Smith, which adjoined their bank in Lombard street.

Two inspectors were appointed, Mr. William Thomas and Mr. White, the wine merchant of Lime street, for at that time and for many years to come the inspectors carried on businesses of their own.

The next authentic account of the Clearing House is contained in the "report of the committee on the high price of gold bullion, 1810," when Mr. William Thomas, the inspector of the Clearing House, and Mr. Richardson, a bill broker, were among the witnesses examined.

Mr. Thomas gave the number of clearing bankers at this time as 46, while Mr. Richardson stated that they were 45 and remarked that they had only increased by 3 in the last ten years.

In reply to a question as to the amount of the drafts brought into the house daily, with the exception of those on settling days and India prompts, Mr. Thomas stated that they amounted to about £4,700,000, each individual banker making a mutual exchange of drafts with his neighbor, the difference being paid up in bank notes.

About £220,000 in bank notes was apparently required daily, but on stock exchange settling days the amount required was much greater, for the whole amount paid on these days sometimes reached £14,000,000.

Mr. Thomas further stated that the business at the Clearing House had considerably increased of late years, and that the system had been in existence for some thirty-five years.

Great improvements had, he said, been made in the last fourteen months, but these improvements had not altered the amount of bank notes that passed.

From Mr. Richardson's evidence we learn that there had in the last four or five years been an alteration in the hour at which the Bank of England took from the bankers the sum daily due to them "on the ground of bank charge." The hour had formerly been "as soon after 9 as they could agree upon the sum," whereas now it was at 4 o'clock.

The result of this alteration was a very great saving in the use of notes, for the banker was able to pay the bank charge by the medium of drafts upon the bank which had been paid in to him during the day by his customers for bills discounted by them at the Bank of England that same day. From this we ascertain that it was not the practice for each banker to have, as now, an account with the Bank of England, nor did the Bank of England then or for many years later have anything to do with the Clearing House.

We further learn from Mr. Richardson that the West End bankers had not any system of clearing with the city bankers, but brought, as they did for many years to come, their demands mutually upon each other, which were always discharged on both sides mutually by bank notes.

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That the work did not always go quite smoothly at the Clearing House at this time is evident from an account we have of Mr. Barnett, the chairman of the bankers' committee, going into the Clearing House at midnight and ordering the bell to be rung to silence the clerks. Such protracted sittings are absolutely unknown in our time.

After this the arrangements were modified, and all checks were allowed to be delivered at the House up to 4 o'clock, though the bankers might continue to pay over the counter up to 5 o'clock.

One-pound notes were withdrawn from the Clearing House at this time.

Mr. White left the Clearing House in 1813, being succeeded by Mr. Lawson, and Mr. Thomas left in 1821.

In 1821, at a meeting of bankers held at the City of London Tavern in Bishopsgate street on February 14, Mr. John Smith being in the chair, it was resolved "That great advantage would arise to the bankers of London from the appointment of a permanent committee chosen out of their own body for the purpose of suggesting or carrying into effect any rules or regulations tending to increase the facility or security of their mutual transactions," and, after passing a vote of thanks to the gentlemen who constituted the temporary committee for regulating the Clearing House, 13 members were elected, 2 of whom apparently represented the West End bankers.

On February 28 this committee met at the Clearing House, and Mr. John Smith was appointed chairman and Mr. John Martin deputy chairman.

The affairs of the Clearing House were closely gone into. It seems to have been carried on in a very haphazard manner, for the inspector, Mr. Thomas, had to confess that "very few of the regulations intended to have been adopted for the management of the Clearing House were strictly complied with."

After several meetings the following regulations were agreed to:

1. That each banking house be requested to send to the inspector upon a slip of paper as soon after 5 o'clock as possible the amount of their balance with the Clearing House according to their own books.

2. That such part of the eighth regulation (as agreed to in 1809) which directs that no payments be made until the general balance is correct be suspended, and that in future each clerk report himself to the inspector as soon as he is prepared to pay or to receive, and if the balance upon his sheet be found to agree or nearly so with the statement furnished by the banking house, the inspector will then direct the creditor who is first ready to receive the balance to be paid by the debtor or debtors first prepared to pay, and such party so continuing to settle in regular succession as they may report themselves to the inspector, but no creditor to receive more than the amount of his balance.

3. In order to prevent the inconvenience which might arise from the introduction of small notes or money into the Clearing House for the settlement of balances, it was resolved that each clerk be allowed to give a memorandum for any fractional amount due from him under £10, such

memorandum, however, to be received the following day at the banking house owing the money, but on no account to be reproduced at the Clearing House.

Shortly after the passing of these rules Mr. Thomas's resignation was accepted, and he was succeeded by Mr. Hennah, of the firm of Hennah & Lawes, bill brokers.

The next records of the Clearing House are those of a meeting on June 12, 1827, when the inspector was instructed to communicate to the clerks at the Clearing House that no memorandum given for the settlement of balances is for the future to be presented at the Clearing House for payment, but is to be sent the following morning to the different banking houses owing the money. Such memorandums in no case to exceed £50, and that no banking house will be considered liable for any memorandum if not presented to them the following morning, nor for any balances, however small, for which a memorandum is not given.

It was also resolved that it be recommended to each banking house to require the production of the signed ticket, upon which authority the clearing clerk has paid away any money.

On February 20, 1832, the committee of bankers constituted in 1821 held their second meeting, when the subcommittee reported that—

"The Clearing House had occupied much of the committee's time, from the complex manner in which the accounts were formerly kept, and from the difficulties presented by old prejudices against altering the improper mode of paying balances, by which a clerk entitled to receive only a small balance was frequently made the distributer of very large sums.

"The committee believe that on examination the present system will be found to be regulated upon such clear principles that nothing is wanted to insure regularity in that important department, but a determination on the part of each banking house to enforce obedience on the part of their clerks to the instructions of the inspectors."

In 1833 Sir John Key built a new Clearing House upon part of the ground where the old general post-office stood; that is, upon the present site of the Clearing House, and subsequently, in 1834, sold it to the clearing bankers for £7,000, twenty out of 39 clearing bankers paying £350 each toward the purchase. From the date of this purchase up to 1900 the ownership of the building of the Clearing House was in the hands of a few of the clearing bankers and not of all. This arose from the tontine purchase system instituted by the 20 bankers above, by which any share belonging to the original holders which came into the market by death or amalgamation had by the agreement to be bought by one of the survivors, with the result that in 1900 nine individuals, representing three banks and one recently defunct clearing bank, owned the Clearing House. But we will revert to the ownership of the Clearing House later.

In 1834 the first of the joint stock banks, the London and Westminster Bank, was established, and on February 24 at a meeting of the committee of clearing bankers a letter was read from Mr. J. W. Gilbart, the manager of the London and Westminster Bank, requesting permission on the part of the directors "to send a clerk to the Clearing House in the ordinary way." It was unanimously resolved that this request be not complied with, and a reply was sent, to the following effect:

"To J. W. GILBART, Esq.

"SIR: I have laid before the committee of bankers your letter of the 18th instant requesting permission on the part of the directors of the London and Westminster Bank to send a clerk to the Clearing House in the ordinary way, and in reply I am desired to acquaint you that the committee decline complying with such request under the consideration that the Clearing House is intended exclusively for the accommodation of private bankers."

In 1839 there were 29 banks in the Clearing House, the total of the clearing for the year being £954,401,600, to settle which bank notes aggregating £66,275,000 or 6.9 per cent were required.

From 1824 to 1834 there are no records available, but it is known that the joint-stock banks were constantly applying for admission and as constantly snubbed and refused.

In 1841 Mr. Hannah resigned the inspectorship, and Mr. John Pocock, from Messrs. Stevenson Salt & Co., was appointed in his place. Shortly after his appointment he made great alterations in the method of transfer. The clerks had previously been allowed to draw for their money separately, so that ten or fifteen transfers would be put into the inspector's box for one clearer instead of one transfer for the whole payment by the payee, as was arranged by Mr. Pocock. He also did away with the candles, 50 of which were used each night, and introduced gas in their place, thus creating a great saving.

On January 31, 1853, Mr. Derbishire was appointed assistant inspector.

In 1854 the Clearing House was enlarged and preparations were made for the admission of the joint-stock banks, who had long threatened to make a clearing house of their own.

On May 4 the committee of clearing bankers met the deputy governor of the Bank of England at the bank, and after much discussion the following plan was agreed upon to come into force on Thursday, May 11.

1. That the bank shall appoint a clerk to attend after the usual hours for the purposes of the clearing.

2. That his business shall be to receive orders signed by the banker empowering the bank to debit the accounts of the said bankers and credit the clearing account.

3. That he shall also sign vouchers presented by other bankers who have claims on the clearing, as certified by the clearing-house inspector, so long as there shall be a sufficient balance upon the clearing account; but that if there be not money enough for the last claimant the voucher shall be given for the balance and the deficiency stated thereon. If there be more money than claimed the balance shall remain over for the next day.

4. That should it happen that the banker has not sufficient money on his account to meet his own transfer draft he may be allowed to pay in bank notes to meet the deficiency till 4.30 o'clock, but he may not draw for notes after 4 o'clock.

In consequence of the opening of this clearing account at the Bank of England, the use of bank notes in the Clearing House was entirely done away with—a great step in advance, for instead of numerous individual transactions concluded between bank and bank, each bank when it had agreed the totals with every other bank, either paid unto the clearing account a transfer draft for the total amount it was out on the day's clearing, or received from that account a transfer draft for the amount due to it as the result of the day's clearing.

In May, 1854, the Clearing House was closed for alterations and enlargement, and the business was temporarily carried on at the Hall of Commerce. Here, on June 6, 1854, applications for admission to the Clearing House were received from the following joint-stock banks: The London and Westminster, the London Joint Stock, the Union Bank of London, the Commercial Bank of London, and the London and County Bank; and it was resolved "that the secretary be authorized to comply with such applications, subject to the payment of an annual sum to be fixed by the committee to reimburse them for the outlay that has been found necessary to afford accommodation for their admission." There were at this time 25 private banks in the Clearing House.

Following on the admission of the 5 premier joint-stock banks in 1854 there were frequent applications from other joint-stock banks—many from the moment of their foundation. But the wise reply of the committee was invariably that they did not "deem it expedient to take into consideration such applications from any banking establishment that has not been in operation at least for a period of twelve months." On some slight alterations being made in the rules in 1856 the inspectors appealed to the committee for support to quell disturbance, "as many of the clerks have been persuaded that only two or three of the bankers are anxious to impose a new system."

The inspectors stated that the Clearing House was "overhanded," and recommended a shortening of the hours as the best remedy. "The hour of 11," they said, "would be sufficiently early in the morning, and, excepting on certain days, a quarter to 3 in the afternoon."

They named certain clerks as ringleaders in the disturbance (tradition says that they introduced a donkey into the Clearing House one day), and said that if one gentleman had been enabled to carry out his intention he would have prevented the inspectors from even stepping into the clearing room. The old clearers were evidently the originators of the disturbance, for they are reported to find "the present state of the house one of intense quiet in comparison to what they have known it," "so that any attempt of mine," adds the inspector, "to encourage reading among those less occupied has been exposed to ridicule." The committee intervened as requested, and all disturbance ceased, but they insisted that for the future the inspectors should give their entire attention to the Clearing House, to the exclusion of any private business that they had previously carried on.

Though the joint-stock banks had been admitted to the Clearing House yet they were only allowed to rent seats there and had no share in the management, so for the support of their mutual interests they had a committee of their own which settled the rate to be given by the joint-stock banks in the London district for deposit money at seven days' notice.

In 1858 the country bankers submitted a plan for establishing a country bankers' clearing house in London and proposed that the clearing house committee should appoint two or three of their number to unite with them as a working committee.

The establishment of a separate country bankers' clearing house would have led to many inconveniences, and Mr. John Lubbock, now Lord Avebury, submitted a plan for carrying out a separate country clearing at the Clearing House. The committee approved the plan and submitted it to the country bankers' committee, who also gave their approval.

On Monday, November 15, 1858, the clearing house committee reported the result of their conference with the country bankers and resolved that "Each house sends a clerk to the Clearing House on Monday, 22d instant, at 12 o'clock to clear the country checks." At the same time they instructed their secretary to write to Mr. Gillett, the secretary of the country bankers' committee, and inform him that "the London bankers finding that a large number of their country friends are anxious that they should establish a clearing for country checks have agreed upon a plan for that purpose."

Thus was instituted the country clearing, which more than all else has brought about the almost universal use of checks in England, to the exclusion of notes and coin.

Mr. Lubbock's scheme was so well thought out that from its initiation to the present time the rules have had to be only very slightly modified.

The balances kept by the clearing bankers with the Bank of England have increased so much in recent years that any necessity for some arrangement between the clearing banks and the Bank of England as to overdrafts being permissible has ceased to exist, but in 1860 we find the following correspondence taking place between Mr. Bevan, the chairman of the committee of clearing banks, and the Bank of England: "Referring to our recent communications on the subject of the settlement of the bankers' clearing, I beg to say, to prevent mistake, that I understand that the cashiers of the Bank of England will have the authority of the court in case of any banker's account appearing overdrawn in the clearing to overpay the same, to an extent previously agreed upon, on the deposit of any of the undermentioned securities, viz, exchequer bills, India bonds or debentures, Turkish guaranteed 4 per cent stock, and commercial bills. The advance to be repaid by such bankers in the course of the next day."

To this the governor replied: "You have rightly interpreted what passed at our interview yesterday, and I and my deputy will be prepared to issue our instructions to the chief cashiers to act in the sense mentioned."

In 1864 the Bank of England entered the Clearing House to clear on one side only, the outside, for though the Bank presents to the clearing bankers at the Clearing House all checks payable by them, all checks and bills drawn on the Bank are presented by the clearing bankers at the Bank itself, and the proceeds placed to the credit of each bank's account. At the same time the governor of the Bank of England was made ex officio a member of the committee of clearing bankers. After 1864 few changes were made in the working of the Clearing House, the volume of the country and town clearings increased greatly, but the house proved capable of meeting any increase.

The friction between the old private bankers and the joint-stock banks grew less as amalgamations and absorptions increased, and before many years the committee of London clearing bankers and joint-stock banks committee amalgamated, it being agreed, as a condition of the joint-stock banks committee ceasing to exist, that all the banks would abide by the ruling of the committee as to the rate of deposit at seven days' notice. Henceforth, every bank in the Clearing House was entitled to have one representative on the committee. Such representatives have hitherto been chosen solely from the board or the partners and are nominated by their banks and formally elected by the committee. The committee elects its own chairman, vice-chairman, and honorary secretary. This committee meets regularly on the first Thursday in each month, Thursday being the day on which the Bank of England in normal times makes any alteration in the bank rate of discount, but it may be summoned by requisition at any time and meets automatically should the bank rate be altered, since this governs the rate of deposit allowed by the bankers.

The committee has full power over all Clearing House matters, and from the importance of the banks who compose the Clearing House its opinion carries very great weight on all matters in the banking world. It is, however, controlled only by the mutual agreement of its members; and the decision of the majority of its members, though followed loyally, is never used with any ultimate power of compulsion in matters affecting banking in general. It is further weakened by the existence of a certain amount of rivalry and trade jealousy between the bankers and the Bank of England, the bankers complaining that the Bank of England is apt to use the huge balances kept by the clearing bankers, which are out of all proportion to the amounts required by the necessities of the clearing, to compete unfairly with the bankers. There is doubtless some justice in this complaint, but the strained relations are due in great measure to the traditional rivalry between the Bank of England and the bankers, and much good might ensue in critical times if the governor of the Bank of England or even some member of the court nominated by him were to commence in normal times to attend the monthly meetings of the committee of the clearing bankers, of which the governor, as has been said, is a member ex officio, though he has never attended any meeting other than a complimentary one to an outgoing secretary.

In 1907 a third clearing, the Metropolitan, was established. Hitherto, with the exception of one or two city offices which were included in the town clearing, the collection of drafts on London branches of the clearing banks had been effected by the post and by the sending out of walk clerks by each bank; but in 1907 it was determined to do away with such means of collection as far as possible and to collect the branch checks through the Clearing House. This proved so successful that the West End banks were approached the following year, and with one exception readily consented to come into the new plan by which their clearing agents had delivered to them at the Metropolitan clearing all checks drawn upon them. This clearing is the first clearing made each morning and is handled so expeditiously that even the most distant London branches get their checks almost earlier than under the old system. They have, therefore, plenty of time to go through them and to make returns of any checks that can not be paid in time for such return checks to reach the Clearing House early in the afternoon. There are now over 330 banks and branches using this clearing. The system has worked so well that it is hoped that the government pay offices will allow its being adopted with their pay warrants which have still to be presented by hand.

For the better defining of the three clearing areas—town, metropolitan, and country—the letters T M C have been placed in the corner of all Bank checks. From February 19, 1907, the date of the initiation of the Metropolitan Clearing, up to December 31 of that year £482,-227,000 was paid in this clearing, while for the year 1908 the total was £647,842,000, as compared with the town clearing total for that year of £10,408,254,000 and the country total of £1,064,266,000, making in all a grand total of £12,120,362,000, which figures, vast as they are, were a decrease of £610,031,000 on the total £12,730,-393,000 for the previous year 1907. The work entailed by such vast figures as these could scarcely have been dealt with by hand alone, but by the installation of adding machines the work is easily and quickly done.

Statistics are appended showing the working of the Bankers Clearing House from 1868 to 1906 and the proportion of amount in each year as compared with 1868, the first year in which proper records were kept. It must not be thought that all checks on London are presented through the Clearing House, for checks on the London branches of the Scotch banks and of the colonial and foreign banks are still presented over the counter.

Moreover, though it is mutually understood between the clearing banks that checks on each other will only be presented through the Clearing House this agreement has no legal binding.

Two exceptions are continually made; documents or goods have to be taken up against cash, and the owner before parting wishes to be certain of his money. In this case the presenting banker either presents his check for marking—that is to say, the paying banker having ascertained from his customer's account that there is sufficient money thereon marks the check for payment, which has the same effect as if the banker had accepted it; or, as is becoming more usual, the paying banker gives one of his own drafts on the Bank of England in exchange for the check.

Besides the London Clearing House there are eight provincial clearing houses in England—Birmingham, Bristol, Leeds, Leicester, Liverpool, Manchester, Newcastle, and Sheffield.

Two only of these clear over £100,000,000 in the year. Manchester cleared £320,296,332 in 1907, with an average weekly total of £6,159,545 and an average daily total of £1,039,923, and Liverpool £196,325,829. The others cleared in the same year from £12,000,000 to £61,000,000. Small figures, indeed, compared with London, where the highest total paid on any one day was, in 1907, £106,-703,000. In 1908 the highest total paid in one day in the London clearing was £85,833,000 and the lowest £24,-903,000.

The highest weekly total was £302,520,000, the smallest for a complete week £176,902,000. The highest monthly total was £1,120,786,000, the lowest £907,176,000.

The turnover is always large on the fourth of each month—since many trade bills mature at that date—on consol settling days, and on stock-exchange settling days, but fluctuations are easily caused by other incidents, such as new issues, so that comparison for statistical purposes is dangerous without careful investigation.

It will be seen that from 1901 to 1906 a considerable increase was shown each year. Nineteen hundred and seven was almost stationary and in 1908 the total receded, as was only natural from the general trade and stock-exchange depression. The totals for 1909 are, however, likely to again produce a record.

The provincial clearing-house returns similarly give some indication of the trade round those centers, but there, as in London, the object of the Clearing House is primarily the convenience of exchange of checks, not the regulation of banking, and little is regulated save, perhaps, the rate of interest to be paid on deposits at seven days' notice.

In these days, too, when the tendency is strong for amalgamation, the local banks are dwarfed by their gigantic competitors, with their branches in many counties and head offices in London, with the result that London each year controls more of the banking in England and the provincial clearings cease more to be under local control, but are controlled by their London head offices.

This may, if the present tendency of amalgamation continues, result in the committee of London clearing bankers becoming an important controlling body, but that time is not yet at hand, and though, as we have said, an expression of opinion on the part of the committee carries very great weight, yet anything like dictation would very properly be resented by the important and old-established banks in both London and the provinces that are outside the Clearing House.

At the present time there are in the writer's opinion too many associations of bankers, so that their functions overlap. Besides the committee of London clearing bankers there is the association of English country banks, which was reconstituted in 1874; the Institute of Bankers, founded in 1879; and the Central Association of Bankers, founded in 1895 to unite the committees of the London Bankers' Clearing House, the West End banks, and the provincial banks of the United Kingdom.

Each of these bodies watches over all matters of interest to the profession, having special regard to any legislation

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that may be brought forward, but none exercise any compulsory power over the banks as a whole.

The English system has always been for each bank to stand on its own merits and to keep what reserves it considers necessary for the nature of its business, and on the whole this has worked most satisfactorily. Even in the matter of the publication of balance sheets no compulsion is exercised. For a long time none of the private banks published any balance sheet. Gradually they thought it better to do so, but at least one well-known bank has never yet done so.

All the 18 clearing banks publish half-yearly balance sheets, and most of them issue monthly statements in addition, showing the proportion their cash in hand and at the Bank of England bears to their deposits; but as to the advisability of these monthly statements opinions differ. They were originally issued after the Baring crisis on the advice of Lord Goschen, the then chancellor of the exchecquer, but the stiffening of the market rates for a few days at the end of each month and the subsequent ease at the commencement of the next month is usually attributed to the calling in and release of money by those banks that issue monthly statements; and those banks that never have issued monthly statements urge with some truth that their rivals who do so clamor for them to come into line in this matter on the same principle that the fox who lost his brush declared that it was much more comfortable, and tried to persuade the others to do so, too.

There can be no doubt, however, that even if money does have to be called at the end of the month for window-dressing purposes, it tends to keep money liquid, for the brokers to whom the money is lent have to keep this fact in mind when they in turn lend it to their customers. Much, too, has been written of late as to the necessity of a larger gold reserve in England, and numerous suggestions have been made as to how this should be carried out, whether at the expense of the Bank of England or of the bankers.

In the meantime most of the banks have been increasing their own stocks of gold, and though their action is likely to be individual rather than concerted much will doubtless have been gained from the discussions, but it would be an enormous mistake to insist on any government compulsion in the matter as is so freely discussed in some quarters.

Before closing this short history of the London Bankers Clearing House it may be of interest to describe the procedure of clearing a check. Let us suppose that Mr. Smith, who banks at the London and County Bank (head office), draws a check for £100 and pays it to Mr. Jones, who pays it into his account with his bankers, Messrs. Glyn & Co., together with other checks, bank notes, and cash.

There, after the necessary entries have been made by the receiving cashier, the checks are handed to the clerks, who sort them up under the heading of each bank. The various parcels of checks for each bank are then entered at the bank in the out-clearing books, and if, as is probable, the number of them necessitates several casts being made the last check of each cast is turned over and the amount of the cast written on it to facilitate agreement at the Clearing House.

The checks sorted up for their respective banks are then taken over to the Clearing House—which is an irregular building of no architectural features whatever, where each of the clearing banks has seats for clerks in accordance with its requirements—and are there distributed to the clerks of the various banks that they happen to be drawn on. These in their turn enter them in their in-clearing books, verifying each cast, as shown above.

At the close of the clearing each bank sends down its out-clearing books for comparison with the in-clearing books of the other banks at the Clearing House, with which they should agree if the work has been done correctly. If the totals do not agree, the books are compared and mistakes rectified. If the mistake is in the cast, the bank making the mistake corrects it; if the figures differ, the out clearers alter their figures to agree with those of the in clearers, and should it ultimately prove that the mistake was the other way the draft is produced and the difference claimed. When the totals of out and in clearing books are agreed, a sheet is drawn up by the head clearer of each bank showing the balance due from or payable to each other bank. The two sides are then cast up and the balance receivable or to pay entered on a green ticket if the former, on a white ticket if the latter.

This ticket, which is signed by the inspector of the Clearing House, is an order to the Bank of England either to transfer from the money at the credit of the account of the clearing bankers to the receiving bankers' account, or from the money at the credit of the paying bankers' account to the account of the clearing bankers the amount it bears on its face. It will be obvious that all checks can not pass through the clearing so rapidly; some will be unable to be paid for various reasons. These have to be returned to the presenting bankers by a given time and are deducted from the totals. Returned checks in the country clearing have to be adjusted two days later.

899 TO 1908.

	1905.	1906.	1907.	1908.
J	£1,027,431,000	£1,180,401,000	£1,205,248,000	£1,120,786,000
F	964,247,000	1,007,233,000	1,026,559,000	982,704,000
M	1,112,206,000	1,078,153,000	1,103,112,000	1,005,779,000
A	999,656,000	1,047,828,000	1,092,635,000	1,016,674,000
M	1,025,275,000	1,102,264,000	1,069,305,000	976,957,000
J	952,834,000	989,264,000	1,002,605,000	975,657,000
	6,081,649,000	6,405,143,000	6,499,464,000	6,078,557,000
J	1,068,885,000	1,070,134,000	1,163,201,000	1,101,273,000
A	984,429,000	1,047,697,000	1,014,087,000	907,176,000
S	970,248,000	968,673,000	934,519,000	918,635,000
O	1,067,810,000	1,120,213,000	1,128,810,000	1,039,231,000
N	1,041,854,000	1,040,222,000	1,025,139,000	991,092,000
D	1,073,060,000	1,059,252,000	965,173,000	1,084,398,000
	6,206,286,000	6,306,191,000	6,230,929,000	6,041,805,000
	12,287,935,000	12,711,334,000	12,730,393,000	12,120,362,000

TABLE I.—BILLS, CHECKS, ETC., PAID AT THE BANKERS' CLEARING HOUSE IN LONDON, 1899 TO 1908.

Month.	1899.	1900.	1901.	1902.	1903.	1904.	1905.	1906.	1907.	1908.
January	£800,573,000	£807,760,000	£869,239,000	£904,554,000	£928,048,000	£887,983,000	£1,027,431,000	£1,180,401,000	£1,205,248,000	£1,120,786,000
February	764,404,000	692,360,000	774,065,000	832,200,000	813,199,000	843,310,000	964,247,000	1,007,233,000	1,026,559,000	982,704,000
March	786,728,000	790,498,000	789,366,000	781,223,000	836,690,000	870,971,000	1,112,206,000	1,078,153,000	1,103,112,000	1,005,779,000
April	754,473,000	707,025,000	797,176,000	880,573,000	820,030,000	846,142,000	999,656,000	1,047,828,000	1,092,635,000	1,016,674,000
May	784,235,000	734,534,000	866,221,000	843,469,000	884,561,000	887,626,000	1,025,275,000	1,102,264,000	1,069,305,000	976,957,000
June	779,555,000	730,845,000	773,092,000	814,881,000	853,138,000	875,904,000	952,834,000	989,264,000	1,002,605,000	975,657,000
Total for first six months	4,669,968,000	4,463,022,000	4,869,159,000	5,056,900,000	5,135,666,000	5,211,936,000	6,081,649,000	6,405,143,000	6,499,464,000	6,078,557,000
July	824,938,000	787,927,000	875,728,000	920,255,000	926,381,000	906,725,000	1,068,885,000	1,070,134,000	1,163,201,000	1,101,273,000
August	721,704,000	711,921,000	735,436,000	761,817,000	790,609,000	823,500,000	984,429,000	1,047,697,000	1,014,087,000	907,176,000
September	686,823,000	659,306,000	692,576,000	777,040,000	772,325,000	774,209,000	970,248,000	968,673,000	934,519,000	918,635,000
October	741,391,000	777,533,000	814,225,000	871,579,000	877,027,000	949,725,000	1,067,810,000	1,120,213,000	1,128,810,000	1,039,231,000
November	746,396,000	782,314,000	787,628,000	790,604,000	771,516,000	933,605,000	1,041,854,000	1,040,222,000	1,025,139,000	991,092,000
December	759,049,000	778,147,000	786,417,000	850,547,000	846,281,000	964,497,000	1,073,060,000	1,059,252,000	965,173,000	1,084,398,000
Total for second six months	4,480,301,000	4,497,148,000	4,692,010,000	4,971,842,000	4,984,159,000	5,352,261,000	6,206,286,000	6,306,191,000	6,230,929,000	6,041,805,000
Total for year	9,150,269,000	8,960,170,000	9,561,169,000	10,028,742,000	10,119,825,000	10,564,197,000	12,287,935,000	12,711,334,000	12,730,393,000	12,120,362,000

Year	an	Country check clearing.	Fourths of the month.	Consols settling days.	Stock exchange settling days.
1868	-----	--------------	£24,176,000	£29,307,000	£55,785,000
1869	-----	--------------	24,092,200	29,883,100	59,022,600
1870	-----	--------------	22,041,700	26,233,900	44,475,100
1871	-----	--------------	21,701,800	24,950,000	42,615,000
1872	-----	--------------	22,340,300	25,039,900	41,777,600
1873	-----	--------------	21,794,700	25,120,600	40,185,600
1874	-----	--------------	23,634,100	28,787,100	54,361,600
1875	-----	--------------	24,223,400	31,696,100	48,452,700
1876	-----	--------------	25,176,900	30,217,500	46,403,400
1877	-----	--------------	27,605,600	33,571,700	51,326,900
1878	-----	--------------	29,924,000	33,586,800	64,345,600
1879	-----	--------------	31,038,600	36,510,400	55,815,500
1880	-----	--------------	32,689,900	40,337,200	65,942,700
1881	-----	£2,871,900	32,096,700	47,528,100	65,281,500
1882	-----	2,882,300	31,857,100	49,467,000	60,699,000
1883	-----	2,868,000	37,106,700	49,763,300	64,024,400
1884	-----	3,048,000	41,422,500	53,231,900	86,275,900
1885	-----	3,232,300	43,734,700	53,711,200	84,649,200
1886		3,496,600	45,209,400	52,657,700	75,928,000
1887	, 400	3,455,400	38,055,600	53,753,800	69,687,400
1888					

Table II.—The average daily clearings in London from 1868 to 1908.

Year	Daily average	Ordinary days, exclusive of fourths of the month, consols settling days, stock exchange settling days, and days following stock exchange settlings.	Fourths of the month	Consols settling days.	Stock exchange settling days.
1868	£10,978,200	£9,637,800	£12,922,300	£11,212,600	£21,806,200
1869	11,660,400	10,121,300	14,144,000	12,494,300	23,538,900
1870	12,545,600	10,784,600	14,678,000	13,602,500	26,454,700
1871	15,720,000	13,430,200	17,591,200	17,553,900	33,598,100
1872	19,271,800	16,476,000	21,408,200	20,576,800	42,331,600
1873	19,775,100	16,994,600	22,679,600	20,812,900	43,260,700
1874	19,338,000	16,554,100	22,118,900	21,687,000	42,102,300
1875	18,520,500	15,589,200	20,484,100	20,964,400	43,477,600
1876	16,167,700	14,162,600	18,828,000	18,829,000	31,712,100
1877	16,424,700	14,574,100	19,385,800	19,021,100	31,003,500
1878	16,261,900	14,198,500	18,146,000	18,936,700	33,143,400
1879	15,915,100	13,648,400	17,779,000	18,781,700	35,122,300
1880	18,812,500	15,513,400	19,734,000	21,268,600	47,994,400
1881	20,639,800	16,624,500	21,094,400	23,238,600	57,642,900
1882	20,330,700	16,996,800	19,845,800	23,198,900	51,204,800
1883	19,314,000	16,597,700	19,923,300	21,218,300	44,112,600
1884	18,826,500	16,379,100	20,221,500	22,362,600	40,025,900
1885	17,951,400	15,559,600	18,489,400	20,777,200	38,961,800
1886	19,224,500	15,869,800	17,959,900	21,958,000	49,939,800
1887	19,795,100	16,419,200	21,372,400	24,766,000	47,743,000
1888	22,612,900	19,189,000	22,674,200	27,705,800	52,186,000

Year	Daily average	Ordinary days, exclusive of fourths of the month, consols settling days, stock exchange settling days, and days following stock exchange settlings.	Town clearing	Metropolitan clearing	Country check clearing	Fourths of the month.	Consols settling days	Stock exchange settling days
1889	£24,816,800	£21,333,000	...	...	...	£24,176,[illegible]	£29,307,[illegible]	£55,785,000
1890	25,410,600	21,819,400	...	...	...	24,092,200	29,883,[illegible]	59,022,600
1891	22,304,600	19,771,600	...	...	...	22,041,7[illegible]	26,[illegible]	44,475,100
1892	20,975,900	18,349,000	...	...	...	21,701,800	24,95[illegible]	42,615,000
1893	21,170,000	18,656,300	...	...	...	22,340,3[illegible]0	25,030,[illegible]	41,777,600
1894	20,642,400	18,264,000	...	...	...	21,794,700	25,120,600	40,185,600
1895	24,732,500	21,301,400	...	...	...	23,634,10[illegible]	28,7[illegible],100	54,361,600
1896	24,593,700	21,633,000	...	...	...	24,223,400	31,696,[illegible]	48,452,700
1897	24,481,300	21,750,300	...	...	...	25,170,900	30,217,[illegible]	46,403,400
1898	26,289,900	23,173,800	...	...	...	27,605,600	33,571,[illegible]	51,326,900
1899	29,902,800	25,888,500	...	...	...	29,924,000	33,586,800	64,345,600
1900	29,186,200	25,923,800	...	...	...	31,038,600	36,510,400	55,815,500
1901	31,245,600	27,119,800	...	...	...	32,689,900	40,[illegible]	65,942,700
1902	33,098,100	29,170,700	[illegible]220,200	...	£2,871,900	32,096,700	47,528,100	65,281,500
1903	32,963,600	29,324,000	3[illegible]081,300	...	2,882,300	31,857,100	49,467,000	60,699,000
1904	34,188,300	30,102,000	31,320,300	...	2,868,000	37,106,700	49,761,300	64,024,400
1905	40,156,600	34,613,800	37,108,700	...	3,048,000	41,422,500	53,231,900	86,275,900
1906	41,405,000	36,479,000	38,172,700	...	3,232,300	43,734,700	53,711,200	84,649,200
1907	41,467,100	37,193,000	37,970,500	(a)	3,496,600	45,209,400	52,657,700	75,928,000
1908	39,351,800	35,666,400	[b] 33,793,000	£2,103,400	3,455,400	38,055,600	53,751,800	69,687,400

[a] From February 19 to December 31, included in town clearing, £1,819,700.
[b] Metropolitan clearing not included.

Proportion of amount in each year to 1868. (1868=100.)	Proportion of consols settling days to total.	On stock-exchange account days.	Proportion of amount in each year to 1868. (1868=100.)	Proportion of stock-exchange account days to total.	Year.
	Per cent.			Per cent.	
100	3.9	£523,349,000	100	15.3	1868
111	4.1	564,935,000	108	15.5	1869
121	4.2	634,914,000	121	16.2	1870
156	4.4	806,356,000	155	16.7	1871
183	4.2	1,015,959,000	194	17.2	1872
185	4.1	1,038,257,000	198	17.1	1873
193	4.4	1,010,456,000	193	17.0	1874
186	4.4	1,043,464,000	199	18.3	1875
167	4.5	761,091,000	145	15.3	1876
169	4.5	744,085,000	142	14.7	1877
168	4.6	795,443,000	152	15.9	1878
167	4.6	842,937,000	161	17.1	1879
189	4.4	1,151,867,000	220	19.8	1880
207	4.4	1,383,430,000	264	21.7	1881
206	4.5	1,228,916,000	235	19.8	1882
189	4.3	1,058,703,000	202	17.8	1883
198	4.6	960,623,000	183	16.6	1884
184	4.5	935,084,000	179	17.0	1885
195	4.5	1,198,557,000	230	20.3	1886
220	4.9	1,145,842,000	218	18.8	1887
247	4.7	1,252,466,000	239	18.0	1888
261	4.6	1,338,842,000	256	17.5	1889
267	4.6	1,416,543,000	272	18.1	1890
234	4.6	1,067,403,000	204	15.6	1891
223	4.6	1,022,764,000	195	15.8	1892
223	4.6	1,002,664,000	191	15.4	1893
224	4.7	964,455,000	184	15.2	1894
257	4.5	1,304,679,000	249	17.1	1895
282	5.0	1,162,866,000	222	15.3	1896
270	4.8	1,113,682,000	212	14.8	1897
300	4.9	1,231,847,000	235	15.2	1898
301	4.4	1,544,295,000	295	16.8	1899
325	4.8	1,339,571,000	255	14.9	1900
359	5.0	1,582,624,000	302	16.6	1901
423	5.6	1,566,755,000	299	15.6	1902
442	5.8	1,456,775,000	278	14.3	1903
443	5.6	1,536,586,000	293	14.5	1904
475	5.2	2,070,622,000	395	16.8	1905
479	5.0	2,031,582,000	388	15.9	1906
469	4.9	1,822,273,000	348	14.3	1907
479	5.3	1,672,498,000	320	13.7	1908

TABLE III.—STATISTICS OF THE BANKERS' CLEARING HOUSE FROM 1868 TO 1908.

Year.	Totals for the years.	Proportion of amount in each year to 1868. (1868=100.)	Ordinary days, exclusive of fourths of the month, consols settling days, stock-exchange settling days, and days following stock-exchange settlings.	Proportion of amount in each year to 1868 (1868=100)	Proportion of ordinary days to total.	Town clearing.	Proportion of town clearing to total.	Metropolitan clearing.	Proportion of metropolitan clearing to total.	Country check clearing	Proportion of country clearing to total	On fourths of the month.	Proportion of amount in each year to 1868. (1868=100)	Proportion of fourths of the month to total.	On consols settling days.	Proportion of amount in each year to 1868. (1868=100)	Proportion of consols settling days to total.	On stock-exchange account days.	Proportion of amount in each year to 1868 (1868=100)	Proportion of stock-exchange account days to total	Year.
					Per cent.		*Per cent.*		*Per cent.*		*Per cent*			*Per cent*			*Per cent*			*Per cent*	
1868	£3,425,185,000	100	£2,313,084,000	100	67.5	...	...	...	...	...	...	£155,068,000	100	4.5	£134,552,000	100	3.9	£523,349,000	100	15.3	1868
1869	3,626,396,000	106	2,418,998,000	104	66.7	...		...	...	...	...	169,729,000	109	4.7	149,932,000	111	4.1	564,935,000	108	15.5	1869
1870	3,914,220,000	114	2,588,326,000	111	66.1	...	...	...	...	...	...	176,137,000	114	4.5	163,230,000	121	4.2	634,914,000	121	16.2	1870
1871	4,826,034,000	141	3,156,119,000	136	65.3	...	...	...	...	...	...	211,095,000	136	4.4	210,647,000	156	4.4	806,356,000	155	16.7	1871
1872	5,916,452,000	172	3,871,878,000	167	65.4	...	...	...	...	...	...	256,899,000	166	4.3	246,922,000	183	4.2	1,015,959,000	194	17.2	1872
1873	6,070,948,000	177	3,993,751,000	172	65.7	...	...	...	...	...	...	272,156,000	175	4.5	249,755,000	185	4.1	1,038,257,000	198	17.1	1873
1874	5,936,772,000	173	3,890,216,000	168	65.5	...		...	...	...	...	265,427,000	171	4.5	260,244,000	193	4.4	1,010,456,000	193	17.0	1874
1875	5,685,793,000	166	3,663,652,000	158	64.4	...	...	...	...	...	...	245,810,000	159	4.3	251,572,000	186	4.4	1,043,464,000	199	18.3	1875
1876	4,963,480,000	145	3,328,229,000	143	67.0	...	...	...	...	...	...	225,936,000	146	4.5	225,948,000	167	4.5	761,091,000	145	15.3	1876
1877	5,042,383,000	147	3,424,918,000	148	67.9	...	...	...	...	...	...	232,630,000	150	4.6	228,254,000	169	4.5	744,085,000	142	14.7	1877
1878	4,992,398,000	146	3,336,663,000	144	66.8	...	...	...	...	...	...	217,753,000	141	4.4	227,241,000	168	4.6	795,443,000	152	15.9	1878
1879	4,885,937,000	143	3,221,040,000	139	65.9	...	...	...	...	...	...	213,348,000	138	4.3	225,381,000	167	4.6	842,937,000	161	17.1	1879
1880	5,794,238,000	169	3,645,654,000	157	62.9	...	...	...	...	...	...	236,809,000	153	4.1	255,224,000	189	4.4	1,151,867,000	220	19.8	1880
1881	6,357,059,000	185	3,923,374,000	169	61.7	...	...	...	...	...	...	253,133,000	163	3.9	278,864,000	207	4.4	1,383,430,000	264	21.7	1881
1882	6,221,206,000	181	3,977,270,000	171	63.9	...	...	...	...	...	...	238,150,000	153	3.8	278,387,000	206	4.5	1,228,916,000	235	19.8	1882
1883	5,929,404,000	173	3,900,471,000	168	65.7	...	...	...	...	...	...	239,080,000	154	4.0	254,620,000	189	4.3	1,058,703,000	202	17.8	1883
1884	5,798,555,000	169	3,865,469,000	167	66.6	...	...	...	...	...	...	242,659,000	157	4.2	268,352,000	198	4.6	960,623,000	183	16.6	1884
1885	5,511,071,000	161	3,656,514,000	158	66.3	...	...	...	...	...	...	221,873,000	143	4.0	249,327,000	184	4.5	935,084,000	179	17.0	1885
1886	5,901,925,000	172	3,729,410,000	161	63.1	...	...	...	...	...	...	215,519,000	139	3.7	263,497,000	195	4.5	1,198,557,000	230	20.3	1886
1887	6,077,097,000	177	3,874,933,000	167	63.7	...	...	...	...	...	...	256,469,000	165	4.2	297,199,000	220	4.9	1,145,842,000	218	18.8	1887
1888	6,942,172,000	203	4,528,622,000	195	65.2	...	...	...	...	...	...	272,091,000	175	3.9	332,470,000	247	4.7	1,252,466,000	239	18.0	1888
1889	7,618,766,000	222	5,013,263,000	216	65.8	...	...	...	...	...	...	290,117,000	187	3.8	351,690,000	261	4.6	1,338,842,000	256	17.5	1889
1890	7,801,048,000	227	5,127,571,000	221	65.7	...	...	...	...	...	...	289,107,000	186	3.7	358,598,000	267	4.6	1,416,543,000	272	18.1	1890
1891	6,847,506,000	200	4,646,339,000	200	67.8	...	...	...	...	...	...	264,501,000	170	3.8	314,807,000	234	4.6	1,067,403,000	204	15.6	1891
1892	6,481,562,000	190	4,348,714,000	188	67.0	...	...	...	...	...	...	260,422,000	168	4.0	299,405,000	223	4.6	1,022,764,000	195	15.8	1892
1893	6,478,013,000	189	4,365,576,000	188	67.3	...	...	...	...	...	...	268,084,000	173	4.1	300,478,000	223	4.6	1,002,664,000	191	15.4	1893
1894	6,337,222,000	185	4,292,054,000	185	67.7	...	...	...	...	...	...	261,547,000	168	4.1	301,446,000	224	4.7	964,455,000	184	15.2	1894
1895	7,592,886,000	222	5,005,840,000	216	65.9	...	...	...	...	...	...	283,610,000	182	3.7	345,446,000	257	4.5	1,304,679,000	249	17.1	1895
1896	7,574,853,000	221	5,105,465,000	220	67.4	...	...	...	...	...	...	290,681,000	187	3.8	380,354,000	282	5.0	1,162,866,000	222	15.3	1896
1897	7,491,281,000	219	5,089,571,000	220	67.9	...	...	...	...	...	...	302,123,000	195	4.0	362,610,000	270	4.8	1,113,682,000	212	14.8	1897
1898	8,097,291,000	237	5,469,020,000	236	67.5	...	...	...	...	...	...	331,267,000	214	4.0	402,861,000	300	4.9	1,231,847,000	235	15.2	1898
1899	9,150,269,000	268	6,057,920,000	261	66.2	...	...	...	...	...	...	359,088,000	231	3.9	403,042,000	301	4.4	1,544,295,000	295	16.8	1899
1900	8,960,170,000	262	6,092,088,000	265	67.9	...	...	...	...	...	...	372,463,000	240	4.1	438,125,000	325	4.8	1,339,571,000	255	14.9	1900
1901	9,561,169,000	279	6,346,034,000	274	66.3	...	...	...	...	...	...	392,279,000	253	4.1	484,047,000	359	5.0	1,582,624,000	302	16.6	1901
1902	10,028,742,000	293	6,738,425,000	291	67.1	£9,158,553,000	91.3	...	...	£870,189,000	8.6	385,160,000	248	3.8	570,337,000	423	5.6	1,566,755,000	299	15.6	1902
1903	10,119,825,000	295	6,891,138,000	297	68.0	9,234,956,000	91.2	...	...	884,869,000	8.7	382,285,000	240	3.7	593,605,000	442	5.8	1,456,775,000	278	14.3	1903
1904	10,564,197,000	308	7,234,169,000	308	67.5	9,677,988,000	91.6	...	...	886,209,000	8.3	445,281,000	287	4.2	597,160,000	443	5.6	1,536,586,000	293	14.5	1904
1905	12,287,935,000	358	8,099,618,000	350	65.9	11,355,250,000	92.4	...	...	932,685,000	7.5	497,070,000	320	4.0	638,783,000	475	5.2	2,070,622,000	395	16.8	1905
1906	12,711,334,000	371	8,572,571,000	370	67.4	11,719,021,000	92.1	(a)	...	992,313,000	7.8	524,816,000	338	4.1	644,534,000	479	5.0	2,031,582,000	388	15.9	1906
1907	12,730,393,000	371	8,740,355,000	377	68.6	11,656,950,000	91.5	£482,227,000	...	1,073,443,000	8.4	542,513,000	349	4.2	631,893,000	469	4.9	1,822,273,000	348	14.3	1907
1908	12,120,362,000	354	8,417,270,000	364	69.4	[b]10,408,254,000	85.8	647,842,000	5.3	1,064,266,000	8.7	456,667,000	294	3.7	645,046,000	479	5.3	1,672,498,000	320	13.7	1908

[a] From February 19 to December 31.

[b] Metropolitan clearing not included.