

SUPPLEMENT

TO THE

FOURTH, FIFTH, AND SIXTH EDITIONS

OF THE

ENCYCLOPÆDIA BRITANNICA.

WITH PRELIMINARY DISSERTATIONS

ON THE

HISTORY OF THE SCIENCES.

Illustrated by Engravings.

VOLUME THIRD.

EDINBURGH:

PRINTED FOR ARCHIBALD CONSTABLE AND COMPANY, EDINBURGH;
AND HURST, ROBINSON, AND COMPANY,
LONDON.

1824.

BANKING.

In the *Encyclopædia* will be found some explanation of the nature and origin of banking; and it now remains to describe the improvements which have been subsequently introduced into this important art of money-dealing, and to give some account also of the principal banks, which, in the progress of commerce and of wealth, have been established in this, and in other countries.

Purpose for
which
Banks were
originally
established.

The chief purpose of the different banks which were established throughout Europe during the fifteenth and sixteenth centuries, such as the banks of Venice, Genoa, Amsterdam, Hamburgh, and Nuremberg, was to provide, for the convenience of commerce, a currency of a determinate and invariable standard. Before this period, the currency of those places was lost amid an inundation of the light and debased coins of every adjacent state; and the business of commercial exchange was in this manner obstructed by the want of some certain measure of value. By the establishment of banks of deposit, as they are generally called, which paid all demands on them in money of a known weight and fineness; and by ordaining, at the same time, that all payments above a certain sum should be made in bank money, the greatest possible degree of certainty was given to the value of the currency, while, by adopting the method of paying large sums, by means of a simple transfer from one name to another in the books of the bank, great facility and dispatch were obviously given to all cash transactions. Nor were those advantages confined to the particular places in which banks were established. It was soon found, that the same improvement which was so useful in the domestic transactions of a community could be employed with even greater advantages in simplifying the cash transactions of distant places. The inconveniences to which merchants residing in the same place must have been exposed in making payments to each other, previous to the establishment of banks, would necessarily consist in the want of some fixed and invariable measure of value; in the counting, weighing, and useless transportation of large sums from one hand to another; and in the frauds and mistakes which would frequently occur in these cumbersome transactions. But in the commercial intercourse of distant places, all those disadvantages would be greatly aggravated; there would be more scope for frauds and mistakes; they would be less easily corrected; and, without some system of money-dealing, the commerce of distant places must be limited to mere barter, or to the instant exchange of specie for goods. The progress of wealth and industry is, however, necessarily accompanied by the growth of confidence and credit. Upon this new principle, commercial dealing is gradually extended; and in these circumstances, without the intervention of the money-dealer, there must be a continual and useless transportation of specie between all commercial towns. No debt can be discharged without a remittance in cash, and each separate transaction

will require a separate remittance. To obviate these useless payments in detail, the business is naturally transferred to a separate class of dealers, by whom the whole debts and credits of the community, in place of being settled individually, are brought to a general balance, and it is only for the discharge of this balance, that it is necessary to remit specie. The arrangements by which this result is produced are exceedingly simple and obvious, and are now become so familiar, that they hardly require to be explained in detail.

When, in the progress of wealth and improvement, certain individuals begin to acquire, from their increased wealth and their extended trade, the general confidence of the community, it will naturally occur to inferior traders, who have remittances to make to other places, that the great merchant, by means of his credit and connections, may assist him in his transactions with those distant parts. If the one has money to remit, the other may have money to receive, and in this manner, by means of credit and confidence, the engagements of the different parties may be duly discharged by a mere transfer of debt from one person to another. Thus, we may suppose A, the great merchant, has money to receive from the same place to which B, the inferior merchant, has money to remit. He receives the money from B, giving him, of course, an order on the debtor which he has in the same place in which B's creditor resides. To this place the order being sent, the debt belonging to A is transferred to the creditor of B. And thus, by the mutual transfer of claims, without the intervention of specie, this account of debt and credit is finally settled. The credit and connections of the wealthy merchant, inducing others to deposit money with him for the purpose of being remitted to their respective creditors, the cash transactions of the town and neighbourhood gradually centre in his hands. All those who have money to remit, or money to receive, entrust the transaction to his management; he receives their money, for which he gives them his drafts, or their bills, for which he either gives them money, or undertakes to procure payment, and, in this manner, the debts and credits of the different commercial towns, in place of being settled as formerly in detail, are, by the agency of the money-dealers, brought into one general account, and reduced at once to a common balance. The establishment of such public banks as those of Venice, Genoa, Amsterdam, Hamburgh, &c., on the solid security of large deposits of treasure, by inspiring general confidence, would tend to give life and activity to this improved system of money-dealing. The credit of an individual, however respectable for wealth, integrity, and prudence, could hardly be supposed in any case to be equal to that of those public establishments which were the general depositaries of all the floating capital of the community, of which the management was committed to directors publicly chosen, and bound down in their

Utility of
Banks.

Banking. conduct to certain general rules, from which they have no discretionary power to depart. In the two great sources of mercantile confidence, therefore, namely, the reputation of wealth and prudent management, those institutions could not be exceeded. They were evidently beyond the reach of all the ordinary casualties of commerce, and it could only be by foreign invasion, or by some great internal convulsion, which would tend to the dissolution of all civil order, that their ruin could be accomplished. Their bills and drafts possessing a proportionably extensive circulation, formed a species of currency in universal credit, throughout the great mercantile community of Europe, and furnished a most convenient instrument for settling, in the most easy and expeditious manner, the cash transactions between distant parts.

It has been suggested, that those bills of exchange and drafts were the invention of the Jews, and such may very possibly have been the case. But the just and philosophical remark of Mr Dugald Stewart, in regard to the invention of printing, may be generally applied to the progress of mankind in all other arts and sciences. On this subject, he observes, that to whomsoever the credit of this important discovery may be due, it is evident, from the state of society at that time in Europe, and from the rapid progress of all moral improvement, that some such process, for the speedy dissemination of knowledge, must have been discovered about this period. The general condition of the world, created, if we may so express ourselves, an effectual demand for the discovery; and the ingenuity of mankind being turned to this object, the necessary means for gratifying the love of knowledge and inquiry, now fairly awakened, were speedily devised. In like manner, it may be remarked of bills of exchange, that the gradual progress of mankind in wealth and improvement, favoured the growth of mercantile confidence, which was still farther strengthened by the establishment of public banks of undoubted credit; and that, by whomsoever bills of exchange were first used, some such invention was the necessary result of that increased confidence and credit, which the progress of wealth and industry was rapidly diffusing over all Europe.

In general, the public banks established throughout Europe were found to answer all the purposes of their institution. As their credit was beyond all question, they afforded a solid foundation for commercial confidence, and their affairs being managed with prudence, they increased in respectability and credit, supplying the home merchant with a safe and convenient instrument of exchange, and enabling the foreign merchant to receive remittances from abroad, or to make his payments more cheaply, safely, and expeditiously than before. In addition to those already mentioned, other banks were established in different parts of Europe, and upon the same model. But, in some cases, owing to a deviation from their original rules, and to an imprudent extension of their concerns, from a desire of inordinate gains, they were occasionally in want of specie, and being unable to pay on demand, they fell from that high degree of credit, which is essential to the usefulness and prosperity of such institutions.

Banking. By the general circulation of the bills of those public banks, the use of specie was in a great measure superseded as a medium of exchange between distant parts; and it was obvious, that, by following out the same principle in the domestic circulation of a country, paper might, in like manner, be substituted for specie in its internal commerce. When a debt against persons of undoubted ability to pay is once constituted by a written document, the debt may, by means of this document, be made over to liquidate the claims of a third party, and in this way, a cumbersome species of paper currency may be employed in the great transactions of trade. By improving the form of this instrument, however, by circulating bills for small sums, and by making them payable on demand, a public bank, in good credit, will supply the community with a paper currency so convenient as to answer all the purposes of specie.

In the course of the last century, public banks for the circulation of paper in lieu of specie have been established in most of the great cities of Europe. Of these, the most important, whether we consider its great wealth, or the vast extent of its transactions, is the Bank of England. Of the nature and origin of this establishment, an account will be found in the *Encyclopædia*; and, in this supplementary work, we shall proceed, briefly, to notice some of its more recent transactions, and also to describe generally the effects produced by so powerful an engine on the circulation and commerce of the country.

The Bank of England, when it was first incorporated, assisted Government with a loan of L. 1,200,000, and it has subsequently been in the practice of accommodating the public, from time to time, with loans to a considerable amount. In 1746, those advances, which form its undivided capital, amounted to L. 11,686,800, for which interest is paid by Government at the rate of 3 per cent.; and its divided capital had been, at the same time, raised, by different calls and subscriptions, to L. 10,780,000. The state of these two sums continued nearly the same till the year 1800, when the Bank, in consideration of the renewal for twenty-one years of its charter, which expired in 1812, advanced to Government a farther sum of L. 3,000,000, without interest, for six years. This sum became payable in the year 1806, at which period, it was agreed, after some discussion, that the loan should be continued to Government during the war at an interest of 3 per cent. In the following year, in consequence of the great profits arising from the vast and increasing amount of the public money deposited in the Bank, the Chancellor of the Exchequer claimed for the public some compensation, either by an annual payment of money, or by a loan without interest. In the year 1797, the deposits of cash in the Bank, whether belonging to the public or to individuals, amounted altogether to L. 5,130,140. The Government balances alone had increased, in the year 1807, to the enormous amount of between L. 11,000,000 and L. 12,000,000; and, in consideration of the profit accruing to the Bank from the use of this money, its directors agreed to lend L. 3,000,000 to Government without interest, until six months after the conclusion of a definitive treaty of peace. This loan, together with the former loan of

Banking. L. 3,000,000 granted in 1806, became due in the year 1814. The loan of 1806 was discharged, but the loan with which Government was accommodated in 1808 was continued to the public till 5th April 1816. According to an arrangement made at this time, the Bank was allowed to add to its capital L. 2,910,600; and in return the loan of L. 3,000,000 was continued at an interest of 3 per cent. An ad-

ditional advance was also made to Government of **Banking.** L. 6,000,000, at an interest of 4 per cent. The debt of the Government to the Bank has been in this manner increased from L. 11,686,800 to L. 20,686,800.

The following view of the state of its circulation at different periods, from 1718 to the present year of the Bank (1816), is extracted from accounts laid before Parliament.

Amount of Bank of England Notes in Circulation at the following Periods.

In the Year	Notes of L. 5 and upwards.	Notes under L. 5.	Bank Post Bills.	Total.
1718.	L. 1,829,930			L. 1,829,930
1721.	2,054,780			2,054,780
1730.	4,224,990			4,224,996
1754.	3,836,870		L. 186,920	3,975,870
1761.	5,863,290		138,520	6,001,810
1762.	6,012,150		119,620	6,131,770
1763.	6,716,660		173,020	6,889,680
1772.	5,881,960		319,070	6,201,030
1778.	7,030,680		509,390	7,540,070
1783.	6,354,070		353,470	6,707,540
1784.	6,074,930		317,800	6,392,730
1791.	10,027,600		661,910	10,689,510
1792. Average of } Jan. and July }	10,277,990		724,865	11,102,855
1793. Average of } Jan. and July }	11,193,105		735,005	11,928,110
1794. Average of } Jan. and July }	9,670,450		576,130	10,246,586
1795. Average of } Jan. and July }	9,580,300		559,605	10,139,905
1796. Average of } Jan. and July }	9,516,000		590,165	10,106,165
1797. January	8,742,530		461,970	9,204,500
July	9,331,920	L. 921,780	524,400	10,778,120
1798.	9,571,945	1,483,740	506,045	11,561,730
1799.	10,135,265	1,526,890	561,385	12,223,540
1800.	11,385,380	1,704,880	723,525	13,813,785
1801.	12,913,460	2,439,650	816,760	16,169,870
1802.	12,541,675	2,939,730	762,710	16,244,115
1803.	10,978,655	3,243,595	748,920	14,971,170
1804.	11,763,035	4,564,415	739,225	17,066,675
1805.	11,319,370	4,509,034	933,970	16,762,374
1806.	11,491,765	4,255,130	685,495	16,432,380
1807.	11,295,215	4,062,770	677,965	16,035,950
1808.	12,264,170	3,987,720	667,385	16,919,275
1809.	12,881,095	4,442,500	782,260	18,105,855
1810.	14,627,680	5,990,695	834,555	19,452,930
1811.	13,522,210	7,209,700	1,049,470	21,781,380
1812.	15,238,425	7,594,605	1,048,680	23,881,710
1813.	14,996,635	7,712,135	977,335	23,686,105
1814.	16,214,830	8,313,380	1,089,340	25,517,550
1815.	16,522,530	9,065,890	1,215,100	26,803,526
1816. April	16,096,950	9,135,000	1,362,410	26,594,360

**Flourishing
State of its
Affairs.**

Notwithstanding the embarrassments to which the Bank of England has been occasionally exposed from the fluctuations of commerce, and from the effects of political alarms, the amount of its capital, and the extent of its transactions, have been gradually increasing, and the wealth which it has now accumulated is

greater, perhaps, than was ever before engrossed by any other trading corporation. Previous to the year 1797, the state of its affairs was not generally known to the public. But at that period its affairs having been submitted, in consequence of the suspension of its cash payments, to the investigation of

Banking. a Parliamentary Committee, it appeared that, besides paying a dividend generally of from $5\frac{1}{2}$ to 7 *per cent.*, it had accumulated a fund of undivided profits amounting to L. 3,800,000. Since the year 1797, its affairs have been even in a more flourishing condition than at any former period. Its circulation has been increased from L. 11,000,000 to L. 27,000,000; its transactions have been extended, and its profits have been augmented in proportion; while the law releasing it from the obligation of paying in specie, by rendering it unnecessary to keep in reserve so large a stock of cash, has tended greatly to increase its command of active and productive capital. It has been already stated that the Bank, besides transacting the ordinary business of discounting mercantile bills, is also employed as a great engine of State,—receiving and paying the interest due to the public creditors,—circulating exchequer bills,—accommodating Government with immediate advances on the credit of distant funds, and assisting generally in all the great operations of finance. In its capacity of public banker to the State, the Bank has an allowance for the management of the national debt; it has an allowance of L. 800 *per million* on the whole amount of every loan of which it receives the payment; upon every lottery contract, it is allowed L. 1000; and, lastly, it has the use of all the public money committed to its charge, besides several other allowances of less importance. The sum paid for the management of the public debt has varied according to circumstances. In the year 1726, under the economical administration of Sir Robert Walpole, L. 360 *per million* was paid to the Bank on this account; the allowance was afterwards increased to L. 562, 10s. *per million*. But, in the year 1786, when the public debt amounted to L. 224,000,000, it was reduced to L. 450 *per million*, at which rate it continued till the year 1807, when, in consequence of the vast increase of the public debts, it was still further reduced to L. 340 *per million*, on the first L. 600,000,000 of debt, and to L. 300 *per million* on the excess beyond L. 600,000,000; at which rate it still continues.

Business transacted by the Bank for Government. In the course of the two last wars, the business transacted by the Government at the Bank has increased far beyond its former extent. The debts of the country, on the management of which the Bank receives a commission, have risen from L. 224,000,000 to about L. 830,000,000. In the year 1792, the sum paid to the Bank for the management of the public debt, and for receiving the contributions on loans and lotteries, amounted to L. 99,803; while, for the year ending 5th April 1815, the sum paid for the same service amounted to L. 281,568, being an increase of L. 181,765. During the same period, the public deposits of cash at the Bank, in consequence of the increased pecuniary transactions of

Government, have been accumulating in a similar proportion. In the year 1792, these deposits could not have amounted to L. 4,000,000. Since that time they have been rapidly increasing; and from the year 1806, the average amount may be stated at between L. 11,000,000 and L. 12,000,000, on which the Bank have been receiving interest at the rate of 5 *per cent.* As a compensation for the use of this money, the Bank, as has been already stated, lent to Government L. 3,000,000, at an interest of 3 *per cent.*, and afterwards an additional L. 3,000,000 without interest. The gain of the public on these transactions being deducted from the annual interest on L. 11,000,000 of the public money, the profit of the Bank on this branch of its business will be found to have amounted, since the year 1806, to nearly L. 382,000 *per annum*. From all these different causes, therefore, **Wealth accumulated by the Bank.** from the increased circulation of its notes, and from the vast accumulation of public business, the profits of the Bank appear to have been prodigiously augmented in the course of the late war, so that its average dividend, including the *bonus* from time to time added to it, will be found to amount, from the year 1797, to nearly 10 *per cent.*; and it is calculated besides, on data which admit of no considerable error, that the sum of undivided profit must, in the meantime, have increased to the enormous amount of L. 13,000,000.* Out of this fund the Bank has advanced to Government, for the year 1816, a loan of L. 6,000,000; and at a court of proprietors, held in May 1816, it was resolved to make an addition to the capital of the Bank of L. 2,910,600, the effect of which is to raise the capital of each proprietor of L. 100 of stock, producing at present L. 10 *per annum*, to L. 125, and to increase his income proportionally, *i. e.* to L. 12, 10s. *per annum*. The great **Advantages resulting from the use of Paper in place of Specie.** profit realized by the Bank since the suspension of its cash payments, has produced a corresponding rise in the value of its stock. Throughout the year 1797, the average price of Bank stock was about L. 125 *per cent.* Since this period it has been gradually improving in value, and its market price now amounts to about L. 262 *per cent.* The original capital of the Bank has thus acquired, since the year 1797, when the act passed releasing it from its obligation of paying in specie, an additional value equal to nearly L. 16,000,000; which, added to the estimated increase in the sum of its undivided profit, amounting, according to Mr Ricardo's calculation, to L. 9,599,359, makes a sum of L. 25,599,359, the actual improved value of the Bank capital during the last nineteen years.

One great inducement to establish a bank for the circulation of paper in place of specie is, that it provides a cheap instrument of exchange in place of a more expensive one, and from the obvious advantage of such an operation, both to the individual and to

* This view of the affairs of the Bank, since the year 1797, is founded on the statements contained in the work of Mr Ricardo. He seems to have made his calculations on grounds sufficiently certain, and his capacity for diligent research leaves little room to question his accuracy. The amount of the surplus capital accumulated by the Bank in 1797, which is the foundation of all the subsequent conclusions, is ascertained from the account of its affairs laid before Parliament, at the time of the suspension of cash payments in 1797. See Ricardo's *Proposals for a Secure and Economical Currency*, Appendix, No. V. p. 103.

Banking. the community, paper, after it is once introduced, is gradually found to limit, and at last entirely to supersede, the use of specie in the circulation of a country. Such has been the progress of paper in the currency of Britain. Specie is now entirely excluded from circulation; all that portion of our currency which formerly consisted of the precious metals has either been exported, or is stored up by the bankers, by whom it is kept in reserve, to answer occasional demands. The establishment of one great bank in the capital of the country would facilitate the introduction into other parts of similar establishments, on a smaller scale. Such a bank is naturally a general reservoir of specie for the whole kingdom. Its transactions are of so much greater an extent than those of any other establishment of the same kind, that all the specie which it could collect at home would be insufficient to supply its wants. When its coffers are exhausted, therefore, they must be replenished from abroad. Bullion must be purchased in the great market of the civilized world, and the supply thus imported is gradually distributed, in the general course of circulation and commerce, among the lesser banks. The wants of those smaller establishments can always be supplied, to any extent, from the store of specie collected in the great bank; for they have only to convert a certain portion of their property into its promissory-notes, in order to procure the supply necessary to replenish their exhausted coffers.

**Country
Banks in
Britain.**

Since the establishment of the Bank of England, banks on a smaller scale have accordingly been begun in almost all the provincial towns of Great Britain. They seem to have increased with great rapidity in the course of that short interval of prosperity and peace which followed the American war. During this period, all the great branches of national industry were extremely flourishing—the capital of the country was daily augmenting—the principle of mercantile confidence, the natural effect of such a state of things, was in full vigour,—and spirited individuals, in every quarter, taking advantage of these favourable circumstances, proceeded to establish banks; and having thus created a currency on the foundation of credit, the precious metals were no longer required to carry on the circulation of the country. According to an estimate made by Mr Thornton,* which is rather moderate than otherwise, the number of country banks in Great Britain amounted, in the year 1797, to 353. In 1799, they had increased to 366, and, in 1800, to 386. About this period, they appear to have increased rapidly, for we find the number of licences granted in 1809, for the issue of promissory-notes in Great Britain, to have amounted to 735. In 1812, they amounted to 878; and, in 1814 and 1815, to about 1000. Of these, there are in London, besides the Bank of England, about 70 private banking-houses, and the remaining 930 are dispersed throughout the kingdom. To the management of these various money-dealers, the whole circulation of the country is committed. Their business consists in settling the cash transactions of

Banking. distant places, and in issuing their notes, for the accommodation of trade, by discounting mercantile bills; and the arrangements which they adopt for this purpose are eminently calculated to promote the dispatch of business, and the economy of cash.

We have already, in part, explained in what manner the establishment of accredited banks tends to simplify the cash transactions of distant parts, and it is obvious that a community abounding in bankers of established character and credit, whose promissory-notes and bills of exchange circulate, to the exclusion of specie, must possess ample means for carrying into effect all the refinements of money-dealing. In Great Britain, accordingly, the general progress of trade and manufactures—the known wealth of banking establishments—the security derived from the long continuance of domestic peace—the high state of commercial confidence—the facilities of communication, joined to other advantages peculiar to such an advanced state of society, have brought the system to perfection. By means of bills of exchange, circulated among the different bankers, remittances are made to the most distant parts with the most perfect security, and at an inconsiderable expence. The respective debts and credits of the great commercial towns, in place of being settled in detail, or by remittances in specie, are, by the agency of the money-dealers, collected into one general account, which is brought to a common balance, and in this way the most extensive transactions may be settled with a comparatively small quantity of specie. If we suppose, for example, one of the two trading towns of Glasgow and Manchester to export, to the other, goods to the amount of £2,000,000 annually, and to receive a return to the value of £1,900,000, those transactions being, through the medium of the bankers, brought into one general account, there remains only an undischarged balance of £100,000. But the tendency of the system being to make the whole complicated transactions of an extensive country centre in one common account, it may not be necessary, even for this balance of £100,000, to send a remittance of specie, seeing that it may be transferred, by a draft on some third place, to a more general fund of debt and credit, where it may be finally met and liquidated by opposite balances to the same amount. Thus, we may suppose the balance of £100,000, due from Manchester to Glasgow, to be discharged by a draft on London. In this case, London comes in the place of Glasgow, as the creditor of Manchester, the transaction being substantially to transfer the debt to the general cash account of those two places. But Manchester, in consequence of a favourable balance of trade, may be the creditor of other towns, as well as the debtor; and London being credited with the money to be received, as it was formerly charged with the money to be paid, all these insulated transactions are brought into one general account, on which the balance is struck, and it is only for this last and final balance that cash must be provided. In this highly artificial and curious system, the wealthy and populous towns natu-

* See *Inquiry into the Nature and Effects of the Paper Credit of Great Britain*, p. 154.

Banking. rally draw, as to a common centre, all the cash transactions of the neighbourhood; the insulated balances, arising on the commerce of the surrounding country, are formed into new accounts by the money-dealers of these towns, who, by a simple transfer of debt and credit in their books, bring them to a general balance. This balance they afterwards carry to a still more general account; and thus, at length, all the scattered debts of the country are collected into one common account by the bankers of the metropolis, which is then brought to a final balance. The metropolis, the centre of intercourse and trade, is the centre, also, of this vast system of money-dealing. Here, as to a point, all the cash transactions of the country naturally converge, and here the account is finally closed by payments in cash.

In this manner, all the money-dealing of this country, which cannot be transacted without remitting specie, is transferred to London. The payments of London, originating in its own extended commerce, and in its great wealth and population, are of themselves immense. These are still further increased by the payment of the interest on the national debt, which is issued every quarter from the Bank of England; and London having also, in the course of the late wars, grown up to be in some degree the commercial metropolis, both of America and of Europe, it has been found convenient to transfer the payment of foreign bills to it from all parts. In consequence of these extended transactions, London has its debtors and creditors in every quarter of the kingdom. It is the general centre of all money-dealing, and there being, on this account, a greater demand in the country for money in London, than there is in London for money in the country, bills on London are invariably sold in the money market of the country for a premium. The currency of every other bank is limited in its circulation within particular districts, and cannot, therefore, be employed in transacting the payments of distant places. But money in London is a commodity in universal request, and bills for its payment constitute a medium of exchange common to the whole country.

All the various money-dealers who are dispersed throughout the kingdom, require to be provided with a stock of this common currency in order to carry on their business, and, for this purpose, they find it necessary to establish a credit on the metropolis, on which, for a suitable premium, drafts may be obtained from them at all times. By thus transferring the payments of the country, to be settled in one general account in the metropolis, both the expence and trouble of making remittances between distant places has been greatly diminished. It would be interesting if we could collect any exact account of the progressive diminution which took place, in consequence of this improved system of banking, in the expence of managing the cash transactions of the country. But unfortunately those instructive facts which illustrate the progress and internal structure of society, though of far more real importance than the accounts of wars and battles, seldom attract the same attention. On this account, all traces of them are frequently lost before their importance is discovered, and the future inquirer finds himself reduced either to glean from

oral tradition, or from the passing and imperfect records of the day, the scanty materials of domestic history. From some inquiries on this subject, made by a Committee of the House of Commons in 1780, we find, according to the evidence of several of the collectors, that, before this period, the mode of remitting the public revenue to the treasury was both irregular, cumbersome, and expensive. In Scotland there was no certain or regular channel of remitting to the metropolis, and the remittances were not only very uncertain as to the time, but the collectors, not being always able to procure bills, were frequently under the necessity of remitting to the Receiver-General the actual money which they had collected. In different parts of England the same difficulties had, at a former period, been experienced in the remitting of the public revenue. From about the year 1740, it appears, that a premium had been paid to those who undertook the charge of remitting the money, of from 20s. to 2s. 6d. *per cent.* This premium, as the country advanced in wealth and industry, was gradually diminished, and about the year 1778, it was entirely done away, the dates of the bills drawn on London being also at the same time shortened. In 1764, the collector of the Wales district paid 7s. *per cent.* for bills on London, and in 1774, a premium of 2s. 6d. *per cent.* was paid by the collector of Dorsetshire, for bills payable on London at 40 days date. Even so late as the year 1780, though the collectors found no difficulty in the remitting of the public revenue, it was chiefly from merchants and manufacturers that they procured bills on the metropolis. Only a small part of their remittances were made through the medium of the country banks, and in all cases security was required for the whole sum remitted. Since the general establishment of banks, and the consequent increase of commercial confidence, the largest sums are now remitted from the remotest parts with the most perfect regularity, and without either premium or security; the only advantage derived by the banker from the transaction, being the use of the money for a certain number of days, varying in proportion to the distance from London.

All those complicated payments of the country, which are transferred to London, are finally settled by the London bankers, with specie or with notes of the Bank of England, it being the practice to use no other currency in the payments of the metropolis; and in managing those extensive money-dealings, they still act upon the principle of collecting the insulated transactions of individuals into one common account, and this account is brought to a general balance. For this purpose a clerk, it appears, is dispatched from each banker, at an appointed hour in the afternoon, and a meeting of the whole having taken place in a room provided for the purpose, each clerk exchanges the drafts on other bankers, received at his own house, for the drafts on his own house, received at the houses of other bankers. The balances of the several bankers being then transferred from one to another, in a manner which it is unnecessary to explain in detail, the several accounts are finally wound up by each clerk into one balance, and it is only for this single balance that each banker has to provide specie

Banking.

or notes. By this contrivance, so great a saving of cash is effected, that though the daily transactions of those bankers are calculated to amount to nearly L. 5,000,000, about L. 220,000 of bank-notes is generally found sufficient for the discharge of the several balances due at the settlement of the account. Other devices are also put in practice by these active and ingenious money-dealers, for economising the use of cash. Many bankers are allowed to have a general cash-account with the Bank of England, in which, if they are careful to keep a supply of good bills, they may always procure whatever cash they require on a day's notice. For the same purpose also of preventing any waste of the circulating medium, accredited brokers are in the habit of hourly walking Lombard Street, and of borrowing the superfluous cash of one broker and lending it to another, for a day, a week, or any longer period, to be repaid when called for; and so nicely is the scale adjusted by those various devices, that the most opulent houses are frequently accommodated with a supply of cash before three o'clock, to be repaid by a draft at the general balance of accounts, which takes place in the afternoon.*

The recent policy of the Bank of England has also tended greatly to favour those economical contrivances of the inferior bankers. The daily demand made upon them by the Bank for the amount of bills accepted and payable at their several houses, is of course considerable, and was formerly made at an early hour, before the notes were issued for bills discounted on the same day, and without any previous notice to the bankers of the demands for which they might be liable, and of which they had no means of judging. For some time past the Bank has adopted a different practice, having notified the amount of the demand at an earlier hour, and taken payment at four in the afternoon, receiving for part of the sum such drafts or bills as the bankers may happen to hold in place of bank-notes.

In consequence of all those contrivances, the circulation of London is carried on with the smallest possible quantity of currency which is consistent with the regularity of its payments; and any sudden reduction, therefore, in the amount of its circulating cash, would ultimately lead to a state of general insolvency and suspension of confidence. Bills and drafts from all quarters of the country being also made payable in London, and accepted by the different bankers, and a failure in any one of those payments being deemed an act of insolvency, it is evident that any general derangement of credit in London must spread far and wide throughout the kingdom. The punctuality of the London payments is necessary to sustain and regulate the whole paper credit of the country; and these payments being made exclusively in Bank of England notes, the circulation of those notes cannot, in any case, be materially reduced with safety to the community. Prior to the restriction act, there was no risk of any un-

due increase in the circulation of bank-notes, as the excess would have been immediately returned in exchange for specie. But the Bank, being now released from its obligation to pay in specie, and being thus closed against any return of its superfluous notes, its circulation may be increased at the discretion of its directors; and, in these very peculiar circumstances, it is the opinion of Mr Thornton,† that the true policy of the Bank is generally to allow its circulation to vibrate within certain limits; to resort, when the temptation to borrow in the way of discounts is too strong, to some effectual principle of restriction, but in no case materially to reduce the sum in circulation; to afford a slow and cautious extension of it, as the general trade of the kingdom is enlarged; and to allow of a temporary increase, even beyond its usual limits, in a season of extraordinary difficulty or alarm.

It is justly observed by Dr Smith, after he has explained all the advantages of banking, that the commerce and industry of a country cannot be so secure when managed with paper money, as when managed with a currency of gold and silver. "The gold and silver money which circulates in any country," he observes, "may very properly be compared to a highway, which, while it circulates and carries to market all the grass and corn of the country, produces itself not a single pile of either. The judicious operations of banking, by providing, if I may be allowed so violent a metaphor, a sort of waggon-way through the air, enable the country to convert, as it were, a great part of its highways into good pastures and corn-fields, and thereby to increase very considerably the annual produce of its land and labour. The commerce and industry of the country, however, it must be acknowledged, though they may be somewhat augmented, cannot be altogether so secure, when they are thus, as it were, suspended on the Dædalian wings of paper money, as when they travel about upon the solid ground of gold and silver. Over and above the accidents to which they are exposed from the unskillfulness of the conductors of this paper money, they are liable to several others, from which no prudence or skill of these conductors can guard them." (*Wealth of Nations*. Buchanan's edit. Vol. I. p. 508.)

The necessary effect of every system of paper currency is, to encourage the principle of commercial credit. This is, indeed, the foundation on which it is raised, and the more widely the circulation of paper is extended, the more closely will the mercantile community be knit together by the artificial ties of confidence and credit. Wherever there is trade, there must no doubt be credit. But where banks are generally established for the purpose of circulating paper money, credit must be augmented tenfold, seeing that, in such circumstances, no one can receive a payment without becoming a creditor. It is an evil, therefore, inseparable from any system under which a currency of the precious metals is superseded-

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* Bonsanquet's *Observations on the Report of the Bullion Committee*.

† *Inquiry into the Nature and Effects of the Paper Credit of Great Britain*, p. 295.

Banking. ed by one purely conventional, that while a useless expence is thereby saved to the community, and while its capital also acquires an increased degree of activity, the trading part of society are brought into such a state of general dependence, that every man may be said, in some degree, to rest upon his neighbour, and the whole to rest upon the principle of confidence in each other. The banker's notes obtain a general circulation; no demand is made upon him for their payment in cash, because the public believe that he has property to pay them. The banker, in like manner, discounts the merchant's bills, from an opinion of his solvency, and the merchant, in giving credit, is guided by the same rule. Confidence, in short, is the charm which holds the whole together, and while this principle prevails, no evil will result from this complicated system of credit. Bank-notes will circulate freely—there will be no great demand for specie—and the merchant will always be enabled to convert his bills into cash. In these circumstances, every expedient will be adopted to spare the use both of notes and of specie. The merchant will naturally be anxious to reduce as low as possible the stock of cash which he reserves for occasional demands; in many cases he will trust to accident for providing funds, such as to the sale of his goods, or to his credit with his banker; while the banker, who provides a cheap instrument of exchange in place of a more expensive one, and whose profit consists in lending it on the same terms, has, in like manner, a strong inducement to increase the circulation of his paper, and, trusting to his credit, to diminish the specie reserved for its payment. While the system is in this manner strained to its utmost pitch, the merchants managing the commerce of the country with the smallest possible quantity of paper, and the bankers circulating the paper with the smallest possible quantity of specie, let us suppose, that from whatever cause, either from the alarms of war, or from a succession of bankruptcies, the principle of mercantile confidence begins to fail. In this case, the former ties by which merchants were connected with each other are now broken; the usual channels of circulation, by which a small quantity of cash rapidly passing from one hand to another, served for transacting the payments of the community, are interrupted, and the money in circulation is, in consequence, found insufficient for the punctuality of mercantile payments. The supply of currency, however, in place of being increased, is still further diminished; the bankers, from the fears natural to their situation, limiting the circulation of their notes, and refusing to accommodate the merchant, as before, by discounting his bills; and the public, in their turn, discrediting the paper of the banks. This general failure of confidence immediately produces alarming bankruptcies, many merchants stopping payments, not from a want of property, but from a want of cash; a run commences on the banks for specie, many of whom are, in consequence, obliged to suspend their cash payments. The Bank of England being the great repository of gold in this country, the demands of the country banks for spe-

cie gradually centre in the metropolis, the bankers generally disposing of the property which they hold in the public funds and other Government securities, and demanding from the Bank of England specie for whatever quantity of its notes they can collect. The Directors of the Bank, astonished by this alarming drain of their cash, naturally contract the circulation of their paper. But the transactions of the metropolis having been hitherto managed with the most exact frugality, both of notes and specie, this sudden diminution of its circulating cash must leave the money-dealers unprovided with funds necessary for their immense payments, and must thus derange the whole economy of that complicated system which has been raised upon the frail foundations of confidence and credit. The disorder arising in the metropolis, from a want of cash, will soon extend itself to the remotest extremities of the kingdom. In the mutual dependence created by credit and confidence, the failure of one merchant involves others in the same fate, bankruptcies multiply in every quarter, and the alarm increases with such rapidity, as to threaten a general subversion of credit and confidence throughout the country.*

In such a disordered state of the circulation, all the inferior banks are naturally induced, from a prudent regard to their own safety, to limit the issue of their notes, by which means the scarcity of cash is increased, and the evil greatly aggravated. But the Bank of England cannot safely act on such a contracted policy; for it is evident, that the general discredit of bank-notes is occasioned by the alarm prevailing in the country, and that, while this alarm continues, the Bank may be drained of its specie by the most limited circulation of its notes, which will be returned upon it as fast as they are issued. In all such cases, therefore, the only safe course for the Bank to pursue, is rather to enlarge the circulation of its notes, that the alarm may be quieted, and that the supply of currency may be perfectly adequate to effect the daily payments of London, of which the punctual discharge is necessary to the solvency of the country at large. It is not to be wondered at, however, if the Bank, while the nature of paper circulation, and of the evils to which it is exposed, were but imperfectly known, should not always have understood its true interest, and should therefore have hesitated to embrace a policy so unusual, and apparently so hazardous. In the course of the year 1793, the country was agitated by a sudden and general alarm. The scarcity of money was extreme, and paper was discredited. Numerous bankruptcies took place, and there was a great demand among the country banks for specie, which the Bank of England was as usual ultimately called upon to supply. Embarrassed by the drain of its specie, the Directors of the Bank refused to accommodate several great and opulent country banks who applied for assistance, and they were also unwilling to augment the issue of their paper. Immediate and important failures ensued, and the increasing alarm and distress for money in London, plainly showed that the relief of the

Banking.

Policy to be adopted by the Bank of England in a disordered state of the Circulation.

Interruption of Credit in 1795.

* Buchanan's edition of Smith's *Wealth of Nations*, additional volume, p. 99.

Banking. country was necessary to the solvency of the metropolis. It did not appear, that, at this period, the notes issued by the Bank of England were fewer than usual, but, owing to the failure of confidence among mercantile men, they circulated more slowly, and they became in this manner inadequate to transact the immense payments of London, with the same regularity as before.

The Bank of England, not deeming it expedient to enlarge the issue of its paper, a remedy of exactly the same nature was administered by Parliament. A loan of Exchequer bills, to the amount, if required, of L. 5,000,000, was directed to be made to as many merchants, giving proper security, as should apply. Such were the salutary effects of this measure, that the very expectation of a seasonable supply of what could be immediately converted into cash, diffused a general feeling of confidence; the punctuality of the London payments was restored, and the credit of the country began to recover. Of the sum proposed to be granted by Parliament, applications were made for L. 3,855,624, some of which being either rejected or withdrawn, the actual sum issued from the Exchequer amounted to L. 2,202,000, which was punctually repaid without either apparent difficulty or distress. The effect of this measure was to supply the community with a temporary currency, in place of that which had fallen into discredit, or which had been withdrawn from circulation by the caution of the banks; and its advantages were evinced by the speedy restoration of mercantile confidence, and by the increased facility of raising money, which was previously felt both in the metropolis and in the country at large.*

Interrup- This state of confidence continued, with little in-
tion of Cre-
dit in 1797, Bank, in consequence of the large advances which it
and Suspen- had made to Government, was under the necessity
sion of Cash of retrenching the sum usually allotted for the dis-
Payments count of mercantile bills. A scarcity of cash was
by the Bank soon felt among the merchants and money-dealers of
of England! the metropolis, and the threatened invasion of the
country, during the year 1796, concurred to spread
a general alarm, which naturally gave rise to the dis-
credit of bank-notes, and to a demand for specie.
About this period, several banks in the north of Eng-
land were under the necessity of suspending their cash
payments, and the alarm of these failures soon reach-
ing the metropolis, the Bank of England was sub-
jected, about the beginning of the year 1797, to an
alarming drain of specie, partly to supply the de-
mand of the country banks, and partly from the re-
turn of its own discredited notes. In order to check
this increasing pressure, the Bank diminished the
circulation of its notes, which having, for several
years before, amounted to nearly L. 11,000,000, and
having been reduced, for some time, to between
L. 9,000,000 and L. 10,000,000, were, at this particular
period, brought down to between L. 8,000,000 and
L. 9,000,000. From a combination of all these cir-

Banking. cumstances, therefore, namely, the alarm in the coun-
try—the discredit of country bank-notes—the pressing
demands of those banks for specie, all centering in the
metropolis,—and, lastly, the undue restriction of its
issues by the Bank, such a scarcity of cash was pro-
duced in London, and such an alarm followed, that
the run upon the Bank of England for specie, so far
from abating, continued to increase with an alarm-
ing rapidity. In these circumstances, the Directors
communicated to the Chancellor of the Exchequer
an account of the precise reduction which had taken
place in the amount of their cash, the consequence
of which was, that an Order in Council was at length
issued, on Sunday the 26th February, restraining
the Bank from all further payments in specie. An
act of Parliament was soon after passed, confirming
the restriction on the cash payments of the Bank;
and this principle has been since continued, by suc-
cessive acts of Parliament. By the last act, passed
in April 1816, it is continued for two years from
that date.

An event so unlooked-for and unprecedented as a
stoppage of payments by the Bank of England, pro-
duced, at first, a general feeling of astonishment and
alarm; and as the executive government had inter-
fered, on its own discretion, to suspend the obliga-
tions of the Bank to its creditors, it was necessary
that the sanction of the Legislature should be obtain-
ed for this extraordinary exercise of power. The
whole matter being therefore referred to the consi-
deration of Parliament, long and anxious discussions
took place, on the causes which had given rise to
this great convulsion in the mercantile world, and
on the policy to be pursued, in a state of things so
wholly unexpected. Parliamentary committees were
appointed, with power to examine the officers of the
Bank, both as to the general state of its affairs, and
as to the circumstances which led to its present em-
barrassments; and by the labour of these committees,
joined to the able publications of individuals on the
subject, such a precise and accurate account has
been collected respecting all the facts of this extra-
ordinary case, that it has not only been made clear
in itself, but a new and steady light has been thrown,
by the information disclosed, on the general princi-
ples of paper currency. We shall briefly consider,
on these general principles, to what causes this me-
morable suspension of cash payments by the Bank of
England was chiefly owing.

It is obvious, from the very nature of banking, Dangers to
that the stock of specie reserved by a bank for the which
payment of such demands as may be made upon it, Banks of
cannot bear any proportion to the amount of its Circulation
notes in circulation; and that, if a certain proportion are expos-
ed.
of these notes should at any time be suddenly return-
ed for payment, a suspension of its cash payments
must be the inevitable consequence. This is an evil
inherent in the very nature of paper currency,
against which no caution can duly provide, since the
profit of the banker is exactly in proportion to the

* *Report of the Commissioners to the House of Commons. Thornton On Paper Credit, p. 51. Buchanan's edition of Smith's Wealth of Nations, additional volume, p. 102. Edinburgh Review, Vol. IX. p. 193.*

Banking. excess of his circulating paper over the specie reserved for its payment.

A bank, and more especially a national bank, may be subjected to demands for specie from either of the two following causes: 1st, From an unfavourable balance of trade; or, 2dly, From domestic alarm.

1. When the imports of a nation exceed its exports, a balance of debt will remain due to foreign countries; and in the country which owes the balance there will be a greater demand for money abroad than for money at home. If the unfavourable balance of trade continues, the demand for money abroad, with which the balance may be discharged, will increase, and foreign money, or bills on foreign bankers, will be sold for a premium. In this case, there arises a temptation to export the coin of the country, which, from the state of trade, has become more valuable abroad than at home; and where a national bank is established, whose notes are convertible into cash at the will of the holder, it may undoubtedly be exposed, by an unfavourable balance of trade, to demands for specie to a considerable amount. But, in the nature of things, the drain of specie from this cause must be slow and gradual, and where a bank has ample funds wherewith to purchase specie, it can hardly ever, in this case, be driven to the exceptionable measure of suspending its cash payments. The Bank of England has frequently been exposed, from this or from similar causes, to a regular drain of its specie; but its credit was in no danger from those demands, because its coffers could always be replenished as fast as they were exhausted. Prior to the great recoinage, in 1774, the gold currency of this country was in a very debased state; the market price of gold rose, in consequence, above its mint price; and the value of bank-notes was lowered to the standard of the debased coin, for which they were currently interchanged. In these circumstances, it was a profitable transaction to procure bank-notes for their nominal price in light and worn guineas, and to return them upon the Bank for the same nominal price in guineas of their standard weight, which last were melted down and sold for bank-notes at the market price of bullion; and these notes were immediately returned upon the Bank in exchange for a new supply of standard guineas, to be again melted and sold. In consequence of this state of the currency, the Bank of England was subjected to a constant and regular drain of its specie, and to a very great annual expence in replacing the guineas of which it was drained. But there was no risk that this drain, however expensive and troublesome, would ever lead to a suspension of its cash payments, because it was regular and gradual, and subject to calculation; so that, as long as the Bank had wherewithal to purchase guineas, they could always be provided in sufficient quantity to answer the demand.

In like manner, though a public bank, from an unfavourable balance of trade, or from a great expendi-

ture abroad, may undoubtedly be exposed to an inconvenient drain of its specie, it seems scarcely possible that this drain can be so rapid as to endanger its credit. It is not in the nature of trade to produce any such sudden and unexpected crisis. The operations of trade always leave time for some previous arrangement, and they have generally some respect also to the convenience of all the parties concerned. It is well known, for example, that in the case of a heavy accumulation of foreign debt, from whatever cause, the balance is more frequently discharged by an exportation of goods than of specie. The effect of foreign debt is to depress the exchange; an unfavourable exchange, or, in other words, the high price of money abroad, operates as an inducement to export goods; the exporter, besides his usual profit, gaining an additional profit equal to the difference of the exchange. It will always be observed, therefore, that a great foreign expenditure is very soon followed by a large exportation of goods, and though specie may be partly remitted for its discharge, the produce of the country is found to answer the purpose equally well. From the year 1793 to 1797, the foreign exportation of this country on the Continent of Europe and to the West Indies, amounted to L. 33,510,779;* and in consequence of these heavy expences abroad, the Bank was subjected to demands for specie to a considerable amount. But though the Directors of the Bank, in their correspondence with the Government, complain heavily of the loss of specie which the Bank had experienced, and though, in February 1796, they even go the length of formally recording it as their opinion, that any farther advance to the Emperor of Germany, or any foreign state, would be fatal to the Bank,† this opinion seems evidently to have been the result of undue apprehension, and to have been expressed strongly for the purpose of deterring the Chancellor of the Exchequer from persevering in his system of lavish advances to foreign powers, the effect of which, they justly conceived, would be injurious to the Bank, by subjecting it to a farther and very inconvenient drain of its specie. But since, in the course of the three several years of 1794, 1795, and 1796, the foreign expenditure of the country amounted to something more than L. 8,000,000, L. 11,000,000, and L. 10,000,000, without injuring the credit of the Bank, it can hardly be believed that an additional expenditure of L. 3,000,000, or even L. 4,000,000, could have given such a sudden shock to its credit, as to have occasioned the suspension of its cash payments. Nor do the Directors, although they express generally their uneasiness at the drain of their specie, ever seem to have contemplated such a catastrophe. On the contrary, the Governor and Deputy-governor, when examined before the Secret Committee of the House of Lords, state that they did not apprehend imminent danger previous to the 21st February 1797.‡ From all these circumstances, therefore, it appears that the

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* *Report of the Lords' Committee of Secrecy, Appendix, p. 107.*

† Copy of a Resolution of the Court of Directors of the Bank of England, 11th February 1796. See *Report of the Lords' Committee of Secrecy, p. 80.*

‡ *Report of the Lords' Committee of Secrecy, Minutes of Evidence, p. 11.*

Banking. drain of specie to which the Bank was subjected in consequence of the great foreign expenditure of the country previous to the year 1797, or in consequence of any unfavourable balance of trade, though constant, was confined within certain limits; that provision could have been made for it; and that, though it imposed on the Bank a certain annual expence, yet, with due exertion to procure the necessary supplies of specie, it could never have been fatal to the credit of so great an establishment.

2. The drain of specie to which a great national bank may be subjected from the prevalence of a general alarm, is in all respects different from that which may be produced by a great foreign expenditure, or by the fluctuations of trade. The impulse given by panic is, in its very nature, sudden and instantaneous. It generally terminates also, and that speedily, in some violent crisis. If we suppose, therefore, that a bank, which circulates its notes extensively, suddenly falls into discredit, that from some unknown cause, a sudden suspicion of its solvency seizes all the holders of its notes, it is obvious that all these persons, under the violent impulse of their fears, will rush at once to the bank with notes in exchange for specie; and it is equally certain, that whatever funds a bank may ultimately possess, its stock of specie must be speedily exhausted by such a sudden inundation of its discredited notes. In this case its cash payments must be suspended for a time, until the alarm of its creditors be dissipated by a full disclosure of its affairs. Such being the fatal operation of domestic alarm on the credit of a bank, it can scarcely be doubted that this was the immediate cause of the catastrophe which befel the Bank of England in 1797; more especially, as we find that

Banking. it was exposed for more than two years to the drain of specie occasioned by foreign expenditure, without any injury to its credit, while one single week or little more of domestic alarm, terminated in a suspension of its cash payments. On Tuesday the 21st February, the Directors of the Bank were so alarmed by the increasing demand for specie, that they communicated to the Chancellor of the Exchequer the precise reduction which had taken place in the amount of their cash. In the course of the preceding week, the drain of guineas had been considerable; but after Tuesday the 21st, it continued increasing with the most alarming rapidity, insomuch that, according to the evidence of the Directors, the demand for specie, on the two last days of the week, exceeded that of the four preceding days. This is the great and conclusive fact, which points at once to the cause of the ruin which was impending over the Bank. It was not so much the actual loss of specie which excited apprehension, its cash having been lower both during the American war and in the year 1782; but the unparalleled rapidity with which the drain increased, was the alarming circumstance which defied all precautions, and which finally rendered the suspension of cash payments by the Bank an act of overruling necessity. Its stock of specie had no doubt been previously reduced by the demand arising from an unfavourable balance of trade, and this would naturally tend to bring matters more speedily to a crisis. But however well replenished the Bank might have been with specie, the demand was increasing at such an accelerated rate, that, in the course of a few days more, it would have been quite sufficient, without the help of any other cause, to have drained it of its last guinea. *

* That the embarrassments of the Bank were occasioned by the demand at home is plain, from the following evidence of Mr Giles and Mr Raikes, before the Lords' Committee of Secrecy:—

Mr Giles was examined as follows:—

“Has the Bank of England lately experienced an unusual drain of cash?—Most certainly.

“Are you able to ascertain how far this drain was wholly, or in part, occasioned by demands for cash from different parts of the country?—It was owing, in great part, to demands from the country: indirectly from the country, but directly from the bankers in London (who are to supply the country) upon us.

“Whether, by the effects of this drain, the balance of cash remaining in your hands has been reduced considerably below the amount at which it has usually been maintained?—The cash of the Bank has, of late, been considerably reduced. I have known it a great deal lower; but, on this occasion, the demands have been unparalleledly rapid; they have, of late, been progressively increasing, but, in the last week, particularly so; and we had every reason to apprehend that these demands would continue, and even increase.

“Whether such reduction had been continuing in an increased proportion to the balance remaining in your hands up to the date of the minute of Council transmitted to you?—We have generally answered this question in our preceding answer; but, we beg leave to add, that the demands have been progressively increasing in the course of the last week, and in the last two days exceeded the demands of the four preceding days.”

Mr Giles and Mr Raikes were examined as follows:—

“Do you think the restriction made by the order of Council of the 26th of February was necessary?—Certainly.

“Do you consider it as necessary to the interest of the Bank?—The rapid drains we had upon the Bank, and the continuance of them, made us think it advisable to communicate to his Majesty's Ministers the situation of the Bank, that they might, in their wisdom, use such means as they might think expedient.

“When was that communication made to the Chancellor of the Exchequer?—We think the first was on Tuesday the 21st of February; the drains not only continued but increased, and so rapidly the last day or two, that we communicated it to the Chancellor of the Exchequer on Saturday, and had the honour to meet his Majesty's Ministers on the Sunday.

Banking. The act restricting the Bank of England from paying its notes in specie, or rather the act by which it obtained this privilege, was, when it was first passed, justified by the necessity of the case. The alarm was so general, that no other expedient remained to save the credit of the Bank. But all sudden and violent alarms are in their own nature of short duration; and when the Parliamentary inquiry, which was commenced into the affairs of the Bank, disclosed in its favour a large balance of accumulated profits, all suspicion of its solvency, and all farther alarm, was immediately done away. In these circumstances, the privilege of refusing specie for its notes being still continued to the Bank, it was necessary to justify this proceeding on different grounds from those urged in favour of the original measure; and with this view, Mr Thornton, the great advocate of the Bank, insists, that, to have enforced the resumption of cash payments, after they were once suspended, at any subsequent period of the last war, would have endangered the credit of the Bank as much as when the first restriction act was passed;—that, after the conclusion of peace, the country was embarrassed by an unfavourable balance of trade, proceeding chiefly from the necessity of making large importations of corn, in order to supply the deficiencies of two successively bad crops,—that the Bank must, in consequence, have been exposed to a continual drain of its specie,—and that the restriction on its cash payments was, therefore, still necessary, as a security against this danger.

We have already endeavoured to show, that the drain of specie to which an unfavourable balance of trade may subject the Bank, can never be such as to endanger its credit, because, in such cases, the demand is neither so rapid nor so considerable as to preclude the Bank from providing the necessary supply of gold. Where trade is in such a state, indeed, the Bank will be exposed to a considerable annual expence in procuring specie. The punctual and honourable discharge of its obligations to the public will frequently be found to be both inconvenient and expensive, and its Directors will naturally be desirous to be free from that which increases responsibility, and diminishes profit. But, unless in the case of a general alarm, and discredit of bank-notes, it does not seem that a suspension of cash payments can ever be necessary to the safety of a bank. It deserves to be considered also, that an unfavourable balance of trade, accompanied by an unfavourable exchange, is in its own nature of short duration. It is an evil which tends to redress itself; a large importation of goods, necessarily leading to an exportation in the same proportion. But, although it is not consistent with the plan of the present article to enter fully into the subject, for the consideration of which at greater length other opportunities will oc-

Banking. cur, we may observe, that the foreign exchanges of a country may be influenced by the state of its currency at home, as well as by an unfavourable balance on its foreign trade; and as it is of the first importance to mark the distinction between an unfavourable exchange proceeding from the state of trade, and an unfavourable exchange proceeding from the state of the currency, since the least want of accuracy in this essential point must throw the whole subject into confusion, it is material to remark, that the unfavourable state of the exchange, and the demands for specie to which the Bank was in consequence exposed, which are urged by Mr Thornton as reasons for continuing the restriction on cash payments, have always been ascribed by those who deny the necessity of that restriction, not to the state of trade, but to the depreciation of the paper, in consequence of that over-issue which they maintain to have taken place very soon after the Bank was released from its obligation of paying in specie. Mr Thornton insists, * that if the Bank had been opened to demands for specie, it might, in consequence of the unfavourable state of the exchange, have been exhausted of its cash; and that, to guard against this, it was still necessary to continue the suspension of its cash payments. According to the opposite hypothesis, it is maintained, that the state of the exchange, to which Mr Thornton refers, was connected not with the state of the trade, but with the state of the currency,—that the Bank being now closed against any return of its notes, had issued them in excess,—that having, in consequence, fallen in value, it became profitable to return them upon the Bank for specie,—that the demand for specie, of which the advocates of the Bank complain, was in reality produced by the depreciation of its own notes,—and that the reasons, therefore, assigned by Mr Thornton for the continuance of the restriction, rather prove the necessity of reinforcing on the Bank the obligation of paying in cash, by which means its currency being restored to the value from which it had fallen, the demand for specie would have ceased; and Bank-notes and specie would have been demanded indiscriminately. The one would have answered all the purposes of the other, and the business of the country would have been transacted, as before, with a mixed currency of paper and of gold. It is not to be supposed, indeed, that there were no such occurrences in the history of the country, previous to the year 1797, as unfavourable balances of trade, large importations of corn, in consequence of scarcity, and heavy foreign expenditure, in consequence of war. The Bank, from the time of its first establishment, has had to encounter all the fluctuations incident to peace or war. It has also been exposed to drains of specie from unfavourable balances of trade, as well as from the debased state of the

“ Were not the drains from Tuesday the 21st of February to the Saturday inclusive, much greater and more rapid than they had been in the whole of the preceding week?—Certainly; they were unexampled.

“ Did you apprehend imminent danger previous to Tuesday the 21st?—We cannot say we did.

“ When did you first apprehend imminent danger?—We cannot say we apprehended any imminent danger, but from the fears of the drains continuing. Not wishing to risk the drains continuing, we submitted it to the Chancellor of the Exchequer.”—*Report of the Lords' Committee of Secrecy. Minutes, March 1797.*

* *Inquiry into the Nature and Effects of the Paper Credit of Britain, p. 115.*

Banking. currency; but it was not until the year 1797, that its Directors, as a security against those inconveniences, bethought themselves of the singular expedient of dishonouring their own notes. In former periods too, the credit of the Bank was nearly subverted by domestic alarm. A case of this nature occurred in the reign of Queen Anne, when, from the apprehension of a French invasion, the Bank was assailed by an alarming demand for specie. The alarm, however, as is usual in all such cases, soon passing away, the credit of the Bank was entirely re-established, and payments in specie were of course continued during the remainder of the war. The Directors did not venture upon the bold step of making a temporary alarm a pretext for the permanent suspension of their cash payments. They reserved this extreme remedy for extreme cases, not thinking it applicable to those ordinary casualties to which all banks are necessarily exposed.

Bank of England Notes made legal tender. At the time when the Bank of England suspended its cash payments, a law was passed, protecting a debtor who offered its notes in payment against arrest, though his creditor, by a common action of debt, might still recover payment in guineas, the legal currency of the country. In 1810, when guineas began to be currently sold for 25s. and 26s. in paper, a law was passed prohibiting this traffic, and imposing severe penalties on those who should exchange bank-notes for less than their nominal value in gold. Tenants, who offered payment of their rents in bank-notes, were at the same time protected against distress, though they were still liable to a common action of debt or of ejectment. In 1811, in consequence of a great landed proprietor announcing that he would exact payment of his rents in guineas, an act was passed, protecting a debtor who offered Bank of England notes in payment of his debt against all farther proceedings. The paper of the Bank of England became, in this manner, legal tender for all existing debts, however depreciated it might be in its value, and the law conferring upon it this important privilege still continues in force.

Chartered Banks of Scotland. In Scotland, banking has been generally carried on with great prudence and success. There are at present, in the metropolis of Scotland, three banks incorporated by charter, namely, the Bank of Scotland, established by act of Parliament in 1695; the Royal Bank, established by royal charter in 1727; and the British Linen Company, originally incorporated in 1746, with a capital of L.100,000, for the encouragement of the linen manufacture, but afterwards converted into a bank, for the issue of promissory-notes, and the discounting of bills. Those different banks, besides their annual dividends, have been accumulating a fund of undivided profit, which they have, from time to time, been adding to their original capital. The Bank of Scotland and the Royal Bank, have each a capital of L.1,000,000, with an additional L.500,000 subscribed for, but which has never been called up. The capital of the British Linen Company was lately increased from L.200,000 to L.500,000.

Of the country banks in Scotland, it may be remarked, that in most cases they have been established on the security of ample funds; and having con-

Banking. ducted their affairs with prudence, they have generally increased their original capital, and on this account have acquired a great degree of respectability and credit. It is a well known fact, that among the Scotch banks failures have been much less frequent than among the country banks in England.

Bank of Ireland. In no country, perhaps, has banking been carried to such an injurious excess as of late years it has been in Ireland. The national Bank of Ireland was established in 1783, with an original capital of L.600,000, raised by subscription, which was lent to government at an interest of 4 per cent. It was placed under the management of a governor, deputy-governor, and fifteen directors; eight of whom, including the governor and deputy-governor, were to form a court of directors, for managing the concerns of the Bank. They were eligible every year, and it was provided that one third, at least, of the directors should be annually changed.

In 1809, the Bank of Ireland obtained a renewal of its charter for twenty-one years, on condition that its capital should be increased by L. 1,000,000 of stock, to be raised from the proprietary at the rate of L. 125 per cent., and to be lent to government at 5 per cent. per annum. The Bank also agreed to continue the management of the public debt and loans, free of expence to government, during the continuance of its charter.

In 1797, when the Bank of England suspended its cash payments, the same privilege was extended to the Bank of Ireland, and after this period its circulation was rapidly increased. The following is an account of the amount of its notes in circulation at different periods:

1797	. . . . .	L. 621,917
1801	. . . . .	2,266,471
1802	. . . . .	2,678,980
1803	. . . . .	2,633,864
1804	. . . . .	2,986,999
1805	. . . . .	2,902,438
1806	. . . . .	2,465,710
1807	. . . . .	2,818,140
1808	. . . . .	2,732,483
1809	. . . . .	3,141,410
1810	. . . . .	3,192,186

This increased circulation of paper appears to have exceeded the wants of the community, since it was followed by rise in the price of bullion, and by the depression of the exchange. About the year 1804, this evil had proceeded to such an extent, that guineas were openly advertised and sold for a premium of 10 per cent., and the exchange with London was about 17 per cent. against Dublin. From this depreciation of the notes of the national Bank many serious evils arose. The silver currency, which circulated in Ireland, was generally in a debased state, and the intrinsic value of the different coins was not equal to the value for which they were current. But by the fall which had taken place in the notes of the Bank of Ireland, those debased silver coins became more valuable in the form of bullion than in the form of currency. They

Banking. were, accordingly, all melted down, and the community being in consequence exposed to the greatest inconvenience, their place was supplied in Dublin and other parts by counterfeits, and in several districts by a paper currency, issued for sums gradually decreasing from 6s. to 6d., and even to 3d. It is calculated by several persons, who gave evidence before a committee of the House of Commons in 1804, that, about this time, there were dispersed throughout Ireland 295 issuers of this paper money, chiefly consisting of a motley body of shopkeepers, merchants, and petty-dealers of all descriptions. The country was inundated with this exceptionable currency, and it was the occasion of such general inconvenience, as well as of such numerous forgeries and frauds, that the circulation of notes for such small sums was at length prohibited by law. Notwithstanding the prohibition, those notes still continued to circulate, the law was evaded by various contrivances, and the want of a better currency secured their circulation. The Bank of Ireland has since made an issue of stamped dollars, which, by supplying the wants of trade, has, in a great measure, remedied the evil complained of.

The premium on guineas, which, in 1804, was 10 *per cent.*, has since greatly declined, and the foreign exchanges of Ireland have also become more favourable. In 1808, guineas were exchanged for paper at a premium of 8d., and paper has since risen nearly to par. As the Bank of Ireland has increased, in place of diminishing, its circulation, since 1804, the cause of this rise in the value of paper must be sought for in the retrenchment of the notes of other banks. It appears, accordingly, that the number of provincial banks has, of late years, been very considerably diminished in Ireland, and that of fifty banks which issued notes in the year 1804, not more than nineteen remained in 1812, the others having either failed or withdrawn from business.* The extinction of so large a portion of the currency would necessarily increase the value of what remained in circulation.

The price of Irish bank-stock has been greatly improved in value within the last twenty years. The following is an account of its price at different periods:

1798 January	90 <i>per cent.</i>
1799 January	115
1802 January	179
1804 January	140
1810	189
1816 September	214

Dividend on Irish bank-stock at different periods.

1798	6 $\frac{1}{2}$ <i>per cent.</i>
1801	6 $\frac{3}{4}$
1803	7 $\frac{1}{2}$
Bonus in 1803	5
1816	10

Bank of France.

In France the progress of banking, as of every other domestic improvement, was retarded by the convulsions of the revolution. But in the year 1803, when the peace of the continent appeared to be secured, and tranquillity prevailed at home, the differ-

Banking. ent banks in Paris were consolidated into one great national bank, called the Bank of France, by an act of the imperial government. The act establishing this bank fixed its capital at 45,000,000 francs, equal to L. 1,875,000 Sterling, to be divided into 45,000 shares of 1000 francs each. It was vested with the exclusive privilege of issuing promissory-notes, payable on demand, in consideration of which, it made large advances to government. Its business was to discount bills of exchange, notes, or bonds; but it was prohibited from carrying on any commerce, except in cash or bullion. The administration of the Bank of France was committed to fifteen directors and three censors, and to these was added a council of discount, consisting of twelve of the principal merchants in Paris, who were to have the privilege of a vote in all matters relative to the discounting of bills. The great body of the proprietors were represented by 200 delegates, chosen from among those possessed of the greatest number of shares, who were to meet annually, or oftener if they were required. To this assembly the affairs of the Bank were to be annually submitted, and the members of the council of discount were to state, whether, in granting discounts, the directors had conformed to the general rules established to regulate their proceedings. These 200 representatives were also to elect the directors, of whom three, and the censors, of whom one, were to be annually changed. It was provided that the dividend for the year (1804) should not exceed eight *per cent.*, to be paid half-yearly, and that whatever profit remained should be invested in the public funds, and allowed to accumulate as a fund of reserve against contingencies. The exclusive privileges of the Bank were granted for fifteen years, commencing from the year 1804.

Under these regulations, the Bank of France commenced its operations; and during the first year of its establishment, its profits amounted to 4,185,937 francs (L. 174,414), being rather more than 12 *per cent.* upon its original capital. Of this sum, 8 *per cent.* was divided among the proprietors; the remainder was invested in 5 *per cent.* stock, as a fund of reserve; and in the following year, the net profit amounted to 4,652,398 francs (L. 193,850). In the latter part of the year 1805, the Bank of France was considerably embarrassed by the drain of its specie, which, in 1806, continued to increase with such rapidity, that the Bank was obliged to suspend its cash payments. Various causes are assigned for this catastrophe, which seems to have chiefly originated in the necessity of making large remittances of specie to the armies then engaged in the Austrian war—in the great advances of the Bank to the Government—in the over issue of its notes—and finally, in vague and unfounded alarms which generally prevailed respecting its solvency. Its notes fell from their standard value, and were exchanged at a discount for specie. The exchange with the country of France became at the same time unfavourable to Paris, to the amount of 12 *per cent.*; and the Bank having restricted its discounts, several important bankruptcies took place, which

* Wakefield's *Statistical and Political Account of Ireland*, Vol. II. p. 171.

Banking. tended greatly to increase the general alarm.* After the peace of the Continent was re-established by the treaty of Presburg, the advances made by the Bank to the government were punctually repaid, and payments in cash were resumed about the commencement of the year 1806. In the course of this year also, in consequence of a decree of the imperial government, a change took place in the administration of the Bank. In place of fifteen directors, its affairs were committed to a governor and two deputy-governors, who were to be appointed by the Emperor. At the same time, its capital, consisting of 45,000 shares of 1000 francs each, was increased to 90,000 shares, or to 90,000,000 of francs.

The new shares were disposed of by the Bank to great advantage, and in consequence of this accession to its capital, it was enabled considerably to extend its operations. By an imperial decree issued at Bayonne, in the year 1808, it was authorized to establish branches in some of the chief provincial towns; and establishments of this nature were begun at Lyons and Rouen, for the purpose of circulating bank-notes, and of discounting bills of exchange. But the merchants of these towns, though they willingly received accommodation from the banks, showed no disposition to circulate their notes. Almost all the notes issued were immediately returned on the Bank for payment; and it is worthy of remark, that neither the notes of the ancient *Caisse d'Escompte*, nor those of the present Paris Bank, have ever obtained any general circulation in the country of France.

In 1814, when France was invaded by the combined armies of Europe, the Bank of Paris was called upon to make large advances to government, and, at this period, its notes in circulation, joined to its other engagements, exceeded by about 20 millions of francs the value of the specie, and other effects of which it was possessed. A general alarm began to prevail; the Bank was exposed to a ruinous drain of its specie; and on the 18th January a resolution was adopted, not entirely to suspend its cash payments, but to limit the sum to be paid in cash to 500,000 francs *per day*, and not to pay more to each individual than 1000 francs. In February the Bank, having made the necessary arrangements, resumed its payments in cash for all sums, and during the siege and capture of Paris, it continued to pay in cash, even while the cannon thundered at the gates of the city. In like manner, during the subsequent invasion of the country in 1815, payments in cash were not, nor have they ever been since suspended even for a day.

In all the trying situations in which they have been placed, the Directors of the Bank of France appear to have displayed a laudable zeal to fulfil

Banking. their engagements to the public. This bank, like the Bank of England, has frequently been employed as a great engine of state; its funds have been diverted from their proper purposes to assist in the great emergencies of the public service; and its directors, yielding to the pressure of temporary demands, have been forced, for a time, to suspend their payments in cash. But the Bank of France has always resumed the ordinary course of its payments as soon as the alarm and the demand for specie began to abate; while the Bank of England, having once obtained a dispensation from its obligations to the public, seems ever since to have been intent on securing the continuance of this privilege. The example of the Bank of France, which, though it suspended its cash payments, in consequence of the pressure arising from domestic alarm, resumed those payments as soon as the alarm began to subside, may serve to expose the insufficiency of the arguments urged in this country in favour of the continued suspension of cash payments by the Bank of England. The circumstances of the two banks appear to have been precisely similar, and no reason can be imagined to justify the one more than the other in continuing to refuse payment of its notes.

The following is a statement of the affairs of the Bank of France on the 12th August 1816: †

	Francs.	L.
90,000 shares of 1000 francs		
(L. 45 each), -	90,000,000	4,125,000
Fund of undivided profit, -	21,600,000	990,000
	<hr/>	<hr/>
	111,600,000	5,115,000

Investment of this Capital.

	Francs.	L.
In the 5 per cent. Consol.		
(from which a revenue is derived of 2 millions),	33,500,000	1,395,834
In shares of its own, which it has repurchased (which has the same effect as if, by the rules of its institution, the number of shares had been more limited),	25,500,000	1,062,500
Advances made to government on treasury-bonds, or other securities bearing interest, -	26,000,000	1,083,333
Property, - -	4,000,000	166,666
Specie and bills, - -	22,600,000	941,667
	<hr/>	<hr/>
	111,600,000	4,650,000

* *Considérations sur L'Institution des principales Banques de L'Europe, particulièrement sur celle de France.* Par M. Monbrion. 1805. *Rapport fait à la Chambre de Commerce par une commission spéciale sur la Banque de France, et les causes de la crise qu'elle a éprouvée.* 1806.

† The Editor was enabled to furnish the Writer of this article with some of these particulars in regard to the Bank of France, and with this statement of its affairs, by means of a communication kindly made to him by M. Jean-Batiste Say, dated at Paris, on the 14th August last (1816). M. Say is well known as the Author of *Traité d'Economie Politique*, in 2 vols. 8vo, a work, perhaps the most generally sound, instructive, and comprehensive, that has been published on that important science since the appearance of the *Wealth of Nations*.

Banking
Banks for
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Debts owing by the Bank of France on the 12th August 1816:

	France.	L.
The amount of its notes in circulation, -	70,000,000	2,916,667
Amount of deposits, -	20,000,000	833,334
	90,000,000	3,750,000

For this sum the Bank has either specie in its coffers, or good bills, generally at the short date of 45 days. If we add to this the sum of 22,600 francs in bills and specie, already stated as part of its capital, it follows that the Bank of France, on the 12th August 1816, was possessed of effects to the amount of 112,600,000 francs (L. 4,691,667). Of this sum it had 41,000,000 francs in hard cash.

The following is an account of the dividends from 1806 inclusive:

	Profit Divided. Francs.	Profit Undivided. Francs.
1805-6.	72 per cent.	80
100 Days of 1806, } to December 31. }	20	2 40
1807.	82	10 29
1808.	73	6 87
1809.	74	7
1810.	74	7 07
1811.	66	3 02
1812.	69 75	4 87
1813.	75 50	7 75
1814.	60 *	
1815.	64	2
1816. half-yearly } dividend. }	36	3

American
Banks.

In the United States, banking has of late years kept pace with the general progress of wealth and

improvement throughout the country, and banks have, in consequence, been established in all the most considerable towns. In 1804, they were calculated, according to the most accurate computation that could be made, to amount to eighty, including ten subordinate banks; and the capital invested in this business was estimated at 50,000,000 of dollars. †

The principal American bank is that of the United States, which was incorporated by an act of the Legislature in 1791. By this act, it is provided, that the capital stock shall consist of 10,000,000 dollars, in 25,000 shares of 400 dollars each, one-fourth to be paid in specie, and three-fourths in 6 per cent. stock. The bank is restricted from taking more than 6 per cent. on their discounts, or from advancing more to government than 100,000 dollars. It declares half-yearly dividends, which, from its establishment, have been 4 per cent., with two surplus dividends, one of 1 per cent., and the other of 2 per cent. The date at which it discounts bills is two months.

The late war in which America was involved with Great Britain, seems to have occasioned considerable disorder in the state of her circulation. From the speech of the President to the Congress, in December 1815, it would appear, that the public finances and trade of the United States had been exposed to great inconvenience from the want of some uniform national currency, and from the disappearance of the precious metals. To remedy these evils, it was purposed to establish a new bank at Philadelphia, on the security of such ample funds as should engage universal confidence, and should thus give its notes a free circulation through every part of the United States. A bill, for this purpose, was passed in the last Session of Congress, and it is understood, that the capital required has been since subscribed. (o.)

BANKS FOR SAVINGS. The institutions pointed out by this designation constitute a variety of money-banks, in general, and, to a certain extent, partake of the nature of the class.

Of money-banks, in general, the end is to afford to the owner of money two advantages; the first, safe custody for his money; the second, a profit by it, under the name of interest. Other advantages which banks afford, or are capable of being made to afford, it is not, for the present purpose, necessary to bring to view.

Objects of
this class
of Banks.

The circumstances of the poor man lay him under many disadvantages, as compared with the rich. In this case, we find a particular example. The money of the rich man, being in considerable quantity, easily finds individuals who will perform for it the func-

tions of banking, because it yields an adequate profit.

The money of the poor man, being small in quantity, can find nobody to perform for it the functions of banking, because it is incapable of yielding an adequate profit.

Let us consider the natural tendency of this situation of the labouring man. He can make no profit by money retained. He also lies under many chances of being unable to preserve it. The coarse and imperfect means for shutting his house, or any receptacle which it may contain, exposes his little treasure to the hand even of a clumsy depredator. Accordingly, we find, that persons in the lower situation of life, who acquire a reputation for the possession of hoards, are almost always robbed. If they are disposed to lend the

* To make out this dividend, 194,238 francs were taken from the fund of undivided profit.

† See *Economica, or Statistical Manual for the United States of America*, p. 159, 160.

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fruit of their industry and frugality, their limited experience of mankind makes them yield to the man who takes most pains to persuade them; and that is often the man who never means to pay them again, and who has, therefore, the strongest motives to take the measures necessary for gaining their confidence.

Money is for two purposes. It is either for present use, or future use; and wisdom directs that it should be employed for the one or the other, according as, in either case, it is calculated to contribute most to happiness upon the whole. But the poor man is thus deprived, in whole, or in part, of the means of applying his money to *future* use. To this extent, therefore, even wisdom itself would direct him to employ it for *present* use, in whatever way it is capable of adding most to his enjoyments. Parsimony in such a case is hardly a virtue.

The rich are commonly, we cannot say always, very severe observers of the conduct of the poor, and nearly as often unjust. How nearly universal among them are the exclamations against the improvidence of the poor! by which is meant the practice of devoting to present use the whole of their earnings, without reserving as great a portion of them as possible to future use. Amid these exclamations, the degree is totally forgot, in which the poor are deprived of the means of reserving money for future use, and the consequent propriety and prudence of devoting it wholly to present use.

If human happiness is prodigiously improved by reserving for future use a proportion of the command which, over and above the necessities of life, a man may possess over the means of enjoyment, it is surely desirable that this great instrument of happiness should, in the greatest degree possible, be provided for the most numerous, and in the same degree in which the most numerous, the most important portion of the race. To place it in the power of this portion of the race to secure a share of the good things of life for future use, a system of banking, adapted to their circumstances, is evidently, in the present state of society, in the highest degree desirable. It is one of the means, without which, or something equivalent, the end cannot be obtained.

The question, respecting the utility of banks, adapted to the circumstances of the labouring branch of the population, being thus decided, it only remains, as should seem, to inquire, what is the sort of institution by which the advantages of a bank,—safe custody, and profit for money, can be most completely secured to this great class of the population. When this second question is resolved, the subject, it may be supposed, would be exhausted. The supposition, however, would be erroneous, and the exposition would still remain very imperfect, and even superficial.

When it is ascertained, that banks for the cash of the poor would be useful to the poor, we should act very carelessly, if we remained contented with a mere vague conception of utility in general. To complete the inquiry, we should trace the subject in its ramifications, and pursue them to the very point of termination. We should not be satisfied with a belief that banks will, to some degree, and in some way, we know not what, be useful to the poor. We

should ascertain, with accuracy, in what way or ways, and in what degree, they will tend to increase the happiness of this principal branch of the population.

This is rendered more necessary, by the conduct of those who have chiefly undertaken the patronage of banks for this class of the population. They have been too lavish in their promise of beneficial effects from this desirable institution. They have stretched the vague idea of utility to any extent which suited their imaginations. There is nothing desirable for human beings which they have not described as the natural product of banks for the poor. Happiness and virtue are two things which they will be sure to produce in any quantity we please.

But when gentlemen treat us with these extraordinary promises of good from Savings Banks, they take not sufficient pains to show the connection. They neglect to inform us how the events are to come about. They do not show in what manner, if the one set of things precede, the other things which they so largely predict, must all of them follow. Now, this is not satisfactory. This is to assume and affirm, not to disclose. This is to beg the question, not to resolve it. This way of proceeding not only removes no uncertainty, it has a tendency to draw men upon false ground, and to recommend to them measures for practice founded upon mistaken notions of things, and therefore pregnant with the chances of evil.

The first part of a sound and rational inquiry into the subject of Savings Banks would thus undoubtedly be, to *define* the utility which the institution is calculated to produce; to ascertain exactly the ingredients of which the composition is formed, and the quantity in which it may be expected to exist.

Different Views of the Utility likely to result from Savings Banks.

For this purpose, it may be remarked, that the effects calculated to arise from the institution of Savings Banks are of two sorts; 1st, the immediate; 2dly, the derived. The first result at once from the operations of the Bank. The second arise only from the first, and are, in reality, the effects of the effects.

1. The effects of the first stage,—the effects which immediately result from the operations of the Bank, are two,—safe custody for the money deposited, and interest upon it.

Of these effects no general exposition is required. They are known and familiar to every body.

2. The effects of these effects come next under review. They are more complicated, and far less easy to understand.

It is expected that safe custody for money, and a profit by it, in the shape of interest, will produce a disposition to accumulate. This is the second stage. From this, other effects, which may be called effects of the third stage, are expected.

The disposition to accumulate will produce industry and frugality, which implies temperance. This is the third stage, and these are effects of the third derivation.

Industry and frugality will produce a reserve of wealth. This is the effect of the fourth stage, or fourth derivation.

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This reserve of wealth will produce an effect of the fifth stage, namely, security against the miseries of want.

The utility consists in these latter effects, the industry and frugality, the provision against the miseries of want. These, then, are the ingredients of which the compound is formed. The question is, in what degree it may be expected to be produced: in other words, what power can the banks in question possess to produce among that class of the population industry, frugality, and a provision against the miseries of want? It is the resolution of this question which is required at the hands of every one by whom is undertaken an account of a system of banking adapted to the circumstances of the poor.

It is impossible to speak with any accuracy of the circumstances of the most numerous class of the people, without bearing in view the principle of population, or the law according to which the multiplication of the species takes place.

This law is by no means of recent discovery. It had long in political philosophy been regarded as an established fact, that a nation is always peopled up to its means of subsistence; that the only check to population is the want of food; that mankind, as Burke somewhat ingeniously expressed it, "propagate by the mouth;" and that the number of men, if food were not wanting, would double, as the example of America proved, every twenty or five and twenty years. But after establishing this doctrine, the world seemed a long time afraid to look it in the face, and glad to leave it in the situation into which it had been brought. At last, a period arose when men of a certain description began to talk intemperately about the opinion, that the human condition was progressive, and susceptible of indefinite improvement, and men of another description began to be alarmed at this doctrine.

In opposition to the persons who spoke with enthusiasm of this susceptibility of improvement, under the name of the perfectibility of the human mind, Mr Malthus brought forward the principle of population. It was not enough for his purpose to say, that population ascended to the level of food; because there was nothing in that relation inconsistent with improvement, or opposite to the principles of perfectibility. He went, therefore, a step farther, and said, that population rose beyond the level of food; a situation in which vice and misery must of necessity prevail, and unlimited progression was impossible.

Though no part of the doctrine of Mr Malthus has been left uncontested, it is now, among thinking men, pretty generally allowed, that, excepting certain favourable situations, as in new countries, where there is unoccupied land of sufficient productiveness, which may be placed under cultivation as fast as men are multiplied, a greater number of human beings is produced than there is food to support. This, it is understood, is the habitual condition of human nature. The disposition of mankind to marry, and the prolific power with which nature has endowed them, cause a greater number of human beings to be born than it is possible to feed; because the earth cannot be made to increase her produce

so fast as the procreative power of the human constitution increases consumers.

This is the proposition which Mr Malthus added to the doctrine of population; and it is undoubtedly a proposition of extensive import, pregnant with consequences of the greatest moment, and materially changing our views of the measures necessary to be pursued for improving the condition of mankind.

It is perfectly evident, that, so long as men are produced in greater numbers than can be fed, there must be excessive misery. What is wanted then is, the means of preventing mankind from increasing so fast; from increasing faster than food can be increased to support them. To the discovery of these means, the resources of the human mind should be intensely applied. This is the foundation of all improvement. In the attainment of this important end, it is abundantly plain that there is nothing impracticable. There is nothing which offers any considerable difficulty, except the prejudices of mankind.

Of this doctrine, one of the facts which it is on the present occasion peculiarly necessary to carry in view, is the mode in which the misery in question, the misery arising from the existence of a greater number of human beings than there is food to maintain, diffuses itself.

For a share of the food which is brought into existence, the greater part of mankind have nothing to give but their labour. Of those who are endeavouring to purchase food by their labour, there is not enough for all; some must want. What is the consequence? Those who are in danger of being left out in the distribution, offer more labour for the same quantity of food; that is to say, they agree to work for less wages; by this competition, the wages of labour are reduced, and made so low that they are not sufficient to procure food for the families of all the labourers. The whole are placed in the lowest and most afflicting state of poverty; and of those whose wants are more than usually great, or supply more than usually small, a portion must die, from the want of a sufficiency of the necessaries of life. The state of wages is sufficient to afford the means of existence to as many as the food produced can barely preserve alive; the superabundance, who, by their competition, have rendered thus miserable the situation of the rest, must inevitably perish. Whatever the state of production in regard to food, the wages of the labourer are sufficient to enable the labourers, as a body, to raise a number of children sufficient to keep up the population to the level of the food. The labourer who has the number of children correspondent to that increase, has just enough to keep his family alive, and no more. Those who have a greater than this number, and not a greater than the usual means of procuring food, must partially starve.

This is the natural unavoidable condition of the greater part of mankind, so long as they continue to produce numbers greater than can be fed. The question then is, what are the effects which, in this situation of mankind, the institution of banks for the savings of the poor are calculated to produce?

Every thing, as we have already seen, is to be derived through the medium of the disposition to accumulate.

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But the disposition to accumulate, as far as men are wholly deprived of the means of accumulation, is out of the question; for either it is wholly incapable of existing, or exists to no manner of purpose.

Of the labouring people, however, who have families, all but those of whom the families are uncommonly small, or who possess uncommon advantages, are, according to the principle of population, either in a state of starvation, or upon the very brink of it, and have nothing to accumulate.

The unmarried part of the population, therefore, those who have no families, or those who have very small ones, are those alone to whom the institution of savings banks can present any motives whatsoever. The question is, what are the effects which will be produced upon society by the motives which it presents to this reduced part of the population?

That it will increase to a certain extent the disposition to accumulate, may naturally be expected. To how great an extent, general principles afford us no means of very accurately foreseeing. We must wait for experience to determine. In the meantime, we know that single persons are for the most part young; and that youth is not the season when the pleasures of the present moment are most easily vanquished by those of the future. The training of the human mind must be more skilful, and more moral to a vast degree, before this salutary power will belong to any considerable portion of the youth in any class of the population, especially in the least instructed of all.

Let us next inquire the tendency which it will possess, whatever the degree in which it may be expected to exist.

In the first place, it will produce an abstinence from such hurtful pleasures as are attended with expence. Under this description is included the pleasure of intoxicating liquors, and no other possibly whatsoever. There is hardly any other indulgence on which any portion, worth regarding, of the earnings of the poor is bestowed, which can at all deserve the name of hurtful, or from which there would be any virtue in abstaining, if the means of obtaining it were enjoyed in sufficient abundance. To this, then, the moral effect of savings banks may be supposed to be very nearly confined. But assuredly this, if it can be produced in any considerable degree, must be regarded as an effect of no ordinary importance.

Passing from the moral effects, we come to the accumulation which it may be in the power of the unmarried part of the population to make. To this, and what may spring out of it, all the remaining effects of savings banks are evidently confined.

A part of the unmarried population will make accumulations, and undoubtedly they ought, if possible, to be provided with the means of doing so. Let us suppose that the greatest part of them profit by those means. What consequences are we able to foresee?

Of unmarried persons there are few who are not looking forward to the married state, and few by whom, sooner or later, it is not entered. As soon as persons of the lower class are married, or, at any rate, as soon as they have a certain number of

children, their powers of accumulation cease. But there is a previous hoard: What becomes of it?

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It is either wholly expended, at the time of marriage, upon the furnishing of a house; or it is not.

If it is wholly expended upon the furnishing of a house, it contributes to present enjoyment, like any other expence whatsoever; like that, for example, of a fine coat; and forms no longer a provision against a day of adversity and the evils of want.

Let us suppose that it is not wholly expended upon the furnishing of a house, but that a portion, at least, of it remains. This, it will be said, is reserved as a provision against want; and of this the beneficial effects may be reckoned sure. But abstracting from extraordinary cases of bad health, least common in the earliest stage of the married life, and other extraordinary accidents, the first pressure will arise from the increase of the family. After that number of children is born, which exhausts the earnings of the father, the birth of another child produces the miseries of want. If there is no fund remaining from former accumulations, hardship introduces death, and the amount of the population is thus, upon the whole, kept down to the level of the food. If there is a fund remaining from former accumulations, it will now of necessity be consumed; and by its consumption will enable the family to go on a little longer; to rear a child or two more. But the number of children reared was before as great as there was food to maintain. If a greater number is raised, there is an excess of population, who bid against one another for employment, and lower the wages of labour. Already, the great mass of the population were in a state of unavoidable misery from the lowness of wages. An increase of poverty is now brought upon them; and their situation is rendered more deplorable than it was before. It is impossible not to consider this as one of the effects, which a fund accumulated before marriage, by the laborious part of the community, has a tendency to produce. And this is a tendency altogether noxious.

The greater part of those who have talked and written about savings banks have left the principle of population altogether out of their view. They have, therefore, left out of their view that circumstance on which the condition of the most numerous class of mankind radically, and irremediably, and almost wholly depends. Of course, their observations and conclusions are of little importance.

Others, whose minds are philosophical enough to perceive the influence of the principle of population upon the condition of the great bulk of mankind, are of opinion, that savings banks will have a salutary effect upon the principle of population, and ameliorate the condition of mankind, by lessening the rapidity with which they multiply. This is a speculation of the deepest interest. If this be an effect of savings banks, they will, indeed, deserve the attention and patronage of the philanthropist and the sage.

The following is the mode in which the authors of this opinion believe that the happy effects which they anticipate will take place. The means of profiting by the reserve of a portion of their earnings,

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which savings banks will provide for the unmarried part of the labouring people, will give them, it is supposed, a taste for accumulation: Aware of the impossibility of accumulating after marriage, their desire of accumulation will make them defer the period of marriage: Of deferred marriages, the result will be a less numerous offspring: A smaller number of people in proportion to the food will be reared: The competition for food will be reduced; the competition for hands will be increased; wages will rise; and the cruel poverty of the mass of the population will be abated.

In this deduction, nothing is doubtful, unless the commencing step. If the desire created in young persons for accumulation is sufficiently strong to produce any considerable postponement of the period of marriage, all the other effects will necessarily follow; a reduced number of children; an increased reward of labour; and a correspondent amelioration in the condition of the greatest portion of the race. Savings banks will prove one of the most important inventions, to which the ingenuity of man has yet given existence.

It would be rash, however, to claim as an ascertained fact, that savings banks will have the effect of retarding the period of marriage. There are persons who hold the very opposite belief. They say, that what chiefly retards marriage at present among the better part of the labouring population, among those who have a regard to appearance, and a value for respectability, is the want of means to provide the furniture of a house; that savings banks will enable them to provide that furniture at an earlier period than at present; and that the institution will therefore accelerate the period of marriage, increase the number of those who cannot be fed, and thus add to the calamities of mankind. They ridicule the idea, that the love of saving will become, in the breast of young persons, a match for the passions which prompt them to marriage.

If we consider accurately what takes place among mankind, we shall probably conclude that both effects will be produced; that the love of saving will, no doubt, induce some persons to defer the period of marriage; but that the means of furnishing a house, placed at an earlier period within their reach, will produce the very opposite effect in regard to others.

The question is, which class is likely to be the most numerous? and this is plainly one of those questions to which no very certain answer can be given. But if we consider the strength of the passions which urge to marriage, we shall probably suspect that it will not be easy for the love of saving to acquire an equal force in the breast of any considerable portion of persons who are young, whose education has been very bad, and who hence have little power either of foresight or of self-command.

Such are the different views which may be taken of the effects which banks for the savings of the poor will produce. The exposition is useful to check the intemperate conclusions of enthusiastic patrons, and to show that much more than the mere institution of savings banks is necessary to produce any considerable amelioration, either in the physical or moral

state of the poor. In conjunction with other causes, savings banks are not only desirable, but necessary. The noxious consequence will be, if those who have it in their power to do more, shall suppose that savings banks are sufficient to do all, and there should limit their exertions. Taken by themselves, it is at least a doubt whether savings banks may not produce as great a quantity of evil as good.

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It now remains that we should give an account of the measures which have been taken for the establishment of savings banks, and endeavour, if we can, to ascertain the most useful form which they are capable of receiving.

We are not aware that the idea of an institution, answering in any degree the description of a savings bank, was in this country expressed in public before the year 1797, when a peculiar scheme for the management of paupers, or persons deprived of the means of maintaining themselves, was published by Mr Bentham in Young's *Annals of Agriculture*. It would require too long a digression to give an account of this plan of Mr Bentham, which embraces a great number of points, and would require an exposition of considerable complexity. Of that plan, one part consisted in the institution of what he distinguished by the name of a *frugality bank*.

The series of wants to which it was by him destined to operate as a remedy, were as follows:

1. Want of physical means of safe custody, such as *lock-up* places; thence, danger of depredation, and accidental loss.
2. Difficulty of opposing and never-yielding resistance to the temptations afforded by the instruments of sensual enjoyment, where the means of purchasing them are constantly at hand.
3. Want of the means of obtaining a profit by the savings of the poor, or the use of them in portions adapted to their peculiar exigencies.
4. Want of a set of instructions and mementos constantly at hand, presenting to view the several exigencies, or sources of demand for money in store, and the use of providing it.

He next proceeded to sketch the properties which appeared to him to be desirable in a system of frugality banks, commensurate to the whole population of the self-maintaining poor. These were,

1. Fund, solid and secure.
2. Plan of provision all-comprehensive.
3. Scale of dealing commensurate to the pecuniary faculties of each customer.
4. Terms of dealing sufficiently advantageous to the customer.
5. Places of transacting business suitable; viz. in point of vicinity, and other conveniences.
6. Mode of transacting business accommodating.
7. Mode of operation prompt.
8. Mode of book-keeping clear and satisfactory.

In the plan, however, of the bank which Mr Bentham contemplated for answering the purposes which he thus described, he did not direct his view to that simplest of all the forms of banking, the mere receipt of money, to be paid again with interest when demanded; the form to which the patrons of savings

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banks at present appear judiciously to confine their attention. Mr Bentham's proposal was to receive into the frugality banks the deposits of the poor, not for the mere purpose of yielding an interest, and being withdrawn when wanted, but to form or purchase an annuity for old age, when the power of earning would be either destroyed or impaired.

That the accumulation of the poor might not, however, be confined to one exigency, though that the greatest, he proposed that this superannuation annuity should be convertible, in the whole or in any part, into any other species of benefit, adapted to the exigencies of the owner. It might, for example, be converted into an annuity for an existing wife, in the event of widowhood. It might be converted into an annuity during the nonage of a certain number of children. It might serve as a pledge on which to borrow money. Part of it might be sold to raise a marriage fund, or it might be simply withdrawn.

Mr Bentham then proceeded to compare the effects of a system of frugality banks with those of friendly or benefit societies. To this comparison, however, we cannot with any advantage proceed, till that other species of institution is first described. We are, therefore, inclined to reserve it wholly to the article *BENEFIT SOCIETIES*, to which the reader is referred.

It is somewhat remarkable, that no allusion which we can perceive in any of the numerous pamphlets to which the subject of savings banks has lately given birth, is made to this early scheme of Mr Bentham; though the work in which it is contained not only appeared in a periodical and popular publication so long ago, but was laid upon the table of the committee of the House of Commons, appointed to inquire into the subject of Penitentiary Houses in 1811, and referred to in the appendix to their report; and was published separately in one 8vo volume, in 1812, under the title of *Pauper Management improved*.

As no attempt was made to carry Mr Bentham's plan of pauper management into practice, his scheme of a frugality bank, as a part of it, remained without effect.

The first attempt, as far as our researches have been able to discover, to give actual existence to the idea of a bank adapted to the exigencies of the poor, was owing wholly to a lady, to whom the public are indebted for several excellent productions of the pen, and who never took up her abode in any place, while health and strength remained, without endeavouring to perform something of importance for ameliorating the condition of those by whom she was surrounded. Mrs Priscilla Wakefield, the lady to whom we allude, residing, in the year 1803, at Tottenham, in Middlesex, a populous village, within a few miles of London, not only projected, but was the means of instituting, and the principal instrument in carrying on, a bank at that place for the savings of the poor. An account of this institution, drawn up by Mrs Wakefield, and dated the 24th of May 1804, was published in the fourth volume of the *Reports of the Society for Bettering the Condition of the Poor*. The account is so short, and so much to the purpose, that it may with advantage be inserted here.

“ Extract from an *Account of a Charitable Bank at Tottenham for the Savings of the Poor*, by Mrs Wakefield. Banks for Savings.

“ For the purpose of providing a safe and convenient place of deposit for the savings of labourers, servants, and other poor persons, a charitable establishment has been lately formed at Tottenham, in the county of Middlesex. It is guaranteed by six trustees, who are gentlemen of fortune and responsibility, most of them possessing considerable landed property. This renders it as safe and certain as institutions of this kind can be, and insures it from that fluctuation of value to which the public funds are liable. The books are kept by a lady, and never opened but on the first Monday in every month, either for receipts or payments. Any sum is received above one shilling; and five *per cent.* is given for every 20s. that lies 12 kalendar months; every person so depositing money being at liberty to recal it, any day the books are opened; but no business is transacted at any other time.

“ The money so collected is divided equally between the six trustees. For every additional L.100, a new trustee is to be chosen; so that a trustee can only risk his proportion of L.100. None but the labouring classes are admitted to this benefit; and there is no restriction as to place of residence.”

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“ These few simple rules are all that have hitherto been found necessary for the establishment of this charity, the design of which is both original and useful. To those who have applied themselves to that branch of political economy which relates to increasing the comforts, and improving the morals of the inferior classes of society, it must be obvious that every endeavour to encourage and enable them to provide for their own wants, rather than to rely upon the gratuitous gifts of the rich, are of great advantage to the whole community.

“ It is not sufficient to stimulate the poor to industry, unless they can be persuaded to adopt habits of frugality. This is evinced amongst many different kinds of artisans and labourers, who earn large wages, but do not in general possess any better resources in the day of calamity than those who do not gain above half as much money. The season of plenty should then provide for the season of want, and the gains of summer be laid by for the rigours of winter. But it must be obvious how difficult it is for even the sober labourer to save up his money, when it is at hand to supply the wants that occur in his family. For those of intemperate habits, ready money is a very strong temptation to the indulgence of those pernicious propensities.

“ Many would try to make a little hoard for sickness or old age, but they know not where to place it without danger or inconvenience. They do not understand how to put money in, or to take it out of the bank; nor will it answer for small sums, either in point of trouble or of loss of time. The same causes frequently occasion thoughtless servants to spend all their wages in youth, and in consequence to pass their old age in a workhouse,—a sad reverse from the indulgence of a gentleman's family, to which they have

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been habituated. Many instances indeed have occurred, that, for want of a place of security for their money, the poor have lost their hard earned savings, by lending it to some artful or distressed person, who has persuaded them it will be safe in his hands.

"The success of the little bank for children, connected with the Tottenham Female Benefit Club, mentioned in a former part of the reports, encouraged the present design; and it may be worth remarking, that the bank was opened by an orphan girl of fourteen, who placed L.2 in it, which she had earned in very small sums, and saved in the Benefit Club."

In 1805 and 1806, two pamphlets were published by Mr Bone, in the first of which he seems to have had it chiefly in view to point out the objects to which a scheme for preventing among the poor the miseries of want ought principally to be directed; in the second, to sketch the form of an institution by which those objects might be obtained. The scheme of Mr Bone is, however, nearly as comprehensive as that of Mr Bentham, and, therefore, extending far beyond the subject to which the present article is confined. The following are its principal objects:

1. To provide comfortable dwellings for all who require them.
2. Sums for their maintenance.
3. A provision for widows and children, education for the latter included.
4. Endowments to children at 21 years of age.
5. Temporary dwellings to destitute strangers.
6. To afford small loans.
7. Provision for persons who have belonged to the army or navy.
8. To grant annuities to persons to whom that mode of assistance is the best adapted.
9. To afford a provision for persons lame, or otherwise disabled.
10. To procure situations and employment for those deprived of them.
11. To nurse and educate children, as many as possible of the children of those who are themselves the least qualified for the task.
12. To provide baths and lavatories for the poor.

To the accomplishment of this scheme, banking, however, contributes a diminutive part. It is not proposed that all this should be accomplished by the funds of the poor themselves. The receipt, however, of the contributions of the poor, forms an essential article of the plan, and so far it involves in it the principle of a savings bank. It was proposed to receive the contributions of single persons, and return them with premiums at the period of marriage; to receive, farther, the contributions both of the single and the married, with a view to the future and ultimate provision; for though all persons would, according to this scheme, receive a provision, it would be a provision with more or less of excellence, according to the contributions of the individual.

Savings Banks in Scotland.

In 1807, the minister of the parish of West Calder, in Scotland, founded a bank for the savings of the principal class of his parishioners; and in 1810, without any knowledge of what had been accomplished in West Calder, Mr Duncan, the minister of Ruthwell, another of the Scottish parishes, established one in his own, in nearly a similar form. Mr

Duncan, in a well written pamphlet, in which he describes the form of his own institution, and explains the object which the system has in view, and the principles upon which it is founded, informs us, that his idea of an economical bank for the savings of the industrious, was accidentally suggested to him by a perusal of the pamphlet, entitled, *Tranquillity*, of Mr Bone, at a time when his mind was peculiarly excited to the consideration of the subject, by the circumstances of the poor in the town and vicinity of Dumfries, and by the threatened approach of what he deemed a national misfortune, the introduction of poor-rates.

The course pursued by Mr Duncan is in the highest degree instructive. It is founded upon an accurate knowledge of human nature, in which the men who step forth from elevated situations to ameliorate the condition of their fellow-creatures, are in general singularly deficient, and therefore most commonly reap nothing but the natural fruit of injudicious measures—disappointment. As a great effect was intended to be produced upon the minds of the people, Mr Duncan saw the necessity of carrying the minds of the people along with him, and of adopting the most powerful means for making them feel and take an interest in the concern. Unless the interest is felt, and powerfully felt, the operation of the machinery will be feeble, and its effects trifling. Novelty may give it some appearance of strength for a time, but this will gradually decay.

In the first place, it was necessary that every cause of obstruction should be removed. "The prejudices of the people should be carefully consulted; they should be treated even with delicacy; and the most unreasonable scruples of the ignorant and suspicious should, as far as possible, be obviated." It is not duly considered by the upper ranks of the population, how inseparable from human nature are the suspicions of those who are weak, toward those who are strong; the suspicions of those who are liable to be hurt, toward those who are capable of hurting them. And it is only the blindness of self-love, and our inattention to evils in which we are not called to participate, that leave us ignorant of the actual grounds in practice, whence, even in this country, the institutions of which are so much more favourable than those of most other countries to the poor, the weak have reason to dread the interference of the strong.

So much for removing the causes of dislike. More is necessary to create a positive, and still more to raise an ardent attachment. The springs of human nature must be skilfully touched. Mr Duncan knew where to find them, and he looked to the means which the circumstances of the case afforded for placing them in action. "It may be observed in general," he says, "that in all those situations, where it is practicable to assimilate the mode of management to the scheme of Friendly Societies, the advantage to be derived from such a circumstance ought not to be overlooked." If there were nothing in the case but the actual existence of these societies, and the favour with which the people regard them, the importance of this advice would still be more than considerable. But, says Mr Duncan, "On this subject, it may be proper to attend to the following

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remarks: Those who are at all acquainted with the history of friendly societies, must be aware, that they owe much of their popularity to the interest excited among the lower orders, by the share to which each of the members is admitted in the management of the institution. The love of power is inherent in the human mind, and the constitution of friendly societies is calculated to gratify this natural feeling. The members find, in the exercise of their functions, a certain increase of personal consequence, which interests their self-love in the prosperity of the establishment. Besides, by thus having constantly before their eyes the operation of the scheme, in all its details, they are more forcibly reminded of its advantages; and not only induced to make greater efforts themselves for obtaining these advantages, but also to persuade others to follow their example. Hence it happens, that a great number of active and zealous supporters of the institution are always to be found amongst the members of a friendly society, who do more for the success of the establishment than can possibly be effected by the benevolent exertions of individuals in a higher station."

For these reasons Mr Duncan held it expedient to give the contributors themselves a share in the management of the institution; and that share was well chosen. The contributors in a body were not fit to be the acting parties; but they were fit to choose those who should act for them. A general meeting is held once a-year, consisting of all the members who have made payments for six months, and whose deposits amount to L.1. By this meeting are chosen the court of directors, the committee, the treasurer, and the trustee, the functionaries to whom the executive operations are confined. And by this also are reviewed and controlled the transactions of the past year, with power to reverse the decisions of the committee and court of directors; to make new laws and regulations, or alter those already made; and, in other respects, to provide for the welfare of the institution.

The power of choice is somewhat limited by the qualifications required. The society consists of two sorts of members, the ordinary, and the extraordinary, and honorary. The general meetings have alone the power of electing honorary members; but the Bank Trustee, the Lord-Lieutenant and Vice-Lieutenant of the county, the Sheriff-depute and his substitute, the members of Parliament for the county and burgh, the ministers of the parish, with certain magistrates of the town, are honorary members *ex officio*; and there are certain regulated subscriptions or donations, of no great amount, which constitute the person paying them, *ipso facto*, an extraordinary or honorary member. Now, it is from this list of honorary and extraordinary members that the choice of functionaries by the general meeting is annually to be made, provided a sufficient number of them should be disposed to accept of the offices designed; if not, from such of the ordinary members as make deposits to the amount of not less than L.2, 12s. in the year.

It is not fitting here to enter into the details of the organization, or those of the executive arrangement. It is sufficient to state, that deposits are received in sums of 1s., bear interest at the amount of L.1; and are

always payable, with compound interest, on a week's notice.

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It seems not to have been till 1814 that the project of savings banks made any farther progress in Scotland. In that year, "the Edinburgh Bank for Savings was instituted," says Mr Duncan, "by a society of gentlemen, of the first influence and respectability; who, from their enlightened labours in the suppression of mendicity, and in the establishment of a permanent provision for the poor, had already acquired no trifling claim to the confidence and affection of the public, and particularly of the lower orders." In the constitution of this bank, the interference was rejected of the depositors themselves; who were simply required to confide their money in the hands of the gentlemen who undertook the management of the institution. "This circumstance," says Mr Duncan, "has operated as a powerful obstruction to the success of the plan. The truth of this will appear in a very striking point of view, if we contrast the progress of the scheme in Edinburgh with that of the Ruthwell parish bank, or of those institutions which are formed on a similar plan." And he then presents a statement of facts, which fully support the position, and strongly illustrate the importance of the principle on which the Ruthwell institution was founded.

Mr Duncan, from deference to the gentlemen who made the decision for the Edinburgh bank, seems willing to allow that a general meeting of all the contributors, and a reservation to that meeting of certain appropriate powers, useful and important as it is, may, in great cities, such as Edinburgh, be attended with inconveniences which outweigh its advantages. May not this, however, be a concession too easily made? It would, at least, be desirable to have good reasons presented for the sacrifice of so great an advantage, before we consent to its being made. There is an obvious inconvenience in assemblages of people, of any description, when too large. And if one bank were to serve for the whole of a great city, and the contributors should amount to any considerable part of the population, the assemblage would undoubtedly be too large. But this, under the circumstances in contemplation, would not be the case. To accommodate the customers, there ought to be a bank in every parish, or similar district. There would be no greater inconvenience in calling together the moderate number of contributors to such a bank in a city, than in the country. The fact is proved by the ample experience of friendly societies; the members of which do actually meet much oftener than once a-year, and devoid of many advantages which the mixture of persons of the upper classes would afford to the association of a savings bank. If any central, or general institution, to give unity and combination to the operations of the different banks of a great city, were found to be useful, it might be formed of delegates chosen by the committees of the several district or parochial banks; and thus, without any inconvenience that can be rationally contemplated, all that fervent interest which is the natural effect of giving the contributors themselves a part to act in the formation and conduct of savings banks, would be provided for and secured. In London itself,

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there are various institutions, wholly dependent upon voluntary contributions, the subscribers to which, though extremely numerous, are annually called together for the election of committees and other managers. The society of *Schools for All* may be adduced as a conspicuous example. And where is the inconvenience that is ever found to result?

Savings Banks in England.

In the meantime, efforts were begun for the extension of the system in England. In the year 1813, a judicious and successful attempt was made by Dr Haygarth for the establishment of a bank for savings at Bath, where, sometime before, an institution, under the name of a servant's fund, had been formed on nearly similar principles, at the suggestion of Lady Isabella Douglas, sister of the Earl of Selkirk.

The circumstances of England were in several respects much less favourable to any plan founded upon the savings of the poor than those of Scotland. The disadvantages existing in England are justly enumerated by Mr Duncan, under four heads; 1st, The character and habits of the people; 2dly, The nature of the ecclesiastical establishment; 3dly, The system of poor laws; 4thly, The state of the banking business.

The first three are general, and the nature of the obstruction which they afford in some degree obvious. The illustration of these here may therefore be waved. The last, however, so intimately concerns the operations of the banks for the poor, that it requires a difference even in their constitution. It is the practice of the banks of Scotland to allow interest for the monies deposited with them; and so perfect is the foundation on which some of them are placed, that the security attached to the deposits they receive, is equal to that of the Bank of England itself. The operations of the economical bank are here, therefore, simple in the highest degree. It has only to open an account with one of these banks, and pay to the contributors the interest received, making such a deduction as the expences of the institution may require.

In England it is not customary for banks to allow interest on the deposits which are made with them. And where possibly interest might be obtained, the security would not always be good. The savings banks have no source whence interest can be derived with the due measure of security, except the public funds. But, with respect to them, a great inconvenience arises from the fluctuation of price. What is desirable, above all things, is such a degree of simplicity and plainness in the transactions, that the reasons of every thing may be visible to the uninstructed minds of the people with whom the institution has to deal. But this fluctuation in the price of stock is an unavoidable source of complication and obscurity. The money of one man produces more, that of another less, according to the price of stock, at the time when his deposit is made. When it is withdrawn, a sum is received, greater or less than that which was put in, according as the price of stock has risen or declined.

The plan upon which Dr Haygarth proceeded, in the bank which his strenuous exertions were the means of setting on foot in Bath, was to make every depositor, to the value of one or more pounds of stock, a proprietor of stock to that amount, and en-

title him to receive his dividends every six months, the same as those paid at the Bank of England, one sixth being deducted for the expences of the institution. In the constitution of this bank, no part of the management, and no control over it, were given to the depositors. Certain trustees and managers were constituted, with powers of supplying vacancies; and the money of the depositors was vested in the funds in the names of a certain portion of the trustees.

In the month of November 1815, a bank was projected for the town and vicinity of Southampton, to which the zeal and influence of the Right Honourable George Rose in a great degree contributed. In the formation of this institution, the model of the Edinburgh bank was principally followed. It was composed of a certain number of noblemen and gentlemen, who formed themselves into an association for banking the money of the poor; excluding entirely the intervention of the depositors. It differed from the bank established at Bath, which gave the depositors a proportion of the dividends, and left them to the chance of gain or loss by the fluctuation of the stock which their money had purchased; the Southampton bank, though it vested the money in government securities, undertook to pay a fixed invariable interest of 4 per cent. on each sum of 12s. 6d.; and to repay the deposit when demanded, without addition or diminution. The chance of any rise or fall in the price of the funds, the bank, in this way, took upon itself. The Southampton, like the Edinburgh bank, limited the amount of deposits which it would receive from any one individual; and fixed the sum at L. 25.

Some attempts were also made in London. A bank was instituted, under the influence of Barber Beaumont, Esq. in the parish of Covent-Garden. A committee of the inhabitants of the parish, rated at L. 50 and upwards, together with the members of the vestry, form one committee, and twenty-four of the depositors, chosen by themselves, form another committee, who jointly choose their agents, and conduct the business. The want of security in this plan is an obvious objection; the money remaining in the hands of certain individuals, in the character of treasurers, allowing interest at 5 per cent.

A bank was opened in Clerkenwell, another parish in the metropolis, on the 29th of January 1816, chiefly through the instrumentality of Charles Taylor, Esq., on a plan by which the depositors appoint their directors, their committees of accounts, their superintendents, &c. from their own number, and thus conduct the business of the institution wholly for themselves. The treasurer is allowed to retain to the amount of only L. 200, for which he gives security, and allows interest at 5 per cent. for the sum in his hands. The other funds are invested in government securities. The great defect in this otherwise admirably constituted institution, seems to be the limiting the choice of managers and functionaries to the depositors themselves. Why should the depositors deprive themselves of the advantage of choosing a person who would be eminently useful as a manager, though not of a rank of life to require the institution for his own use? If the depositors have the power of choosing, for the management, whom they

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please, depositors or not, they will have all that share of action which is necessary to establish their confidence and animate their zeal; while, at the same time, men of superior education and influence may be joined with them, and prevent, by their wisdom and authority, any error to which the business might be otherwise exposed. As often as men of superior education and fortune showed a disposition to render themselves useful in the conduct of the institution, daily and universal experience prove how certainly and gladly they would be chosen. In the meantime, the prosperity of the Clerkenwell bank is a complete proof of the safety with which that co-operation of the contributors, the utility of which is so well demonstrated by Mr Duncan, may be employed in the greatest cities. Clerkenwell is a parish, a great part of which is inhabited by some of the poorest people in the metropolis; the establishment of the bank was attended with nothing which was calculated to excite any attention; with advertisement scantily sufficient to make it known in the district; yet on the 22d of April, less than three months after the time of its institution, it had 157 depositors, and had received L. 269, 11s. 6d.

These local and confined attempts in the metropolis were followed by others on a larger scale. *The Society for Bettering the Condition of the Poor* took measures for interesting a sufficient number of noblemen and gentlemen to establish a grand Savings Bank, or Provident Institution, which was deemed a preferable name, for the whole of the western half of the metropolis. Several meetings of persons of high rank and others were held during the month of March 1816. The plan of the bank of Southampton, to pay a certain fixed rate of interest, and return the neat deposit on demand, was first proposed. This, with regard to the facility of giving satisfaction to the contributors, and avoiding all misconception on their part, injurious to the prosperity of the institution, was highly desirable. But, after a due consideration of the danger to which the institution would, on this plan, be exposed, in the event of any great depression of the price of stock, it was resolved to follow the example of Bath; to render each depositor a stockholder, and consequently himself liable to either the profit or the loss which the fluctuation of stock might occasion. This institution was composed of the noblemen and gentlemen by whom it was promoted, who formed themselves into an association, consisting of a president, vice-president, trustees, and managers; wholly excluding the co-operation of the depositors, and all intervention or control on their part. This institution was opened in Panton Street, Hay Market, on the 15th of April following; and another, promoted by the principal gentlemen in the city, and founded on similar principles, was soon afterwards opened in Bishopsgate Street, for the eastern half of the metropolis.

Of the bank for the western division of the metropolis, a particular account has been published by Joseph Hume, Esq. one of the managers, which deserves attention, as containing a valuable set of practical rules for the detail of the business, according to the principles on which that institution is founded; and, above all, as containing the description of a sys-

tem of Book-Keeping, admirably adapted to the purpose of savings banks in general, and of which that gentleman himself was the principal contriver.

By Mr Hume and Dr Haygarth, we see that the term *Provident Institution* is applied as the name of those associations which have it for their object to enable the poor to place their money in the stocks. The term Bank, whether called a Savings Bank or a Frugality Bank, they would confine to these institutions which pay a fixed interest, and return the neat deposit. The term Bank, however, is equally applicable to both, and the best denomination they can receive. Some adjunct is wanted to distinguish this from other species of banks, and no good one has yet been found. Neither *Frugality* nor *Savings* is distinctive; every bank is a frugality bank. *Poor's Bank* would be the best, but for one conclusive objection, that it is humiliating, and in common acceptance disparaging.

As government securities afford in England the only expedient, attended with safety, for employing the deposits of the poor; but as these securities are, at the same time, attended with the great inconvenience of fluctuation, and require the transmission of the money to and from the metropolis, of which the inconvenience would often be considerable; Mr Hume is of opinion, that the powers of government should be employed for the removal of these two inconveniences, which would merely afford to banks for the poor in England those advantages which they already enjoy in Scotland, from the admirable state of the banking business. The effects might be accomplished by the payment of the money to the receiver of each county, and by the receipt from him of the proper returns. This would no otherwise change the nature of the transaction, than that the money would thus be lent to government in a way extremely convenient to the poor, while, by purchase into the public stocks, it is still lent to government, but in a way far from convenient to that class of the people.

There may be, and there are, solid objections to the rendering any great portion of the people the creditors of government, as being unfavourable to that independence of the people on the government, on which all security for good government depends; but if the people are to be rendered the creditors of government, there can be no objection to them being rendered so in a way convenient to themselves, rather than in a way which is the contrary. And if there is no other security but that of government to which the banks for the poor can have recourse, we are reduced to the alternative of either having no banks for the poor at all, or lending the money to government. It will occur to some persons, that it might be lent to the parishes on the security of the poor-rate. But to those who contemplate the abolition of the poor-rate, this will not appear desirable as a permanent expedient. If counties were managed according to their ancient constitution, the best plan might be, to lend it to the counties, on the security of the county rate. But even in this case, it could not be lent without admitting a prodigious evil, the principle of county debts.

No mention has been made of the plan of Mr Baron Mazeres, in the account which has been ren-

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dered of the successive steps by which the business of savings banks has been brought to its present state; because it was not conceived that this plan corresponded to the idea of a savings bank. It is, however, necessary to be described, because it is not impossible that some of the ideas realized in savings banks may have been derived from it. The plan of Baron Mazeres was a proposal for establishing life-annuities in parishes, for the benefit of the industrious poor. It was published in 1772, accompanied with the suggestion of certain alterations by the celebrated Dr Price. It was recommended to the nation to obtain a law, for enabling the parish officers in England to grant, upon purchase, to the labouring inhabitants life-annuities, to be paid out of the parish rates. The measure met with support from some of the most distinguished characters of the time, and a bill was brought into the House of Commons by Mr Dowdswell, under the auspices of Mr Burke, Sir G. Savile, Lord John Cavendish, Mr Dunning, Mr Thomas Townshend, and others, for carrying it into effect. The plan received the sanction of the Commons, the bill was passed, and carried to the House of Lords. Here it was not equally fortunate; it was not even permitted to come to a second reading. One cannot conceive any very good reason for throwing it out; because, if it produced any effects, they could not be evil. The defect of the project appears to consist in this, that it was not calculated to produce effects at all: it involved in itself an obstruction fatal to its operations. To purchase these annuities a sum of money, large to the purchaser, was demanded all at once. How was he to possess it? Whence was he to obtain it? The means were almost universally wanting, and likely to continue so.

It is worth while to mention, that a savings bank, entitled *Le Bureau d'Economie*, was established by law at Paris, in one of the first years of the French revolution, and it was in existence till a late period, perhaps is to the present. The account of it which we have seen, is in the *Archives of Useful Knowledge*, published in Philadelphia, where a bank of industry was lately established. Mr Bentham's plan of a frugality bank, added to this scheme two important amendments, which at once brought it within the range of practicability, and enlarged the bounds of its usefulness. He proposed that the people should purchase life-annuities, by sums deposited

gradually; and that these annuities should be convertible into other forms of benefit, suitable to the exigencies of each individual.

With regard to the best model of a savings bank, there is nothing of much importance which remains to be said. The great difficulty consisted in the original idea. When that was fully framed, every thing else suggested itself, without the smallest difficulty. Two things were immediately seen to be fundamental: In the first place, security for the funds: In the second place, the zeal of the people. The best general instruction which can be given to those who have institutions to form, is to set these two objects before them, as the ends which they have to pursue; and to adopt the means, which, in the peculiar circumstances of each case, promise to be most effectual in attaining them. 1. With regard to security, the course appears to be abundantly plain. There is perfect security with many other advantages in the great banks in Scotland, which of course should be universally employed. In England, there is no resource but government security, to which, as at present existing, several inconveniences are attached. 2. With regard to the excitation of that degree of fervent interest among the people, which is necessary for the production of any considerable effects, all persons will not have their minds equally open to conviction. Yet the means appear to be abundantly certain and clear; let the contributors, in annual meetings, choose their own office-bearers, not limiting the choice to their own body; and let the people of weight and character in the district, not only show their readiness, but their desire to be chosen. This is the general idea; it may be modified into a variety of forms, according to the circumstances of different places; circumstances to which matters of detail ought as much as possible to conform. It is an appendage to this principle, that the numbers, hence the district, should not be large, which a single bank is destined to serve. This appears to be expedient, or rather indispensable, on other accounts; to facilitate access to the customer; to prevent loss of time by attendance, if numbers should be liable to repair to the same office at the same time; and to render practicable, by division, the otherwise impracticable amount of labour, which, if the great majority of the people should bring deposits, the management of them will create.

(FF.)
James Mill

Banks for
Savings
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Bannock-
burn.

General
Rules for
the forma-
tion of these
Banks.

BANNOCKBURN, a rivulet in the county of Stirling, celebrated for a battle fought on its banks in the earlier part of the fourteenth century. As no correct details of this battle have been given in the body of the work, it becomes necessary to supply that defect in this place.

The failure of the royal line of Scotland, by direct descent, in the grand-daughter of Alexander III. who died in the year 1290, excited a competition among several powerful nobles for the crown. But deciding their respective rights by the sword would have deluged the kingdom with blood; nor were the finances of any in that condition which could enable them to maintain an arduous and protracted contest. The claims of all were, therefore, by common consent, sub-

mitted to Edward I. of England, a warlike and politic prince, who, having heard them patiently, with due solemnity adjudged the throne to John Baliol. Edward, though without apparent partiality, had not lost sight of his own interest; but the truth was soon betrayed, that he wished to render Scotland an appanage of England, could it have been effected. The right of superiority was asserted, acknowledged, and then resisted: but Edward had power in his hands, and the abdication of Baliol followed a short and troubled reign. That monarch now openly avowed his design of subjugating Scotland, which he affected to consider only as a fief of his kingdom. Some patriots arose in the course of an interregnum; but their co-operation being generally disturbed by jealousies among