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On Some Effects *of a* Crisis *on the* Banking Interest.

By John B. Martin, Esq., M.A.

[Read before the Statistical Society, 20th May, 1879.]

It is hardly necessary to make any apology for submitting to the consideration of the Statistical Society matters that concern the banking interest. The profession of the "mean goldsmith," of the days of Evelyn and Pepys has grown with the commercial growth of the nation, until it has become an important estate of the realm. Banks may be compared to the heart of an animal; neither of them create, but both diffuse the circulating medium that keeps the frame in health: or to the engine of a vast factory, which is kept in working order by one or two hands, and silently, without apparent effort, sets in action the machinery that is clattering and crashing throughout the works. But just as any derangement of the heart's action affects the general health, or as a minute obstacle lodged in the wheels of the engine may imperil or throw out of gear the whole of the machinery, so any hitch in the working of our banking system is at once felt throughout the whole of the country, and the causes and effects of any such increase of friction in the working are deserving of careful consideration. That such a condition of affairs had arisen during the autumn of 1878, requires no demonstration; during the first half of the year, though trade was suffering from a long continued depression, money was extremely abundant, and rates very low; during the second half of the year the depression continued, but a defective home harvest and other causes raised the value of money slightly. Yet the year might have closed uneventfully to the banking world, had not the sudden collapse of the City of Glasgow Bank precipitated matters; a state of bad or fictitious trading was revealed that was simply astounding; the successive failures of the Rochdale Bank, the West of England Bank, and one or two others of less importance increased the general distrust, and a kind of panic prevailed. During the three last months of the year hardly any bank could "escape calumny," and it seemed in many cases as if not merely depositors, whose risk was comparatively small, but also the vast body of bank partners whose names form the proprietary of joint stock banks, were competing to pull down the institutions whose fall must inevitably cause their own personal ruin. There existed a prolonged crisis, but it fortunately stopped short of a catastrophe; yet such a stage was reached as to put our banking system on a searching

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trial, and to call for the exercise of unusual discretion and prudence; in addition to the perils of navigation in stormy weather, there existed a feeling that the ground was strewn with torpedoes, and that either by accident or design an explosion might take place, against which no precautions could avail, and whose consequences none could foresee.

Under these circumstances it may be not altogether useless to attempt to judge of the effect of this period of strain and trial by a comparison of the balance sheets of some of the principal banks before and after its occurrence; the balance sheets of 30th June, 1878, may be taken as the standard of fair-weather sailing, those of 31st December, 1878, as representing the ship with all made snug for dirty weather. In the pages of the "Economist" the statistics of banking are from time to time very carefully analysed, and in a special supplement (19th October, 1878) a very full classification of returns has been published; the tables which accompany these remarks take the figures in much the same way, but selecting and classifying particular groups of banks, and reducing the result to ratios of percentage for the purpose of more effectual comparison.*

It is needless to say that private banks publish no balance sheets, and though it would be interesting to be able to bring them into rank in the present tables, yet it may be assumed that balance sheets are issued for the benefit of the partners, *i.e.*, the shareholders only, not for that of the depositors; otherwise it would be hard to give a logical reason why depositors in private banks, no less than in joint stock banks, should not have the benefit of such enlightenment as a published balance sheet affords as to the status of their banker. On the other hand, if private bankers ought to show balance sheets, why should not they demand a statement of account from their bill brokers and other debtors, why should not also merchants and other large traders show balance sheets? Many of these are actually bankers to foreign correspondents, and are depositaries either in cash or in kind of a vast amount of fiduciary capital.

Failing this we are able to compare (I) the London joint stock banks that are in the Clearing House, and this may be taken to embrace all the London joint stock banks of any importance; (II) the English provincial banks, of which a group of ten of the largest, from various parts of the country, and connected with various classes of commercial, industrial, or agricultural interests,

* The tables which accompany the present paper cannot attempt to compete in fulness with the exhaustive analysis of bank returns by Mr. Dun, laid before the Statistical Society, 21st December, 1875 (*Journal*, March, 1876). Any attempt to repeat these would be superfluous, to enlarge or add to it impossible. But for the purposes of the present paper some repetition of his method to a certain extent is inevitable.

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has been taken as representative; (III) Scotch banks, represented by seven of the largest banks; (IV) Irish banks, represented by four principal ones; (V) the Bank of England. Tables I—VI will be found in the Appendix. The list has not been composed entirely without difficulty in the matter of selection; for instance, the National Bank is a London clearing bank, but its main business is in Ireland; it was therefore only with some hesitation that it was included in Table I: again, the National Provincial Bank is almost equal in liabilities to the London and Westminster Bank, and larger than any other, but though it is in the London Clearing House it is mainly a country bank, and the same remark applies to the London and County Bank; but as the former only issues its balance sheet in May it is entered separately, and is not taken into account in the tables of percentages; the County Bank is treated as a London bank. The balance sheets of English country banks are not always taken on the same date, and it has been necessary to reject several on this ground only; the same is more conspicuously the case with the Irish and Scotch banks, and moreover they, in some cases, publish annual sheets only, so much so, that it is only possible to give one complete table in each of these two groups, taking the last balance sheets published in June, 1878.

The Tables I—IV require no explanation; in all cases 000's are omitted for the sake of clearness, and the principal divisions of liabilities and assets are set forth in each case, and a table is appended showing the rates per cent. of the several heads to the gross total. In a separate column the total subscribed capital is stated.

It is evident that the information afforded by these tables only serves to make us wish for more; taking the debtor side of the accounts, we should be glad to know what proportion of the deposits is bearing interest, and what remaining proportion is not; what are the acceptances, and what the (in many cases no doubt unused, or only partially used) credits; on the other side, it would be interesting to learn, how much in the first column is cash, how much at call. Sir Robert Peel asked: what is a pound? We may ask: what is cash? Not money at call, though it is practically, and in most cases justly taken to be so; a bank must necessarily have full confidence that money at call can be converted at once into bank notes, yet it may be doubted whether during the last autumn all bills held from weak borrowers against money lent at call could have been immediately taken up. Even bank notes, or a balance at the Bank of England, cannot be in this sense held to be cash, for theoretically the Bank of England, and even the national credit on which its solvency rests, might fail, and actually it is notorious that in May, 1866, one bank had a balance at the Bank

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of England which could not have been met on demand except by infringing the Bank Act of 1844. But that a banker should keep his whole first line of defence in sovereigns in his own vaults is obviously impossible, and, as long as any credit exists at all, bank notes and loans at call, of a prudently managed bank, may fairly be taken for the purposes of a balance sheet as "cash."

In the case of "Government Stocks, &c.," it appears possible that in some instances the "&c." covers securities that hardly come under this category, but the balance sheets are not invariably quite explicit. The next column embraces all other assets, bills, loans, overdraughts, &c. A director of the Bank of England very recently remarked that in his opinion the premises of a bank could not properly be considered as an asset, but in many cases it is stated separately, and I can hardly concur in this opinion.

If we examine Table I we shall at once see that the condition of affairs had so far altered between 30th June and 31st December, 1878, that the London joint stock banks (excluding the National Provincial Bank) had lost 8,331,000*l.* of gross liabilities; their deposits indeed had fallen off 10,665,000*l.*, but their paid-up capital remaining unaltered, they had added 104,000*l.* to reserve and profits, and 2,230,000*l.* to their acceptances and credits. The 10,665,000*l.* is accounted for by a glance at the respective totals; in every case except that of the Union Bank, the deposits and liabilities had fallen; in this exceptional case there is a very small increase in deposits, but a very considerable increase, 1,200,000*l.*, in acceptances. The table of percentages shows the relative changes in the position of this group of banks, and at the same time there is appended, for what it is worth, a statement of the mean ratios of these percentages. The question, where has this 10,665,000*l.* gone? is less easy to answer and can only be guessed at. It was currently reported that the Bank of England opened a great many accounts during the autumn, and we see by Table V that the "other deposits" at the Bank of England increased nearly 6 millions. But it is well known that in a crisis the bankers' balances at the Bank of England are, and they undoubtedly were on this occasion, abnormally high, so that we cannot say with certainty that the balances of the general customers rose to this amount. Again, it is more than probable that the balances of country banks in the hands of their London agents shrink at the first symptoms of a crisis. Others said that the private bankers were filling their signature books very fast, but this too is a statement which we have no figures to support; or again the public may have withdrawn their deposits and invested in consols, but in this case who sold the consols? was it the bankers themselves, or poorer stockholders who were forced by hard times to realise? There

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was even a suggestion that people were keeping their money in their own houses, and it was alleged that the increase of burglaries, especially in the west of England, during the winter was owing to the prospects of increased plunder from this cause. But this too is a conjecture, and the statistics of burglaries have not yet been attempted by this Society. It is possible that shrinkages in values of stocks and produce may have had a good deal to do with the matter, and higher rates usually point to lower balances at the bankers; both of these factors were operative during the autumn of 1878. The credit side of this table offers little matter for comment; and there is uniform shrinkage under all heads, and the ratios in the table of percentages scarcely vary, save that there is an increase of a little under 2 per cent. in the item of cash, compensated by a corresponding diminution in the amount of other securities.

The ten country banks which are scheduled in Table II exhibit, as compared with the twelve London banks of Table I, a far smaller volume of gross liabilities, a total namely of 38,000,000*l.* against 128,000,000*l.* It would have been well if a comparison could have been made of equal totals; but as the totals of the London clearing banks are nearly one-half of the total of the published returns of all the English banks put together, *i.e.*, 159,000,000*l.* out of 333,000,000*l.*, the attempt would have made the table unwieldy, and the selection of a small number of the largest in point of liabilities may, it is hoped, be taken as fairly representative. The small variation of the totals in June and December is striking, for whereas the London banks had diminished their liabilities during this period by some 7 per cent., and their deposits had fallen off no less than 11 per cent., there is not a variation of more than 2 to 3 per cent. in any total of the country banks.

The result of the peculiar conditions of Scotch banking is that the seven principal banks which are brought under Table III have average liabilities slightly exceeding those of the London clearing banks, while the liabilities of the four principal Irish banks (excluding the National Bank) of which the accounts are obtainable, are very much less on an average, though they slightly exceed those of the English country banks; but in the case of the Scotch and Irish balance sheets, they are taken at various dates (in many instances only once a-year); so that no relative comparison has been practicable.

The returns of the Bank of England (banking department) are taken under the dates of 25th June and 24th (for 25th) December respectively, rather than on 2nd July and 1st January, because the difference caused by the turn of the half-year is at all times notorious, and was never so conspicuous as on 1st January last. By

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common consent this last date appeared to have been fixed as the end of troubles: money poured into the market in a flood, and rates fell to an extent altogether without precedent. It will be seen that on 25th December the banking liabilities of the Bank had increased nearly 4 millions. The proportion of capital to liabilities is therefore reduced, but reserve and acceptances are unchanged. The public deposits, owing to the fiscal arrangements of the Exchequer, show a very marked reduction of over 2 millions, or 6 per cent., while the "other deposits" are increased by nearly 6 millions, or an increase of ratio to total liabilities of 6·2 per cent.; but as stated above, we cannot tell how much of this increase is due to the augmentation of the balances of general customers and how much to that of the bankers' balances. But public and other deposits together show a variation of only + $2\frac{1}{2}$ per cent. The credit side of the account shows that in December the advances of the bank had increased in the relative proportion of 11 per cent. at the expense of the cash and Government securities. In Table VI the percentages of the previous tables are brought together for more easy comparison, and the figures speak for themselves. It appears that London banks trade on the smallest percentage of capital and accept more largely, and that the amount of acceptances had increased during the troubled time, both absolutely and relatively. On the other side they have the largest percentage of cash and the smallest percentage of advances and discounts. The Bank of England stands out as a conspicuous exception under every head on both sides of the account.

To these tables is appended a memorandum of the percentage of total capital to gross liabilities under all the groups, which shows that the Scotch banks of Table III are trading on subscribed capital all paid up of 9·2 per cent. Next are the Irish banks, 10·7 per cent.; then the London banks, 23·1 per cent.; the Bank of England, 30·5 per cent.; and lastly, the English country banks, 40·7 per cent. If it were the province of this Society to discuss questions of casuistry or ethics, it might be asked how far the shareholders whose ruin has lately excited so much sympathy, were justified in making themselves partners in a business of whose administration they were totally ignorant, and in incurring liabilities which in case of failure they had no means whatever to meet.

It remains to attempt an investigation of the profits of the two half years; but unfortunately it is only in the case of the London banks that the figures are given in such a shape as to make classification and comparison possible. The country, Scotch, and Irish banks give as a rule very meagre information on this point. Table VII shows the profit and loss accounts for June and December of the London joint stock banks under the heads of (1) expenses

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of management, (2) rebate, (3) amount carried to reserve, (4) amount available for dividends and amount carried forward, and a table of percentages to total in the two half years respectively is appended. It must first be noted that the total is given "after making allowance for bad and doubtful debts;" the real gross total is an x quantity left to the imagination of the shareholders.

TABLE VII.—*Profit and Loss, July*, 1878.

Dr.

	Expenses, &c.	Rebate.	Reserve.	Dividends and Carried Forward.	Total.
Alliance	15,491	5,268	10,000	26,672	57,431
Central	10,817	5,958	5,000	3,833	25,608
City	25,818	5,812	15,000	34,761	81,391
Consolidated	16,462	5,352	2,750	46,196	70,760
County	144,058	115,040	25,000	144,224	428,322
Imperial	13,166	2,639	5,000	23,018	43,823
Joint	49,857	13,450	8,410	101,376	173,093
London and Westminster	81,562	—	60,091	140,000	281,653
Metropolitan	3,564	643	—	5,107	9,314
National	76,734	—	10,000	96,582	183,316
South Western	21,668	1,741	—	11,090	34,499
Union	42,750*	15,226	10,000	105,872	173,848
	501,947	171,129	141,251	738,731	1,563,058
Ratio January—June	32·1	10·9	9·4	47·6	= 100
„ July—December	30·8	16·2	7·9	45·1	= 100
„ Mean of year	31·45	13·55	8·65	46·35	= 100

* Estimated from mean ratio of other banks as above.

Profit and Loss, January, 1879.

Dr.

	Expenses, &c.	Rebate.	Reserve.	Dividends and Carried Forward.	Total.
Alliance	15,466	7,424	—	34,194	57,084
Central	10,483	10,476	2,000	10,044	33,003
City	28,390	7,427	—	33,712	69,529
Consolidated	16,341	5,062	2,675	45,241	69,319
County	161,806	189,693	25,000	152,583	529,082
Imperial	12,186	3,867	5,000	24,031	45,084
Joint	50,445	19,730	8,536	104,377	183,088
London and Westminster	80,134	—	62,878	140,000	283,012
Metropolitan	3,296	598	—	2,841	6,735
National	74,109	—	5,000	94,904	174,013
South Western	17,291	9,745	4,743	7,040	38,819
Union	42,750*	16,863	15,000	105,682	180,295
	512,697	270,885	130,832	754,649	1.669,063
Ratio	30·8	16·2	7·9	45·1	= 100

* Estimated.

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TABLE VIII.

	Bank Rate.	Call Rate.
	£ s. d.	£ s. d.
31st December—30th June	1 6 5 per cnt.	– 15 10 per cnt.
30th June—31st December	2 9 1 „	1 16 10 „
For year............................	3 15 6 per cnt.	2 12 8 per cnt.

Table VIII shows the variations in the average bank rate and call rate for the two half years; and if a mere rule of three sum were applicable, it would appear that if 128,000,000*l.* earn 1,563,000*l.* when the bank rate is at 1*l.* 6*s.* 5*d.*, 120,000,000*l.* ought to earn 2,722,000*l.* when the bank rate is at 2*l.* 9*s.* 1*d.* The actual result is far different, the (so-called) gross profit being 1,669,000*l.* for the second half of the year. As a rule, banks are working closer to the bank rate when money is dear, and the gross profit should therefore be still higher than 2,722,000*l.*; but though it is improbable that over a million sterling was written off for bad and doubtful debts, depreciation of stocks, &c., the discrepancy of the fact from the estimate is not easily explicable.

It appears then that in the two half years the expenses were much the same; the rebate was naturally higher for the second half of the year; and the amount actually divided was equalised by a reduction in the amount carried to reserve. The gross profits for the whole year on the paid-up capital are 29 per cent., while the amount actually divided among the shareholders and carried forward is 13·6 + 2·5 respectively, = 16·1 per cent. on a paid-up capital of 10,962,000*l.*, and 2·6 per cent. on a mean total of liabilities taken at 124,000,000*l.* In the case of English country banks the cost of management, &c., is not always given, and it is not practicable to compare the expense of carrying them on with that of London banks. The ten banks comprised in Table II divided or carried forward during 1878 786,778*l.* = 19·1 per cent. on a paid-up capital of 4,100,000*l.*, or 2 per cent. on total liabilities of 38,000,000*l.* From this it appears that the shareholders of country banks gain a higher return than those of London banks, but that the return on liabilities is smaller in the case of country banks in nearly a similar degree. It will be borne in mind that the ratio of capital to liabilities is in London banks 8·7 per cent. against 10·75 in country banks. The Scotch and Irish banks yield 14·3 and 15·3 per cent. respectively on their capital, and their net profits on liabilities is also smaller. The four groups of banks taken together show an

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average net profit of 16 per cent. on their capital and 2 per cent. on their total liabilities, and as the amount actually available to the proprietors is, in the case of London banks, 46·35 + 8·65 = 55 per cent. of the so-called gross profits (while the expenses of country banks, as far as can be gathered from imperfect data, are rather higher), we may take the net profit, before deducting cost of management, &c., at 4 per cent. on the liabilities, "after allowing for "bad and doubtful debts." But as to this *x* quantity the balance sheets are altogether reticent, and owing to the difficulty of ascertaining the proportion of interest-bearing to non-interest-bearing balances, it is very difficult to estimate it with any degree of confidence: but as the result of a calculation based on data more or less conjectural, it would appear that either the losses are not more than would pay about 2 per cent. into the pockets of the proprietors, or else that the gross profits are much larger in proportion to liabilities than is usually supposed.

TABLE VIIIA.

	Percentage of Gross Profits on Paid Capital.	Percentage of Net Profits on Paid Capital.	Percentage of Net Profits on Liabilities.
London clearing banks	29·0	16·1	2·6
English provincial "	—	19·1	2·0
Scotch banks	—	14·2	1·3
Irish "	—	15·3	1·6

But the effect of any sudden disturbance in banking interests must be looked for, not only in the profit and loss account, but in the market quotation of values, and if we attempt to estimate the degree of intensity of the crisis of 1878 by this standard, we shall find that the disturbance was here much more marked. In Table IX, 1—4, the prices and values of the shares of each bank in the four groups of (1) London clearing banks, (2) English country banks, (3) Scotch banks, (4) Irish banks, at the end of June and the end of December, 1878, are given, the par value of the shares being in each case raised to its equivalent in 100*l.* stock; at the same time the ratio per cent. of the price in December to that of June, the latter being taken at 100, is given in a separate column. In Table X the results of these four tables are brought together and summarised.

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TABLE IX-1.—*London Joint Stock Clearing Banks.*

	Paid up Capital. [000's omitted.]	Price, 29th June, 1878.	Value, 29th June [000's omitted.]	Price, 28th Dec., 1878.	Value, 28th Dec., [000's omitted.]	Comparative Values. June 29.	Comparative Values. Dec. 28.
Alliance, Limited........	800,	125	1,000,	98¾	790,	100	79·00
Central ,, ...	100,	175	175,	170	170,	100	97·14
City	600,	177½	1,065,	125	750,	100	70·42
Consolidated, Limited	800,	193	1,544,	162½	1,300,	100	84·19
County	1,500,	333¾	5,006,	253¾	3,806,	100	76·03
Imperial, Limited	675,	120	810,	108⅓	731,	100	90·24
Joint Stock	1,200,	326⅔	3,920,	268⅓	3,220,	100	82·14
London and Westminster	2,000,	326¼	6,525,	247½	4,950,	100	76·86
Metropolitan, Limited	192,	43	82,	39⅜	75,	100	90·24
National	1,500,	251⅔	3,765,	223	3,345,	100	88·84
National Provincial	420,	442¾	1,860,	328½	1,379,	100	74·75
	1,267,	431¼	5,463,	325	4,117,		
South Western, Lim.	200,	140	280,	110	220,	100	78·57
Union	1,395,	282⅕	3,936,	223⅓	3,115,	100	79·14
	—	—	35,431,	—	27,968,	100	78·93

TABLE IX-2.—*English Provincial Banks.*

	Paid-up Capital. [000's omitted.]	Price, 29th June, 1878.	Value, 29th June, [000's omitted.]	Price, 28th Dec., 1878.	Value, 28th Dec. [000's omitted.]	Comparative Values. June 29.	Comparative Values. Dec. 28.
Birmingham Joint Stock, Limited	297,	342½	1,017,	325	965,	100	97·08
Bradford Old Bank, L.	425,	307½	1,306,	312½	1,328,	100	101·62
Cumberland Union, L.	225,	334	751,	360	810,	100	107·85
Liverpool Union	600,	177½	1,065,	145	870,	100	81·97
Lloyd's Banking Company, Limited	440,	337½	1,485,	284⅜	1,251,	100	84·24
Manchester and County, Limited	660,	275⅕	1,816,	243⅓	1,605,	100	88·38
North and South Wales	500,	335	1,675,	300	1,500,	100	89·55
Parr's Banking Company, Limited	393,*	310	1,218,	305	1,198,	100	98·38
Wilts and Dorset Bank	300,	430	1,290,	415	1,245,	100	96·51
Yorkshire Banking Co.	250,	410	1,025,	304	760,	100	74·14
	—	—	12,648,	—	11,532,	100	91·17

* 3,515 shares at 30*l*., issued December, 1878.

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TABLE IX-3.—*Scotch Banks.*

	Paid-up Capital. [000's omitted.]	Price, 29th June, 1878.	Value. [000's omitted.]	Price 28th Dec., 1878.	Value. [000's omitted.]	Comparative Values. June 29.	Comparative Values. Dec. 28.
Bank of Scotland........	1,250,	325	4,062,	276	3,450,	100	84·92
British Linen Company Bank	1,000,	311	3,110,	245	2,450,	100	78·77
Clydesdale Banking Company	1,000,	275½	2,755,	166	1,660,	100	60·25
Commercial Bank of Scotland	1,000,	325	3,250,	240	2,400,	100	73·84
National Bank of Scotland	1,000,	319	3,190,	262	2,620,	100	82·13
Royal Bank of Scotland	2,000,	231	4,620,	193	3,860,	100	83·54
Union Bank of Scotland	1,000	269	2,690,	175	1,750,	100	65·05
	—	—	23,677,	—	18,190,	100	76·82

TABLE IX-4.—*Irish Banks.*

	Paid-up Capital. [000's omitted.]	Price, 29th June, 1878.	Value. [000's omitted.]	Price, 28th Dec., 1878.	Value. [000's omitted.]	Comparative Values. June 29.	Comparative Values. Dec. 28.
Hibernian Joint Stock Bank	500,	254½	1,272,	196	980,	100	77·01
Munster Banking Company, Limited	350,	269½	943,	232	812,	100	86·08
Royal Bank of Ireland	300,	335	1,005,	302½	907,	100	90·29
Ulster Banking Company	300,	480	1,440,	405	1,215,	100	84·37
	—	—	4,660,	—	3,914,	100	83·99

TABLE X.—*Showing the Depreciation in the Cash Value of Bank Shares, from* 29*th June to* 28*th December*, 1878.

	Value, 29th June, 1878. [000's omitted.]	Value, 28th Dec., 1878. [000's omitted.]	Loss. [000's omitted.]	Value, 29th June.	Value, 28th Dec.
London clearing banks	35,431,	27,968,	7,463,	100	78·93
English provincial „	12,648,	11,532,	1,116,	100	91·17
Scotch banks	23,677,	18,190,	5,487,	100	76·82
Irish „	4,660,	3,914,	746,	100	83·99
	76,416,	61,604,	14,812,	100	82·73

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From these tables it appears that there has been in all cases, except in those of two English provincial banks, a serious depreciation in value, viz. :—

	Per Cent.		£
London clearing banks	21·07	=	7,463,000
English provincial „	8·83	=	1,116,000
Scotch banks	23·18	=	5,487,000
Irish „	16·01	=	746,000

and if we apply these ratios to the whole amount of capital invested in banks in the United Kingdom, we shall find that the loss stands thus :—

	Paid Capital.	Depreciation.
	£	£
English banks	48,313,000	22,244,000
Scotch „ (exclusive of City of Glasgow Bank)	12,538,000	8,358,000
Irish banks	6,809,000	3,503,000
	67,660,000	34,105,000

in other words, the crisis of 1878 cost the proprietors of bank shares rather more than half of their paid-up capital.

There can be no doubt that the almost incredible story of mismanagement revealed by the failure of the City of Glasgow Bank was to some extent the cause of this great depreciation; the practice of banking in Scotland had always been held up as a pattern, and if such things were possible under it, none could be safe, and the values of Scotch bank shares accordingly show the heaviest fall; there was also the fear lest a great part of the vast losses of that bank might fall on others, and cause, if not embarrassment or failure, at least reduced dividends, and as the London banks may have been, and were assumed to hold a large quantity of the acceptances of the City of Glasgow Bank or of firms which collapsed with it, their shares fell more heavily than those of English country banks. Further, there must have been, in some instances, a choice to needy shareholders between borrowing on and selling their shares, and the unwillingness of banks to make such advances must have thrown forced sales on a market already unfavourable. But there was yet another very powerful influence at work, which probably had more weight than any other; the utter ruin which had fallen on the proprietors of the City of Glasgow Bank terrified all who held shares in unlimited companies, whether on their own account or as executors or trustees, and all were alike anxious to obtain release from so overwhelming a responsibility. A mere oversight in accepting as security four shares of the City of Glasgow Bank

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dragged down the Caledonian Bank with the former, and there appeared to be no safety under any circumstances for the holder of shares in an unlimited company.

That this was the case is clearly shown by separating the limited from the unlimited banks, as is done in the following tables, from which we shall see at once that not only was the fall greater in every group of unlimited banks, but that it is the strongest and most powerful banks, and conspicuously so in the case of the London banks, that have undergone the greatest depreciation. The same rule applies to the English country banks, though the number of those compared is rather small for drawing a general conclusion, and local influences may, in the case of country banks, bring disturbing forces into the calculation. The heaviest fall is in Scotch banks, and this we should naturally expect.

TABLE XI-1.—*London Joint Stock Clearing Banks.*

Limited.	Variation per Cent.	Unlimited.	Variation per Cent.
South Western	– 21·43	City	– 29·58
Alliance	– 21·0	National Provincial	– 25·25
Consolidated	– 15·81	County	– 23·97
Imperial	– 9·76	London and Westminster	– 23·14
Metropolitan	– 9·76	Union	– 20·86
Central	– 2·86	Joint Stock	– 17·86
		National	– 11·16
Mean	– 13·44	Mean	– 21·69

TABLE XI-2.—*English Provincial Banks.*

Limited.	Variation per Cent.	Unlimited.	Variation per Cent.
Cumberland Union*	+ 7·85	Yorkshire Banking Company*	– 25·86
Bradford Old Bank*	+ 1·62		
Lloyd's Banking Company	– 15·76	Liverpool Union	– 18·03
Manchester and County	– 11·62	North and South Wales*	– 10·45
Birmingham Joint Stock	– 2·92	Wilts and Dorset*	– 3·49
Parr's Banking Company	– 1·62		
Mean	– 3·64	Mean	– 14·46

* Banks of issue.

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TABLE XI-3.—*Scotch Banks.*

Unlimited.	Variation per Cent.
Clydesdale Banking Company	− 39·75
Union of Scotland	− 34·95
Commercial of Scotland	− 26·16
British Linen Company Bank, Chartered *	− 21·23
National of Scotland	− 17·87
Royal " Chartered *	− 16·46
Bank " " *	− 15·08
Mean	− 24·50

TABLE XI-4.—*Irish Banks.*

Limited.	Variation per Cent.	Unlimited.	Variation per Cent.
		Hibernian Bank	− 22·99
Munster Banking Company	− 13·92	Ulster "	− 15·63
		Royal "	− 9·76
		Mean	− 16·11

TABLE XI-5.—*Summary.*

	Variation per Cent.	
	Limited.	Unlimited.
London clearing banks	− 13·44	− 21·69
English provincial "	− 3·64	− 14·46
Scotch banks	—	− 24·50
Irish "	− 13·92	− 16·11
Mean	− 10·33	− 19·19

II.

It will be well before going any further, to compare the effects of the panic of 1866 with that of 1878, to endeavour to ascertain whether the facts of the two periods show any points of agreement, difference, or concomitant variations on which an inference can be based. For this purpose Tables XII (1—2) have been drawn up in order to compare the value of bank shares in groups of London and country banks, and the amount of their liabilities to the public before and after the panic of 1866; the irregularity of the returns of Scotch and Irish banks, as before, preclude comparison.

* The exact liability of the chartered Scotch banks is undetermined; they "believe themselves to be limited."

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TABLE XII–1.

	31st December, 1865.			30th June, 1866.			Variations per Cent., Price of, 31st Dec., 1865. = 100.	Liabilities to Public. [000's omitted.]		Variations per Cent. Deposits 31st Dec. 1865. = 100.
	Paid-up Capital. [000's omitted.]	Price.	Value. [000's omitted.]	Paid-up Capital. [000's omitted.]	Price.	Value. [000's omitted.]		Dec. 31, 1865.	June 30, 1866.	
Alliance, Limited	985,	116	1,142,	989,	88	870,	− 24·14	2,504,	1,636,	− 34·67
(Central) East London, Limited	100,	100	100,	100,	60	60,	− 40·0	447,	384,	− 14·10
Consolidated, Lim.	600,	262½	1,575,	600,	93¾	562,	− 64·32	3,818,	3,587,	− 6·06
Imperial, „	448,	147½	660,	448,	125	560,	− 15·26	1,543,	1,234,	− 20·03
Metropolitan, „	337,	90	303,	337,	72½	244,	− 19·48	860,	469,	− 45·47
South Western, „	200,	100	200,	200,	80	160,	− 20·0	577,	461,	− 20·11
	—	—	—	—	—	—	− 30·60	9,749,	7,771,	—
City	500,	224	1,120,	500,	160	800,	− 28·58	4,859,	5,408,	+ 11·29
County	750,	400	3,000,	750,	330	2,475,	− 17·50	12,851,	12,750,	− 0·79
Joint Stock	1,080,	340	3,672,	1,080,	293⅓	3,167,	− 13·74	18,215,	18,764,	+ 3·01
London and Westminster	1,000,	483¾	4,837,	1,000,	460	4,600,	− 4·91	20,779,	22,298,	+ 7·31
National	1,500,	263⅓	3,949,	1,500,	221⅔	3,324,	− 15·83	8,250,	7,514,	− 10·93
National Provincial	420,	362	1,520,	420,	352½	1,480,	− 2·63	—	—	—
	660,	375	2,475,	660,	341⅔	2,254,	− 8·90			
Union	1,200,	363½	4,362,	1,200,	281¼	3,375,	− 22·60	17,794,	19,424,	+ 9·12
	—	—	28,915,	—	—	23,931, − 18·00	− 14·31	94,497,	93,929, − 0·61	— —

TABLE XII–2.

	31st December, 1865.			30th June, 1866.			Variations, Price, 31st Dec., 1865. = 100.	Liabilities to Public.		
	Paid-up Capital. [000's omitted.]	Price.	Value. [000's omitted.]	Paid-up Capital. [000's omitted.]	Price.	Value. [000's omitted.]		Dec. 31, 1865. [000's omitted.]	June 30, 1866. [000's omitted.]	Variations, Deposits, 31st Dec., = 100.
Birmingham Joint Stock Bank, L.	203,	380	771,	203,	365	740,	− 4·03	1,107,	1,119,	+ 1·07
Bradford Old Bank, L	187,	144	269,	384,	134	514,	− 6·95	862,	763,	− 11·49
Cumberland Union, Limited	225,	296	666,	225,	292	657,	− 1·33	1,029,	1,088,	+ 5·73
Lloyd's Banking Company, Lim.	143,	290	362,	176,	285	501,	− 1·73	1,166,	1,508,	+ 29·33
Manchester and County, Limited	491,	133	653,	598,	115	687,	− 13·54	1,988,	2,272,	+ 14·28
Parr's Banking Company, Lim.	100,	155	155,	100,	150	150,	− 3·23	906,	*903,	− 0·40
Liverpool Union........	450,	170	765,	450,	155	697,	− 8·83	1,900,	1,550,	− 18·43
North and South Wales Bank	300,	240	720,	300,	240	720,	Nil	not pub	then lished	—
Wilts and Dorset	200,	320	640,	200,	320	640,	Nil	1,674,	*1,870,	+ 11·70
Yorkshire Banking Company	210,	266	558,	210,	266	558,	Nil	1,374,	1,377,	+ 0·21
	—	—	—	—	—	—	—	12,006,	12,450,	—

* 31st December, 1866, accounts annual.

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It must be borne in mind that the panics of 1866 and 1878 were preceded by a condition of things in some respects dissimilar. The average bank rate for the period preceding 1866 was much higher than for the period preceding 1878. If we take the five antecedent years in each case we have the following averages :—

Bank Rate.

	£	s.	d.		£	s.	d.
1862	2	10	6	1874	3	13	2
'63	4	8	4	'75	3	5	6
'64	7	7	7	'76	2	12	6¾
'65	4	15	1¼	'77	2	18	–½
'66	6	19	9	'78	3	15	2½
Average = 100	5	2	3	Average = 63·48	3	4	10¾

But at the same time, 1866 terminated a period of inflation in the way of credit and finance companies, amalgamation and conversion of banks and companies, and witnessed, but unfortunately did not terminate, the system of lavish lending to foreign Governments. 1878 came after, but did not bring to a close a long period of contraction and depression, of losses in trade and agriculture, of vanishing into air of capital lent to foreign nations, and of a general shrinkage in values and wages. On the other hand, the two panics occurred at more or less the same relative periods of the half-year, when the ordinary requirements of the country are in many points the same. It must also be borne in mind that we are only able to compare the cases of those who, in some fashion, weathered the storm. No London Joint stock bank failed in 1878, but in 1866 the Agra and Masterman's Bank, the Bank of London, the European Bank, and the English Joint Stock Bank went down, and so for a brief period did the Consolidated Bank. Yet no disaster compared to the failure of the City of Glasgow Bank occurred in 1866 to raise a panic among shareholders, and it is not therefore surprising that, while there was a general fall in the value of London bank shares, there is not the conspicuous difference between the depreciation of limited and unlimited bank shares that we notice in 1878. Each case appears to have been judged on its merits, or more correctly speaking, on its assumed demerits. It is also to be noticed that whereas in 1878 there was a general fall in the liabilities to the public of these same banks to the amount of not less than 10,665,000*l.*, in 1866 it was principally the smaller limited banks that lost their deposits, while the stronger unlimited banks increased their deposits, so as to absorb almost the whole of the deficiency, and so the deposits of all the London banks taken together only fell off 568,000*l.* or 0·61 per cent.

It is less easy to compare the group of country banks, for whereas in the case of the London banks there was only in one case, the Alliance Bank, a merely nominal increase of paid-up

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capital, there was in the case of the country banks in several instances a considerable increase under this head, whereby the estimation of the bank may have been affected; it has also been pointed out by those who have kindly supplied information as to some of these country banks, that their balances are affected by periodical demands that do not always coincide in point of time in agricultural, manufacturing, or exporting centres. And the difficulty is as before increased by the irregularity in point of date of the returns, yet even after making allowance for the cases where the balance sheet was not published until the end of the year, when the storm was fairly over, we see that the deposits increased in amount. Comparing the deposits at the two periods the account stands thus :—

	1878.	1866.
	£	£
Liabilities to public of selected group of English country banks (first period)	31,889,000	12,006,000
Deduct North and South Wales Bank, balance not published in 1866	4,943,000	—
	26,946,000	—
Liabilities at second period	27,134,000	12,450,000
Increase	188,000	344,000
	20·69	=3·69

Perhaps the most remarkable feature in this table is the great increase in the business of the country banks during the twelve years; it is relatively much larger than in the case of the London banks; the deposits of the latter at December 1878, are to those of June 1866, as 111·27 to 100; those of the country banks are as 250·99 to 100. The fall in value of the shares in 1866 was less than in 1878, and in both cases less serious than that of the London banks.

A comparison of the balance-sheets of the Bank of England before and after the panics of 1866 and 1878 (Tables V and VA) shows that very much the same effect was produced on each occasion; in the former the total rose between December 1865, and June 1866, from 39,989,000*l.* to 47,450,000*l.*, or nearly 7 millions and a-half, in 1878 from 47,777,000*l.* to 51,484,000*l.*, or 3,700,000*l.* This rise is more than accounted for by a rise in "other deposits" of more than 7 millions and a-half in 1866, and of nearly 6 millions in 1878, or of 10·98 per cent. and 8·2 per cent. respectively to total liabilities. On the credit side the "other securities" show an increase in 1866 of over 8 millions, in 1878 of over 7 millions, or of 8·71 per cent. and 10·9 per cent. to total assets. This increased accommodation afforded in times of pressure by the Bank of England is of course obtained by trenching on the

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reserve of notes in the till; but it is also facilitated by the rise in the balances, especially those of the bankers, at the Bank of England; legitimate borrowers will not be denied, and they thus merely borrow through the Bank of England at second hand from their own bankers. In this way the wide-spread and eager desire to obtain the *command* of bank notes (and a modern panic is nothing else) is satisfied; it must not be forgotten by those who view with alarm our vast inverted pyramid of credit balanced on an apex of gold, that since the Bank Act of 1844 there has never been a gold panic; in such a case the suspension of the Act should intensify the panic, as a matter of fact in 1866 this step at once allayed it.

The comparative value of bank stock before and after the panics of 1866 and 1878 was as follows :—

30th Dec., 1865	246	—	29th June, 1878....	258	—
30th June, '66	240	– 2·44 pr. cnt.	31st Dec., '78....	250½	– 3·10 pr. cnt.

It may perhaps be thought that the present paper is incomplete if it does not include some inquiry into the conditions of colonial, and especially of Indian and China banks; but in view of the fact that these have dealings in many cases of a mercantile rather than of what is held to be a strictly banking character, and that they could hardly be discussed without bringing forward the question of the depreciation of silver and the irrepressible Rupee, which has so lately occupied the attention of the Society, it will perhaps be pardonable to have left this investigation altogether on one side.

III.

In the foregoing tables, and the remarks which have already been made upon them, an attempt has been made, though it may be feared but imperfectly, to lay before the Society some of the more salient features of two different aspects that have recently been presented by the banks of the United Kingdom; but as we were reminded in the inaugural address of our President in 1877, the object of our Association " does not consist in the mere collection of " aggregate facts," but it is " one of the first duties of this Society " to select those subjects for its investigation and discussion, which " are of present interest to the public, or which in the near future " are likely to be dealt with; to apply to them the most rigid " examination of the surrounding facts; to test theories by verifi- " cation from every possible quarter; to lay bare with unflinching " severity any fallacies, which are too certain to be attendant on " such discussion, and to supply methods of comparison by example " or difference, which may tend to elucidate the bearing of proposed " measures."

The subject matter of the present paper may fairly claim to satisfy the above definition, and any inferences which may be

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deducible therefrom should point to some practical end, rather than to a mere discussion of theories, of which, in questions of currency, finance, and banking, there is no lack. Yet, to the question: What do these figures prove? what is the moral of them? it is not easy to give an answer. The present investigation was not begun with the object of supporting any preconceived theory, nor has public opinion pointed definitely in any one direction in the way of proposed banking legislation. The culpable mismanagement of the City of Glasgow Bank, and the vast amount of misery caused thereby to many innocent persons, caused a general exclamation that something must be done; what that something should be no one was prepared to say, and save a very futile proposal to restrict banking business, nothing has as yet been accomplished.*

The weak points in the present system of banking, the vulnerable joints in the harness, seem referable to two classes: (1) those which are matters of management and discretion, and (2) those which may be made matters for legislation. Of the first class the principal are the subjects of allowance of interest on deposits, acceptances by banks, the proportion of reserves to liabilities, and what should be the nature of such reserves; of the second class are the questions of liability of shareholders, the issue of bank notes, the form of balance sheets, whether such balance sheets should be compulsory or not, and audit.

If we reflect on the historical, one might almost say the archæological origin of banking business, some of these points will prove to hang more together than they appear to do at the present stage of its development. A little over two hundred years ago the "goldsmith" had hardly begun to develop into the banker,† and the ever hungry exchequer was the natural place of deposit for spare cash, at interest "on tallies." But the temporary confiscation by Charles I of the bullion in the Tower (see "Pepy's Diary," 17th August, 1666), or later on, the closing of the exchequer by Charles II, 1st January, 1672, probably convinced many people that their money was as safe in the hands of a private as of a royal banker, and in fact it was an argument against a State bank that the temptation to lay hands on its resources might be too strong for the virtue of the crown, an argument which was supported as late as 1833, by Lord Althorp. But it was held remarkable that in Holland, whose political condition was such that this objection to a

* During the composition of this paper the following Bills have been laid before parliament, but not yet discussed:—Joint Stock Banks Audit Act, 1879, Dr. Cameron; Joint Stock Banks Audit Act (Scotland), Mr. McLaren; Banking Amendment Act, 1879, Mr. James Barclay. These sheets were in the press when the Chancellor of the Exchequer moved (22nd April) to bring in his Bill.

† It must be borne in mind that it was only in Henry VIII's reign, 1546, that money-lending at interest was made legal.

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State bank did not hold good, no interest at all was allowed to private depositors. In those days the bankers not only took money at interest, but gave a receipt for it in the shape of a promissory note, payable on demand; if part of the deposit only were required, the face value of the note was reduced, and it went into circulation again.

Some examples of these deposit notes have been kindly supplied by Mr. F. G. Hilton Price, and a specimen runs thus:—

No. *72*. London, *Dec. 5*, 17*34*.

I promise to pay to *Mr. Benj. Tassell or order* on demand *one hundred pounds*____________________

£100	*Mar. 13.*	For S^r Fran^s Child *& Compy.*
50		*Ban^y Back* [*well*].
50		

And it is endorsed with the payment of 20*l.* or 30*l.* on different dates. But it is not certain that in those days a goldsmith's issue was equal to his deposits, since cheques were used at the same period.

It was a very simple improvement to turn such a promissory note into a number of smaller ones, and so to create bank notes; it is therefore evident that the practice of issuing bank notes and of allowing interest on deposits is coeval with banking itself; it was in a subsequent stage of development that bank notes were used (especially in Scotland) as a means of making advances, increasing the business of a bank. But it is also evident that as soon as the voucher, whether it be called deposit note or bank note, passes into third hands the nature of the operation is changed, and every holder becomes practically a depositor in the issuing bank. It may be said that no one is forced to take a non-legal-tender note; but in practice it will probably be found that those who can least afford the loss will be those who are least in a position to decline taking a local note, and there is therefore much to be said in favour of ensuring its convertibility, either by causing to be held against it either bullion or security, or by making it a first charge on assets. The question of local issues has been fully discussed before this Society by Mr. Dun, and little remains to be said on it. The crisis of 1878 did not bring the subject prominently before the public, but the combined action of some of the Scotch banks in the matter of the notes of the City of Glasgow Bank was evidently taken as a measure of self-defence by restoring confidence as to their own notes, and so staving off a possible panic; yet the result of this action proved that even in Scotland, where Bank of England notes are not legal

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tender, the position of the bank note was not clearly defined, or at any rate generally understood, and many probably learnt for the first time that the excess of circulation over the authorised limit was not preferentially secured by the bullion apparently held against it. In England the position of the local unsecured bank note circulation is altogether illogical, but is accepted as a concession to custom and vested interests, by which so many other indefensible practices obtain their only justification. The principles of free trade are justly held not to apply to "unlimited competition" in banks of issue. The result of this system has been made only too evident in the United States in 1837, as well as in this country; but it is hard to find a sound reason why certain banks, from accident of locality or date of foundation, should exercise a beneficial privilege denied to others of no less credit. If the local issues are held to be a relief to the Bank of England, by furnishing a material portion of the circulation without an annually periodical disturbance of the central reserves, surely this is a broken reed on which to lean, for in time of panic local notes are subject to a centripetal, Bank of England notes to a centrifugal influence, and the ultimate reserve is thus exposed to a compound strain. In smooth times the national pocket-money is made up of coin, Bank of England notes, and local notes; in time of panic the desire to get rid of the last named increases with the difficulty of doing so. Sir Robert Peel was well aware that any shortcomings of our banking system are not to be dealt with by heroic remedies, and he hoped that he had provided for the gradual supersession of local by Bank of England notes; but the process has been slower than he anticipated. That it is progressive is undoubted, as the following figures will show:—

	1842.		1866.		1878.	
		£		£		£
Highest	30th Apr.	8,642,000	13th Jan.	5,827,000	6th Apr.	4,646,000
Lowest	20th Aug.	7,973,000	18th Aug.	4,628,000	21st Dec.	3,909,000
Variation		669,000		1,199,000		737,000

But they also show that the fluctuation is at the worst not very formidable. If local issues could be supplanted by legal-tender notes, the country would necessarily absorb a larger amount of Bank of England notes into its permanent circulation, and every step in this direction or towards increasing the security of local issues cannot fail to be a relief in time of panic.

The subject of local bank notes has been dealt with so recently before this Society by Mr. Palgrave, Mr. Dun, and others, that it

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would be superfluous or impertinent to go further into the question; yet the Tables VII and VIII (in the Appendix), taken in part from the "Bankers' Magazine" of May, 1875, may not be without interest.

From the first of these tables we see that the total notes issued by the Bank of England, and the ratio of notes in actual circulation to the total issue, rise steadily during a crisis, save that the suddenness of the crisis of 1866 caused a drain of bullion, before the 10 per cent. rate took effect, that made the actual circulation assume the alarming ratio of 97·27 per cent. to the total issue. *Pari passu*, the country note circulation contracts, but very slowly and gradually, so that in 1866 the shrinking continued for fully three months after the culminating day of the panic on 10th of May; in 1878 the decline began with the failure of the City of Glasgow Bank, but in view of the successive failures of the West of England Bank, Messrs. Tweedy, Williams, and Co., and the Helston Bank, it is not surprising that the lowest point was touched at the close of the year. It even extended into 1879, the average for January being 13 per cent. below the corrected average for the month, and in February (three weeks) 15 per cent. The second Table, VIII, shows the monthly variations of the English country issue, for an average of thirty years, 1845-74, and for the two panic years of 1866 and 1878, and the last two columns of this table show the deviation from the monthly average after allowing for the invariable expansion that takes place in spring and autumn; here we see that the result of a panic is to contract the local issues about 6 to 7 per cent. some two or three months after the panic has set in. The Scotch circulation actually increased in 1866, probably because Scotch notes were then held to be above suspicion, and were in demand. In 1878 the contraction was very sharp, in spite of the usual autumnal demand in connection with harvest operations. The Irish banks show in either year a similar decline.

The question of interest-bearing deposits is akin to that of bank notes; if a banker be truly defined as "a man who takes care of "other men's money, and lets them have it when they want it," and who, therefore, is nominally liable on demand for the whole of his deposits on current account, he should not be afraid to meet engagements of which he has fixed notice. Like all parts of banking, this is a question of prudence and management, to which, when kept within bounds, it is difficult to give a logical objection; but the modern system is that of gigantic and keenly competitive savings-banks, subject to disturbances the more formidable from the fact that the deposits are in excess of the means of employing them at a profit, and are in greater masses, and are more liable to simultaneous movement. It is not at all improbable that of the deposits of the London Joint stock banks, a considerable

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portion was transferred between June and December 1878, from deposit to current account, to keep up the margin on advances or to supplement the reduction caused by continual shrinkage in value of produce. But there is no scope for legislation here; the recent ill-considered attempt to fetter by taxation the practice of allowing interest on deposits, very properly collapsed at the first breath of discussion.

If a banker may issue an unsecured promise to pay on demand in the shape of a bank note, it is difficult to say that he may not issue a definite promise to pay on a certain date in the shape of an acceptance; the danger lies in the temptation to go too far, and in the fact that the system of accepting bills must lead to mercantile rather than banking transactions, and that acceptances for the most part are likely to be given against securities not easily convertible into cash. On reference to the accompanying tables, we shall see that the acceptances of the City Bank were to total liabilities in June, 1878, 40 per cent., in December, 45 per cent.; it is not unreasonable to trace a connection between this fact and the appearance of the City Bank in Table XI-1, at the head of the list, with a depreciation of $29\frac{1}{2}$ per cent. in the value of its shares.

The points which have thus far been touched on affect the welfare of the creditors of banks, and it remains to consider very briefly the interests of the proprietors. What are their duties, and what their responsibilities? How far ought they to satisfy themselves as to the good management of the bank in which they are partners, and what should be their liabilities if they fail in business? Then there are the questions of limited against unlimited liability, and of the form of published balance-sheets and audit. The assumption has already been made that balance-sheets, and consequently audits, are drawn up in the interest and for the information of shareholders rather than of creditors, and the events of 1878 have raised a cry for more thorough periodical investigation of a bank's position, and a more rigid valuation by auditors of the value of its assets. But it is difficult to follow out this proposal into actual practice. We may still say, in the words used by Sir Robert Peel (6th May, 1844):—

"I have seen no form of account which would be at all satis-
"factory, no form of account which might not be rendered by a
"bank on the verge of insolvency, if there were the intention to
"conceal a desperate state of affairs."

And so with respect to auditors. These must be, if they are to be efficient, professional accountants chosen by the bank (and this would in a vast majority of cases mean by or at the recommendation of the directors), or, as was more than once suggested in the first shock of dismay caused by the failure of the City of Glasgow Bank, by auditors appointed by Government. The latter course is

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not likely to be adopted, as it would entail the creation of a large Government department, and an army of inspectors, who would be perpetually engaged in the examination of accounts and securities. The Education Department has such inspectors, but our schools are a national affair. The number of those interested in banks as shareholders or depositors is very great, but there is a still greater body who are neither one nor the other, and these would naturally object to being put to expense in the interest of others. Further, though public opinion does not hold the administration of Government affairs to be either perfect or infallible, yet the fact of Government inspection of banks would be very apt to induce a feeling of false confidence, and a complete putting away of personal prudence and inquiry. Audit under Government of a balance-sheet would be equivalent to a hall-mark, and the investor would be apt to hold the Government morally at least responsible should the article prove to be but base metal. It is difficult to believe that any other system of audit would be infallible. If it were required of auditors to weigh and estimate the value of every security in the bankers' safes, they would at once assume a position of superiority to the directors and managers, and would be exposed to very heavy temptations in various ways. There have been fraudulent and reckless directors of Joint stock banks, as undoubtedly to the advantage of joint stock banking there have been fraudulent and reckless private bankers, and it will not be altogether inconceivable by the public that such bankers can find either dishonest or complaisant accountants; unless it be proposed to apply the system of audit in this sense to private as well as Joint stock banks, it is not improbable that it would be favourable to the former, for it is well known that firms of the highest standing prefer to trust implicitly to a private banker rather than to show their transactions to a board of directors of whom one or more is probably in their own line of business, and such would hardly be persuaded to expose their transactions and position, however sound, to greater publicity at the price of an ostensibly greater security. And if private banks are to be subject to audit, one more definition will have to be attempted. We have hardly yet settled—What is a pound? What is money? It will be nearly as hard to say—Who is a banker? If it be a man who has charge of other men's money, or who has lent his money to another, with or without security, the number of London bankers alone will be vastly increased, and a number of firms will find themselves unexpectedly called upon to give an account of their stewardship. Here again, as before, we shall do well to bear in mind the words of Sir Robert Peel in the speech already quoted:—

"I do not wish to pry into the affairs of each bank, and above "all, I deprecate the taking of illusive security. The public will "hereafter know the names of the persons by whom banking

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' business is to be conducted, and the public must rely on their "own caution and discretion as a security against being injured or "defrauded."

These words apply rather to depositors in, and creditors of banks than to proprietors, yet recent events have shown that the injuries done to the creditors are as nothing to the ruin which a disastrous bank failure brings on the shareholders; it is not therefore surprising that of all questions connected with banking reform, that of the liability of shareholders should occupy the first place. Into the ethical questions of their moral responsibility this is not the occasion to enter; it is sufficient to remark that no more sense of responsibility appears to be felt by those who invest their all in bank shares than by those who invest in consols. In such cases a mere call could probably be only met by selling a part of the holding; failure means not only their own ruin, but that of others one degree less poor, who have thought themselves prudent in investing a part only in such securities. To such investors there is no distinction between limited and unlimited responsibility; but on behalf of a more affluent class the events of 1878 have placed the question of limited and unlimited responsibility in the front rank. The arguments on both sides are well known, that unlimited liability means a proprietary of men of straw, that limited liability tends to encourage speculation in risky ventures; that the exemption of trustees from liability would turn all banks alike into banks of limited liability with fully called-up capital, for all shares would stand in the names of trustees, colourably appointed "*ad hoc;*" that if, on the contrary, they be not exempted, all bank shares held in trust will be sold to the undue depreciation of their value; the difficulty of turning an unlimited into a limited bank without prejudice to the rights of creditors; all these points, and many more arising out of them, have lately been, and still are, under strong discussion, and need not be gone over at length. The credit of a bank, whether a private or a Joint stock bank, may be taken to rest on its reputation for prudent management, and failing that, for the possession of a substantial reserve of uncalled capital to make good a deficiency caused by improvidence or misfortune. On the first head, creditors can in either case form some sort of opinion; the style of business which any bank is doing, can be and generally is, known; on the second, though in the case of private banks, in London, at least, the paid-up capital is probably smaller relatively to liabilities than that of Joint stock banks, there is, perhaps, better opportunity of estimating the amount available in case of extreme need. A private banker's fortune appears generally to be appraised with tolerable accuracy, and the records of the Probate Court afford means of checking the calculation from time to time. To

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create a solid intact reserve of capital outside the business must be the aim and object of reform in Joint stock banking; called-up capital is in a sense useless, for in proportion as calls are made there is less to fall back on, and few boards of direction would deem themselves justified in closing a bank until a very considerable portion of the called-up capital was lost. If it be permissible to make a suggestion, some such scheme as the following might be found available, viz., that a bank might have the power to fix its liability at any sum exceeding the amount of its subscribed capital, and that it should have power to make special investments to secure this reserve capital. For instance, if a bank were to start with a capital (and liability limited to the same amount) of a million, of which 300,000*l.* is paid up, it might appropriate a part of profits to a special reserve fund; adding, in fact, as is done by some insurance companies, to paid-up capital, but without the necessity of paying on an increased capital, the large profits which bank shares are expected to yield. The amount of such capital guarantee fund, the full particulars of its investment, and the names of the trustees, should accompany all published balance sheets and official announcements, and the bank should not be at liberty to reduce it except at a general meeting, and with due respect for contracts already subsisting. Let us suppose that in the case above imagined, the bank had in course of years accumulated a reserve fund of 500,000*l.* invested in consols; the proprietors might then be at liberty to announce that their total liability was 1,500,000*l.*, of which 500,000*l.* was secured by investment in the Government funds. If the process went on long enough this reserve fund would reach a point at which it would be unreasonable to increase it further, and the proprietors might then begin to pay themselves back the capital that they originally put in. In course of time it would happen that the reserve, invested in undoubted security, would amount to the whole nominal liability. But in the meantime, it may be said, the dividends will be smaller, and the premium on the shares might be smaller; possibly so, but a bank steadily paying 5 per cent. and daily strengthening its position, whose shares are at par, is better than a bank that pays 15 per cent., and whose shares are at 200 per cent. premium, but whose capital and reserve may be lost and its proprietary unable to meet their liabilities. To make a large profit, and to spend it all, is the modern, but it was not the old-fashioned idea of the employment of banking profits. It may be said that such a scheme may be carried out without an Act of Parliament, and this is quite true, nay, it even constitutes one of its main advantages. The progress and prosperity of a nation has always been found to vary directly with the freedom from Government interference enjoyed by its citizens in their private dealings

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and contracts; and having in England outlived the days of monopolies, patents, and bounties, we should beware, save under urgent necessity, of making any change in the direction of paternal supervision. In matters which directly concern public morals, or where the public is unable to protect itself, we recognise the necessity of Government interference; gambling houses and other places of a distinctly corrupting tendency are, nominally at least, put down by law. Adulterations and weights and measures are, in the interest of a public otherwise unable to protect itself, subject to official inspection, but it may be hoped that banking does not come under either of these categories. There is indeed what may appear to be a partial precedent in the case of friendly societies and insurance companies, both of which may, however, with all due deference, be looked upon as a respectable form of gambling, engaging, as they do, to pay a considerable sum at a period more or less remote, against a small present payment, and depending on a careful calculation of probabilities for the power to carry out their contracts. But in these cases legislation has not gone very far, and its efficiency has as yet scarcely been sufficiently tested.

At the outset of this paper I disclaimed the necessity for any apology in introducing its subject matter; for the manner in which it has been treated I cannot express myself with such confidence: a topic which has been dealt with before this Society by members whose names are well known as carrying weight and authority, and outside it by articles and letters innumerable in magazines and newspapers; a topic which involves questions of the widest and most vital importance to a great commercial nation, can hardly be expected, even in far more able hands, to yield results altogether new or original. But the financial history of this country and of the world shows that there is no royal road to security, wisdom, or perfection; that experience must be bought little by little; and that mankind will not be made either wise or honest by Act of Parliament. A generation ago Mr. Gilbart was of opinion that the institution of Joint stock banks, with numbers of branches, a large proprietary, unlimited responsibility, and a sufficiently numerous board of directors devoted solely to the interests of the bank, had brought about the halcyon days of banking. By the light of the City of Glasgow Bank failure his anticipations serve as a warning of the liability to error of the best informed practical judgment. An attempt to point out the difficulties attendant on any alteration of existing conditions, rather than an advocacy of a bold and spirited policy in dealing with banking affairs, is therefore submitted in all diffidence to the impartial consideration of the Society, in full conviction on the part of the writer of the present paper, that there are many members better qualified to deal with it than himself.

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TABLE I.—*London Joint*

Dr. *Balance Sheets,*

[000's omitted.]

	Capital Paid-up.	Reserve and Profits.	Acceptances, Credits, Rebate, &c.	Deposit and Current Accounts.	Total.
Alliance, Limited	800,	211,	779,	2,272,	4,062,
Central, ,,	100,	29,	—	1,148,	1,277,
City	600,	271,	3,230,	3,922,	8,023,
Consolidated, Limited	800,	223,	80,	2,967,	4,070,
County	1,500,	938,	2,183,	23,612,	28,233,
Imperial, Limited	675,	138,	292,	2,435,	3,540,
Joint	1,200,	670,	13,*	14,681,	16,564,
London and Westminster	2,000,	1,055,	845,†	26,763,	30,663,
Metropolitan, Limited	192,	5,	28,	319,	545,
National	1,500,	{ 130, 107,	1,355,‡ 6,§ }	8,361,	11,459,
South Western, Limited	200,	64,	2,	1,577,	1,843,
Union	1,395,	537,	3,544,	12,544,	18,020,
	10,962,	4,378,	12,358,	100,601,	128,299,
National Provincial‖	1,687,	1,052,	661,	27,259,	30,659,
	12,649,	5,430,	13,019,	127,860,	158,958,
Ratio (omitting Nat. Prov.) Jan.–June	8·5	3·4	9·6	78·5	= 100
Ratio (omitting Nat. Prov.) July–Dec.	8·9	3·7	12·6	74·8	= 100
Mean	8·7	3·55	11·1	76·65	= 100

* Acceptances included in deposits. † Acceptances not included in balance.
‡ Notes. § Acceptances. ‖ Balance taken in May.

Dr. *Balance Sheets,*

[000's omitted.]

	Capital Paid-up.	Reserve and Profits.	Acceptances, Credits, Rebate, &c.	Deposit and Current Accounts.	Total.
Alliance, Limited	800,	219,	617,	1,629,	3,265,
Central, ,,	100,	35,	—	965,	1,100,
City	600,	274,	3,267,	2,872,	7,013,
Consolidated, Limited	800,	227,	182,	2,560,	3,769,
County	1,500,	946,	3,301,	21,475,	27,222,
Imperial, Limited	675,	145,	399,	1,810,	3,029,
Joint	1,200,	682,	19,*	13,850,	15,751,
London and Westminster	2,000,	1,116,	719,†	22,385,	26,220,
Metropolitan, Limited	192,	3,	30,	177,	402,
National	1,500,	{ 140, 100,	1,284,‡ 25,§ }	8,098,	11,147,
South Western, Limited	200,	44,	2,	1,560,	1,806,
Union	1,395,	551,	4,743,	12,555,	19,244,
	10,962,	4,482	14,588,	89,936,	119,968,

* Acceptances included in deposits. † Acceptances not included in balance.
‡ Notes. § Acceptances.

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Stock Clearing Banks.

30*th June*, 1878. *Cr.*

[000's omitted.]

Cash in Hand and at Call.	Government Stocks, &c., when Stated Separately.	Bills, Loans, and Other Securities.	Total.	Subscribed Capital.	
642,	184,	3,236,	4,062,	2,000,	Alliance, Limited
449,	61,	767,	1,277,	200,	Central,
1,167,	308,	6,548,	8,023,	1,200,	City
1,130,	258,	2,681,	4,070,	2,000,	Consolidated, Limited
5,512,	3,120,	19,601,	28,233,	3,750,	County
1,002.	162,	2,376,	3,540,	2,250,	Imperial, Limited
1,607,	1,080,	13,878,	16,564,	4,000,	Joint
3,981,	3,999,	22,683,	30,663,	10,000,	London and Westminster
65,	5,	475,	545,	260,	Metropolitan, Limited
2,149,	925,	8,385,	11,459,	2,500,	National
429,	103,	1,311,	1,843,	1,000,	South Western, Limited
4,660,	2,590,	10,770,	18,020,	4,500,	Union
22,793,	12,795,	92,711,	128,299,	33,661,	
4,772,	7,646,	18,241,	30,659,	3,112,	National Provincial
27,565,	20,441,	110,952,	158,958,	36,773,	
17·7	9·9	72·4	= 100	—	Jan.–June } Ratio (omitting Nat. Prov.)
19·5	9·7	70·8	= 100	—	July–Dec. } Ratio (omitting Nat. Prov.)
18·6	9·8	71·6	= 100	—	Mean

31*st December*, 1878. *Cr.*

[000's omitted.]

Cash in Hand and at Call.	Government Stocks, &c., when Stated Separately.	Bills, Loans, and Other Securities.	Total.	Subscribed Capital.	
554,	183,	2,528,	3,265,		Alliance, Limited
289,	61,	750,	1,100,		Central, ,,
725,	122,	6,166,	7,013,		City
666,	390,	2,713,	3,769,		Consolidated, Limited
5,480,	3,336,	18,406,	27,222,		County
518,	128,	2,383,	3,029.		Imperial, Limited
1,862,	1,080,	12,809,	15,751,		Joint
5,102,	3,198,	17,920,	26,220,		London and Westminster
48,	4,	350,	402,		Metropolitan, Limited
2,210,	1,205,	7,732,	11,147,		National
515,	188,	1,103,	1,806,		South Western, Limited
5,354,	1,685,	12,205,	19,244,		Union
23,323,	11,580,	85,065,	119,968,		

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TABLE II.—*English*

Dr. *Balance Sheets,*

[000's omitted.]

	Capital Paid-up.	Reserve, Dividends, and Undivided Profits.	Notes, Acceptances, Rebate, &c.	Deposit and Current Accounts.	Total.
Birmingham Joint Stock Bank, Limited	297,	407,	2,	1,653,	2,359,*
Bradford Old Bank, Limited	425,	138,	3,	1,868,	2,434,*
Cumberland Union, "	225,	116,	34,	1,739,	2,114,*
Liverpool Union	600,	237,	282,	2,242,	3,361,
Lloyd's Banking Company, Lim.	440,	300,	—	5,454,	6,194,
Manchester and County, Lim.	660,	479,	11,	4,543,	5,693,
North and South Wales	500,	263,	141,	4,943,	5,847,*
Parr's Banking Company, Lim.	393,	238,	32,	2,607,	3,270,*
Wilts and Dorset Banking Company	300,	328,	164,	3,589,	4,381,*
Yorkshire Banking Company	250,	143,	133,	2,449,	2,975,
	4,090,	2,649,	802,	31,087,	38,628,
Ratio, Jan.–June	10·6	6·9	2·1	80·4	= 100
" July–Dec.	10·9	7·0	2·1	80·0	= 100
" Mean of year	10·75	6·95	2·1	80·2	= 100

* "Economist," 19th May, balance of

Dr. *Balance Sheets,*

[000's omitted.]

	Capital Paid-up.	Reserve, Dividends, and Undivided Profits.	Notes, Acceptances, Rebate, &c.	Deposit and Current Accounts.	Total.
Birmingham Joint Stock Bank, Limited	297,	410,	2,	1,682,	2,391,
Bradford Old Bank, Limited	425,	142,	3,	1,836,	2,406,
Cumberland Union "	225,	124,	33,	1,769,	2,151,
Liverpool Union	600,	286,	339,	2,201,	3,426,
Lloyd's Banking Company, Lim.	440,	351,	—	4,958,	5,749,
Manchester and County, Lim.	660,	480,	14,	5,003,	6,157,
North and South Wales	500,	267,	150,	4,165,	5,082,
Parr's Banking Company, Lim.	492,	250,	31,	3,052,	3,825,
Wilts and Dorset Banking Company	300,	341,	111,	3,578,	4,330,
Yorkshire Banking Company	250,	70,	123,	2,399,	2,842,
	4,189,	2,721,	806,	30,643,	38,359,

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Provincial Banks.

30*th June*, 1878. *Cr.*

[000's omitted.]

Cash and at Call.	Government Stocks, &c.	Bills Discounted, Loans, Overdraughts, &c.	Total.	Subscribed Capital.	
119,	395,	1,845,	2,359,	2,968,	Birmingham Joint Stock Bank, Limited
609,	24,	1,801,	2,434,	1,061,	Bradford Old Bank, Limited
206,	90,	1,818,	2,114,	540,	Cumberland Union, ,,
803,	—	2,558,	3,361,	600,	Liverpool Union
689,	684,	4,821,	6,194,	2,750,	Lloyd's Banking Company, L.
—	142,	5,551,	5,693,	4,400,	Manchester and County, Lim.
1,550,	511,	3,786,	5,847,	500,	North and South Wales
605,	351,	2,314,	3,270,	1,964,	Parr's Banking Company, Lim.
434,	1,824,	2,123,	4,381,	450,	Wilts and Dorset Banking Company
700,	100,	2,175,	2,975,	500,	Yorkshire Banking Company
5,715,	4,121,	28,792,	38,628,	15,733,	
15·2	10·7	74·1	= 100	—	Ratio, Jan–June
15·7	8·0	76·3	= 100	—	,, July–Dec.
15·45	9·35	75·2	= 100	—	,, Mean of year

31st December, 1877: no later figures obtainable.

31*st December*, 1878. *Cr.*

[000's omitted.]

Cash and at Call.	Government Stocks, &c.	Bills Discounted, Loans, Overdraughts, &c.	Total.	Subscribed Capital.	
182,	400,	1,809,	2,391,		Birmingham Joint Stock Bank, Limited
703,	24,	1,679,	2,406,		Bradford Old Bank, Limited
189,	90,	1,872,	2,151,		Cumberland Union ,,
900,	—	2,526,	3,426,		Liverpool Union
714,	484,	4,551,	5,749,		Lloyd's Banking Company, L.
—	153,	6,004,	6,157,		Manchester and County, Lim.
1,188,	431,	3,463,	5,082,		North and South Wales
732,	128,	2,965,	3,825,		Parr's Banking Company, Lim.
722,	1,289,	2,319,	4,330,		Wilts and Dorset Banking Company
691,	100,	2,051,	2,842,		Yorkshire Banking Company
6,021,	3,099	29,239,	38,359,		

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TABLE III.—*Scotch*

Dr. [000's omitted.] *Balance Sheets,*

	Capital Paid.*	Reserve, &c.	Acceptances.	Deposits.	Notes.	Total.
Bank of Scotland (Chartered)	1,250,	855,	2,362,	10,509,	604,	15,580,
British Linen Company Bank (Chartered)	1.000,	572.	562,	7,456,	552,	10,142,
Clydesdale Banking Company	1,000,	648.	628,	6,625,	646,	9,547,
Commercial Bank of Scotland	1,000,	509.	446,	9,198,	839,	11,992,
National Bank of Scotland	1,000,	663,	1,687,	11,058,	660,	15,068,
Royal Bank of Scotland (Chartered)	2,000,	633,	604,	10,549,	739,	14,525,
Union Bank of Scotland	1,000,	471,	397,	8,958,	791,	11,617,
	8,250,	4,351,	6,686,	64,353,	4,831,	88,471,

* Capital

Dr [000's omitted.] *Balance Sheets,*

	Capital Paid.	Reserve, &c.	Acceptances.	Deposits.	Notes.	Total.
Bank of Scotland	1,250,	852,	1,958,	11,799,	704,	16,563,
British Linen Company Bank*	—	—	—	—	—	—
Clydesdale Banking Company	1.000,	630,	511,	6,318,	628,	9,087,
Commercial Bank of Scotland	1,000,	499,	368,	8,643,	858,	11,368,
National "	1,000,	672,	1,689,	10,559,	769,	14,689,
Royal "	2,000,	810,	731,	9,910,	701,	14,152,
Union "	1,000,	472,	226,	8,567,	761,	11,026,
	—	—	—	—	—	—

* Balance sheet not

TABLE IV.—*Irish*

Dr. [000's omitted.] *Balance Sheets,*

	Capital Paid.	Reserve, &c.	Acceptances.	Notes.	Deposits.	Total.
Hibernian Joint Stock	500,	293,	—	—	2,209,	3,002,
Munster Banking Company, L.	350,	247,	34,	—	2,831,	3,462,
Royal Bank of Ireland	300,	239,	39,	—	1,826,	2,399,
Ulster Banking Company	300,	358,	6,	622,	3,514,	4,800,
	1,450,	1,137,	79,	622,	10,375,	13,663,

Dr. [000's omitted.] *Balance Sheets,*

	Capital Paid.	Reserve, &c.	Acceptances.	Notes.	Deposits.	Total.
Hibernian Joint Stock	500,	292,	—	—	2,081,	2,873,
Munster Banking Company	350,	267,	35,	—	2,686,	3,338,
Royal Bank of Ireland	—	—	—	—	—	—
Ulster Banking Company	—	—	—	—	—	—
	—	—	—	—	—	—

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Banks.

1st *July*, 1878. [000's omitted.] *Cr.*

Cash.	At Call, Government Stocks, &c.	Other Securities.	Total.		
465,	3,554,	1[illegible]561,	15,580,	28th Feb., 1878	Bank of Scotland (Chartered)
35[illegible]	2,211,	7,574,	10,142,	15th April, '78	British Linen Company Bank (Chartered)
1,075,	1,088,	7,384,	9,547,	31st Dec., '77	Clydesdale Banking Company
786,	2,731,	8,475,	11,992,	31st Oct., '77	Commercial Bank of Scotland
681,	3,296,	11,091,	15,068,	1st Nov., '77	National Bank of Scotland
[illegible]49,	2,946,	10,8[illegible]0,	14,525,	21st Sept., '[illegible]7	Royal Bank of Scotland (Chartered)
645,	2,649,	8,323,	11,617,	2nd April '78	Union Bank of Scotland
4,758,	18,475,	65,238,	88,471,		

all paid.

1st *January*, 1879. [000's omitted.] *Cr.*

Cash.	At Call, Government Stocks, &c	Other Securities.	Total.		
587,	3,063,	12,913,	16,563,	28th Feb., 1879	Bank of Scotland
—	—	—	—	15th April, '79	British Linen Company Bank
925,	1,090,	7,072,	9,087,	31st Dec., '78	Clydesdale Banking Company
863,	1,308,	9,197,	11,368,	31st Oct., '78	Commercial Bank of Scotland
706,	2,471,	11,512,	14,689,	1st Nov., '78	National „
732,	2,169,	11,251,	14,152,	20th Sept., '78	Royal „
561,	1,860,	8,605,	11,026,	2nd April, '79	Union „
—	—	—	—		

published until June.

Banks.

1st *July*, 1878. [000's omitted.] *Cr*

Cash and at Call.	Government Stocks, &c.	Other Securities.	Total.	Subscribed Capital.	
330,	with cash	2,672,	3,002,	2,000, 31st Oct., 1877	Hibernian Joint Stock
224,	286,	2,952,	3,462,	1,000, 29th June, '78	Munster Banking Company, L.
587,	with cash	1,812,	2,399,	1,500, 31st Aug., '78	Royal Bank of Ireland
769,	434,	3,597,	4,800,	1,200, 31st Aug., '78	Ulster Banking Company
1,910,	720,	11,033,	13,663,	5,700,	

1st *January*, 1879. [000's omitted.] *Cr.*

Cash and at Call.	Government Stocks, &c.	Other Securities	Total		
266,	with cash	2,607,	2,[illegible]73,	31st Oct., 187[illegible]	Hibernian Joint Stock
236,	282,	2,820,	3,338,	31st Dec., '78	Munster Banking Company
—	—	—	—	31st Aug., '79	Royal Bank of Ireland
—	—	—	—	31st Aug., '79	Ulster Banking Company
—	—	—	—	—	

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TABLE V.—*Bank of England.*

Dr. [000's omitted.] *Balance Sheet,*

	Capital Paid.	Reserve, &c.	Acceptances.	Public Deposits.	Other Deposits.	Total.
Ratio	14,553, 30·5	3,078, 6·4	253, 0·5	7,940, 16·6	21,953, 46·0	47,777, = 100

Dr. [000's omitted.] *Balance Sheet,*

	Capital Paid.	Reserve, &c.	Acceptances.	Public Deposits.	Other Deposits.	Total.
Ratio	14,553, 28·3	3,223, 6·2	259, 0·5	5,577, 10·8	27,872, 54·2	51,484, 100

TABLE VA.—*Bank of England.*

Dr. [000's omitted.] *Balance Sheet,*

	Capital.	Reserve, &c.	Acceptances.	Public Deposits.	Other Deposits.	Total.
Ratio	14,553, 36·39	3,254, 8·13	402, 1·01	8,544, 21·37	13,236, 33·10	39,989, 100

Dr. [000's omitted.] *Balance Sheet,*

	Capital.	Reserve, &c.	Acceptances.	Public Deposits.	Other Deposits.	Total.
Ratio	14,553, 30·67	3,533, 7·45	559, 1·17	7,965, 16·79	20,840, 43·92	47,450, 100

TABLE VI.

Dr. [000's omitted.] *Summary of Balance Sheets*

	Capital Paid.	Reserve, &c.	Acceptances.	Notes.	Deposits.	Total.
London clearing banks	8·5	3·4	9·6	—	78·5	100
Country banks	10·6	6·9	2·1	—	80·4	100
Scotch "	9·2	4·9	7·5	5·4	73·0	100
Irish "	10·7	8·4	0·6	4·2	76·1	100
Mean	9·75	5·9	4·95	2·4	77·0	100
Bank of England	30·5	6·4	0·5	—	62·6	100

Dr. [000's omitted.] *Summary of Balance Sheets*

	Capital Paid.	Reserve, &c.	Acceptances.	Notes.	Deposits.	Total.
London clearing banks	8·9	3·7	12·6	—	74·8	100
English provincial "	10·9	7·0	2·1	—	80·0	100
Bank of England	28·3	6·2	0·5	—	65·0	100

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(Banking Department.)

25th June, 1878. [000's omitted.] *Cr.*

Cash.	Government Stocks.	Other Securities.	Total.
10,858, 22·7	16,208, 33·9	20,711, 43·4	47,777, = 100

24th December, 1878. [000's omitted.] *Cr.*

Cash.	Government Stocks.	Other Securities.	Total.
9,342, 18·2	14,235, 27·5	27,907, 54·3	51,484, = 100

(Banking Department.)

27th December, 1865. [000's omitted.] *Cr.*

Cash.	Government Securities.	Other Securities.	Total.
7,591, 18·98	9,891, 24·74	22,507, 56·28	39,989, 100

27th June, 1866. [000's omitted.] *Cr.*

Cash.	Government Securities.	Other Securities.	Total.
5,218, 11·0	11,348, 23·91	30·884, 65·09	47,450, 100

TABLE VI.

(Percentages), 1*st July*, 1878. [000's omitted.] *Cr.*

Cash and at Call	Government Stocks, &c.	Other Securities.	Total.	Ratio of Total Capital to Liabilities.	
17·7	9·9	72·4	100	26·23	London clearing banks (excluding National Provincial)
12·0	11·0	77·0	100	40·72	English country banks
5·4	20·9	73·7	100	9·32	Scotch banks
14·0	5·2	80·8	100	10·61	Irish „
12·275	11·75	75·975	100	21·72	Mean
22·7	33·9	43·4	100	30·46	Bank of England

(Percentages), 1*st January*, 1879. [000's omitted.] *Cr.*

Cash and at Call.	Government Stocks, &c.	Other. Securities.	Total.	Ratio of Total Capital to Liabilities.	
19·5	·7	70·8	100	30·65	London clearing banks
15·7	8·0	76·3	100	41·01	English country „
18·2	27·5	54·3	100	28·26	Bank of England

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TABLE VII.—*Showing the Effect of the Crises of* 1866 *and* 1878, *on the Bank Note Circulation of the United Kingdom.*

1878.	Bank of England.			Unsecured Circulation.		
	Rate.	Total Issue.	Ratio of Actual Circulation to Total Issue.	English Banks. 6,306,697*l.* = 100.	Scotch Banks. 2,749,271*l.* = 100.	Irish Banks. 6,354,494*l.* = 100.
July 6	3½	36,524	78·09	67·84	64·54	59·20
,, 13	—	36,602	77·49	67·97	—	—
,, 20 .	—	36,319	77·28	67·29	—	—
,, 27	—	36,131	76·81	66·46	—	—
Aug. 3	4	35,999	77·94	66·20	67·91	58·17
,, 10	—	35,791	78·72	66·04	—	—
,, 17	5	35,677	77·83	65·20	—	—
,, 24 ..	—	35,674	76·98	64·35	—	—
,, 31	—	35,979	75·23	64·14‡	65·49	55·91
Sept. 7 ...	—	36,655	74·50	65·13	—	—
,, 14	—	37,185	72·31	66·01	—	—
,, 21	—	37,620	70·96	67·50	—	—
,, 28	—	37,968	70·03	67·39	68·41	60·64
Oct. 5	*	37,896	73·87	72·09	**	—
,, 12	—	38,222	75·71	73·30	—	—
,, 19	6	37,434	79·72	72·57	—	—
,, 26	—	38,332	78·47	70·98	54·74	68·30
Nov. 2	—	39,517	76·19	70·72§	—	—
,, 9	—	39,662	75·42	70·62	—	—
,, 16	—	39,847	73·66	69·65	—	—
,, 23	5	40,296	72·02	68·83	60·90	67·62
,, 30	—	40,508	70·99	67·83	—	—
Dec. 7 ...	—	40,429	72·73	66·79	—	—
,, 14	†	40,162	77·80	63·12‖	—	—
,, 21	—	40,595	79·62	63·00	57·17	61·25
,, 28	—	41,480	79·82	63·04	—	—
1879.						
Jan 4	—	42,190	77·70	63·29	..	—
,, 11 ..	—	42,729	77·32	64·32¶	—	—
,, 18 .	4	43,214	75·59	63·29	47·44	54·82
25 .		43,669	76·12	61.86	—	—
Feb. 1	3½	43,951	73·16	60·65	—	—
,, 8	—	44,365	70·90	59·39	—	—
,, 15 ...	—	44,935	67·71	58·20	44·45	51·55

* Failure of City of Glasgow Bank.

† ,, West of England Banks.

‡ A decrease of 7,359*l.* by failure of Loughborough Bank.

§ ,, 10,42 *l.* ,, Chesterfield and Derbyshire Bank.

‖ ,, 83,535*l.* ,, West of England Bank.

¶ ,, 49,869*l.* ,, Tweedy, Williams, and Co.

** ,, ,2:9 1*l* ,, City of Glasgow Bank.

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TABLE VII.—*Showing the Effect of the Crises of* 1866 *and* 1878—*Contd.*

1866.	Bank of England. Rate.	Bank of England. Total Issue.	Bank of England. Ratio of Actual Circulation to Total Issue.	Unsecured Circulation. English Banks. 7,365,726*l.* = 100.	Unsecured Circulation. Scotch Banks. 2,749,271*l.* = 100.	Unsecured Circulation. Irish Banks. 6,354,494*l.* = 100
Jan. 6	8	27,029	80·56	78·23	72·16	65·90
„ 13	—	26,724	80·25	79·11	—	—
„ 20	—	26,834	77·77	78·18	—	—
„ 27	—	26,907	77·94	76·32	—	—
Feb. 3	—	27,000	81·34	75·28†	64·96	61·27
„ 10	—	26,922	78·06	74·66	—	—
„ 17	—	27,050	76·75	73·85	—	—
„ 24	7	27,971	73·51	72·87	—	—
Mar. 3	—	28,113	73·87	72·39	67·25	61·13
„ 10	—	28,150	73·65	72·53‡	—	—
„ 17	6	28,427	72·19	72·72	—	—
„ 24	—	28,554	72·27	73·38	—	—
„ 31	—	28,502	75·85	75·03	64·27	61·49
Apl. 7	—	28,485	78·39	77·46	—	—
„ 1[illegible]	—	28,363	77·72	78·06	—	—
„ 2[illegible]	—	28,041	79·53	77·44	—	—
„ 28	—	28,005	79·13	76·24	68·09	61·93
May 5	7	27,712	82·53	76·73§	—	—
„ 12	10*	27,294	81·86	76·73	—	—
„ 19	—	26,851	97·27	74·62	—	—
„ 26	—	26,300	96·84	70·92	73·51	58·27
June 2	—	26,434	98·41	68·88	—	—
„ 9	—	27,620	92·15	66·97	—	—
„ 16	—	28,695	90·48	65·49	—	—
„ 23	—	29,147	86·13	64·59	71·94	50·48
„ 30	—	29,170	85·09	64·26‖	—	—
July 7	—	29,147	88·55	65·27	—	—
„ 14	—	28,287	89·05	65·61	—	—
„ 21	—	27,919	91·05	64·82	70·92	46·84
„ 28	—	27,893	90·57	63·91	—	—
Aug. 4	—	27,932	91·36	64·13	—	—
„ 11	—	27,775	90·16	64·71	—	—
„ 18	—	28,152	87·16	63·83	70·85	47·82

* Failure of Overend, Gurney, and Co.

† A decrease of 69,849*l.*

‡ „ 25,336*l.*

§ „ 14,866*l.*

‖ „ 5,624*l.*

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TABLE VIII.—*Showing the Variations in the Monthly Average of English Local Note Circulation.*

	Average of 30 Years 1845-74. [000's omitted.]	6,084,000*l*. = 100.	1866. Average. [000's omitted]	5,150,100*l*. = 100.	1878. Average. [000's omitted.]	4,356,892*l*. = 100.	Deviation from Average in Years of Panic.	
							1866.	1878.
							Per cnt.	Per cnt.
January	6,181,	102	5,740,	111	4,523,	104	+ 9	+ 2
February	6,026,	99	5,410,	105	4,380,	100	+ 6	+ 1
March	6,045,	99	5,320,	103	4,401,	101	+ 4	+ 2
April	6,369,	105	5,620,	109	4,642,	106	+ 4	+ 1
May	6,261,	103	5,420,	105	4,593,	105	+ 2	+ 2
June	5,963,	98	4,820,	93	4,294,	98	– 5	Nil
July	5,905,	97	4,700,	91	4,250,	97	– 6	"
August	5,794,	95	4,650,	90	4,128,	95	– 5	"
Sept.	5,932,	97	4,720,	91	4,160,	96	– 6	– 1
October	6,383,	105	5,290,	103	4,550,	104	– 2	– 1
Nov.	6,210,	102	5,200,	101	4,373,	100	– 1	– 2
Dec.	5,947,	98	4,980,	97	3,984,	91	– 1	– 7

DISCUSSION *on* MR. J. B. MARTIN'S PAPER.

MR. R. H. PATTERSON said he was inclined to think that the apprehensions in regard to the hazards of banking were at present excessive. The failure of the City of Glasgow Bank was as exceptional as any event of the kind could possibly be. The business of the country could not be conducted, or legislation carried on, on the hypothesis of fraud; but in the case he alluded to, there was not only fraud, but fraud conducted deliberately and persistently over a number of years. It was not merely mismanagement, but persistent fraud, and he did not think that any legislation could provide against a disaster of that kind. It was impossible to manage a bank on the hypothesis of fraud. He thought a great deal more could be done by means of an audit, than the author of the paper seemed to think. The auditors could easily ascertain if the bank's capital were in existence, by requiring the production of the reserve of coin and consols; and if these were in existence, a sudden collapse

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of the bank was impossible. While commiserating the losses of the bank shareholders, he thought there was certainly a word or two to be said on the other side, on behalf of the public. The lecturer had said very truly that the losses of a bank's shareholders were much more heavy than those of the depositors, or anybody else; but was it not the case that every trader and every trading company in the case of failure must always lose, and deservedly lose, more than those they traded with, and by whom they were trusted?

Mr. RICHARD B. MARTIN deprecated Government interference either in banking or commercial matters. If it were found to be necessary to have any legislation on the subject of limited liability, the line at which such interference ought to be drawn appeared to him to be a very clear one. In any banking or other company where a partner had not the full and perfect right of access to all books and documents, and simply became a partner as an investment, and where his copartners were without any practical control over his admission as one of their number, there the liability of each shareholder ought to be limited to such an amount as the deed of partnership might determine; so that in the result every company that was registered would be *ipso facto* limited, and all private firms would be as independent as heretofore. It was all very well for Government to interfere with and legislate in the interests of the public for traders who had a practical monopoly, such as railways and canals, but in a business such as banking, where any person dissatisfied with one bank, had merely to go to another, there was no more necessity for so doing than in any other trade. The mere loss of money deposited on a current account with a banker, did not cause wide-spread misery, and the widows and clergymen who were reduced to penury by the failure of a bank in which they were partners, theoretically deserved no more sympathy than they would have received had they taken a share in a butcher's or ironmonger's business, of the details of which they had no knowledge, and in the management of which they had no share. It was highly undesirable to increase statute offences. There was a great and growing tendency among lawyers, and even judges, to refine upon legal enactments, so as to constitute offences never contemplated by the framers of the Acts of Parliament. An instance in point was the dictum of the Master of the Rolls that "trusts" were illegal, because they did not fulfil all the conditions of the Limited Liability Acts: Acts that were passed for a totally distinct purpose, and before "trusts" were invented. It would be a bad day for England, and for English freedom, when we adopted as an axiom of law, that nothing was legal unless it was specially made so in our statute book. In conclusion, he remarked that it was impossible to analyse the figures of Mr. J. B. Martin's paper without careful consideration, but that the whole paper was suggestive of many subjects that deserved the study of members of the Society.

Mr. C. WALFORD said that on the question of legislation for

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banks he took a somewhat different view from that which he held in reference to the question of legislation generally. He had often said that legislation was a disadvantage to commercial matters rather than an advantage; but there was a circumstance connected with banking that should not be lost sight of, namely, that the condition of a large number of unlimited banks was not of their own seeking. They were the creatures of the law. They could not at the time they were founded be registered or constituted in England in any other form as unlimited banks. All the Acts providing limited liability for other joint stock companies exempted them, and thus were created the unlimited banks in England, which had of late occasioned so much alarm. For Scotland there had been a more wise legislation, which facilitated the establishment of chartered banks. The City of Glasgow Bank was an exception to many of the Scotch banks. As a rule, the chartered banks, which contained some limitation of liability, worked well, and prudent men could say, "If I go into this affair, I know what my loss must be." He knew a number of private banks in London that had been getting very little new business for years past. The number of accounts that some of these had recently opened was quite surprising, and this had been occasioned by the doubt as to the security offered by unlimited banks, on the ground that many of the more responsible proprietors would sell out. He hoped that a measure would be passed during the present session to enable unlimited banks to become limited in some form or degree, and thus compensate for the injury that had been inflicted on them first by an unwise legislation, and lastly by an equally unwise panic. After recent events, there really was less rather than more occasion for alarm.

Mr. BOTLY said that when the vast importance of joint stock banks, both in this country and the colonies, was considered in connection with the late disastrous occurrences, he thought that some legislative interference could not be much longer delayed. He considered that the liability of trustees should go no further than the limit of the value of the estate in trust. The author, in the last paragraph of the paper, had spoken of Mr. Gilbart, whom he (Mr Botly) knew personally, and with whom and some others he established the Wilts and Dorset Bank. This bank had been established and carried on on the principle of the original Scotch banks. It paid a very excellent percentage, had a very large constituency, and he believed held as high a position as any country bank in the kingdom. The City of Glasgow Bank failure and all other bank failures had resulted principally from not adopting those sound principles of banking enunciated by Mr. Gilbart, the founder of joint stock banking, and now by Mr. Martin. He was a proprietor in seven banks, and he might say that he had never had one moment's uneasiness during any panic or scare. If people asked him as to their investments, he gave them no advice, but told them not to sell their shares at an enormous sacrifice, as in any event their liability would not cease. He hoped that one of the results of the paper would be to lead to some legislative enactment, by which the liability would be fixed to the amount paid on the shares

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or some such equitable arrangement. An excellent suggestion had been made the other day by one of the officials of a colonial bank, that a primary reserve fund equal to the amount of a share should be established, the money being invested in consols or in some way by which there would be a Government fund as security This would give the public more faith in the stability of a bank; and he thought that some such plan would be very advantageous, as ensuring a more wealthy proprietary.

Mr. HAMMOND CHUBB said it was very difficult to discuss a paper in which so much detail had been so admirably put forward. Mr. Martin at one part of the paper seemed to say that joint stock companies' balance sheets were issued presumably for the proprietors of the banks rather than for the customers or the public; but he (Mr. Chubb) could not help thinking that these balance sheets were really put to other and very important purposes, and that but for them we should be very hard put to it for information on banking matters. The use made of them in the present paper was a case in point. A comparison had been made in the paper between the position of banks after the panic of 1866 and the panic (as the author had called it, although he (Mr. Chubb) would call it the crisis) of 1878. There had been several panics· but every one of them had had a different origin. The condition of things previous to 1866 was very different to that existing in 1878. Both these periods had been ushered in by the collapse of a great institution. In 1866 it was the collapse of Overend, Gurney, and Co., but it was not the failure of one firm that caused the crisis so much as the condition of things then existing, of which that firm was a type. The condition of things then was such that firms like Overend and Gurney and other financial concerns could give a sort of false or spurious currency to property in undertakings, which should alone be created by means of accumulated capital. A general idea then possessed men's minds that whoever had any property in houses, ships, or railways, or undertakings of any kind, was, in fact, in possession of so much money, and the institutions of which the Gurneys were a representative aided them to realise this idea by converting such property, by means of debentures and bills, and various financial operations, into a sort of currency, and thus enabled large undertakings to be carried on for a considerable time that ought never to have been carried on at all. There was a false system of credit existing at that time, and the panic was brought on by the collapse of that false system. There was now a very different condition of things. The present crisis had been ushered in by the great calamity of the failure of the City of Glasgow Bank, than which nothing could be worse; but the condition of things which this failure implied was rather the badness of trade, the loss that had been experienced in the reduction of prices, and in that general shrinkage in the value of almost all undertakings and business, which had formed the burden of so many of the papers read lately in the Society's room, and which had been especially investigated in the admirable paper on prices in January last. The figures which Mr. Martin had so clearly brought

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out, showed conclusively the difference between the two periods. After the panic of 1866 the deposits in the hands of bankers were reduced but very little, and only those banks fell in public estimation which had lent themselves to the false principles then in vogue. Subsequent, however, to the late crisis these deposits are seen to be greatly diminished, and these figures bear testimony to the period of low prices and general depreciation which we are now passing through.

Mr. HAROLD BROWN said that the author of the paper had given such a mass of figures as must satisfy the most ardent statistician present, and it was impossible to digest or deal with them offhand. The tables showed curiously enough that the unlimited and the largest banks were those that had suffered most during the last general depression, and that they were also those banks whose general liabilities bore the largest proportion to the paid up capital. This showed, in his opinion, that people would not trust banks who had a very large liability in comparison to their actual paid up capital in the same manner as they would trust banks whose capital was larger in proportion. He differed from the author and his brother in deprecating legislation in banking matters, and thought that in the present day judicious and moderate legislation might be introduced to advantage. In reference to the proposal of the author to invest the reserve funds in consols, it was true that large reserve funds were set out in the balance sheets of many companies; but this was the case with the City of Glasgow Bank. As he understood balance sheets and auditors' certificates as at present framed, those reserves need not necessarily exist in consols except on the one day in the year on which the balance sheet was struck. He ventured to think that there should be some restriction placed upon a bank in regard to its mode of investment and dealing with its reserve fund. There was another point he would mention for the purpose of corroborating what Mr. Martin had said, namely, the proportion between interest bearing deposits and non-interest bearing deposits. He had been told by the manager of one of the largest London joint stock banks, that most of their money cost them less than one per cent. per annum. If this were the case, all he could say was that in prosperous times the amount the banks made in the way of profits must be very much greater than shown in the balance sheets. Joint stock banks had been declaring dividends in the past year which traders could only hope to obtain in prosperous years. Last year was a bad one, and they must have been declaring dividends they had not obtained by their trading in that year, and they must have been keeping back a reserve in the more prosperous past, with the object of dividing it when the bad time came. It was lucky for the shareholders that this should be the case, and it was also lucky that their balance sheets concealed from them the true state of affairs. This was strong speaking, but he felt, from careful consideration of the subject, that shareholders required to be protected even against themselves. He had given a considerable amount of attention to the question of the proprietary of banks, and it would be found on examination of the lists of the greatest joint stock banks,

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that the largest proportion of the proprietors consisted of spinsters, widows, country clergymen, small traders, and officers in the army and the navy. It would also be found that a very large percentage of the proprietors held only from one to ten shares, and many of such shareholders were unquestionably those who in a crisis would be unable to meet their liabilities. The other portion of the shareholders would doubtless be able to pay heavy calls; but it was scarcely fair that they should practically be called upon to meet the entire liabilities, whilst the weak shareholders received their share of the profits, and ran little risk as they were unable to bear their share of any loss. The reasons he would venture to give for legislation on this question were as follows:—The helplessness of the shareholders to protect themselves or to exercise any real control over their own affairs. They dared not do it. No shareholders would venture to get up at an annual meeting and cast any serious aspersion on the management of a large bank. He would only be depreciating his own property, and in such an event the best thing he could do was to sell his shares. Again, the banks were to a very great extent helpless. They suffered from publicity, and unfortunately their credit was so sensitive that if they disclosed the true state of their affairs in their balance sheets, especially at the present time, they might collapse. They must practise some concealment to protect themselves, and they required a stronger back than their own to fall back upon. The only hope for them was, in his opinion, government interference. At present there was no chance of obtaining legislation on the subject, but be believed the time would in due course come when it would be secured.

Mr. Willans agreed that we were in danger of suffering rather from over-legislation than from lack of legislation. He could not help feeling that it was one of the most satisfactory features of the figures presented by Mr. Martin in his able and comprehensive paper, that the depletion which we had for sometime been suffering in the general business of the country, had extended to bank shares, for there was nothing more unwholesome in the condition of values some years ago, than the high prices of limited and unlimited bank shares. He took the trouble some time ago of perusing a list of the market prices of these shares, and of testing them by the dividends paid year by year, and he found upon an average that they scarcely yielded more than 5 per cent. upon the nominal value of the shares; and for this paltry 5 per cent. the shareholders were running all the risks of the unlimited liability system. It was one of the most satisfactory features in the paper, that it showed the extent to which bank shares had participated in the general depletion of unwholesome values, with all their evil consequences in luxury and extravagance, that had prevailed only a few years ago. Whilst deprecating over legislation, however, they could not forget that in dealing with this question they were dealing with corporations that were already more or less the subjects of legislation. They had no longer to choose between leaving the evils of unlimited liability, to be corrected by the common law of the land, and dealing with it specially. He thought that some reasonable

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provision should be made for these unlimited banks to register themselves as limited in one degree or another; at the same time, limited liability banks or companies should have the opportunity also of re-registering themselves with an extension of their liability. He (Mr. Willans) also thought that legislation was required in relation to the question of audit, and that the Bill lately introduced by the Chancellor of the Exchequer could be very much amended in this respect. He thought that the audit should be made compulsory, not once only, but twice a-year, and provision ought also to be made for something like a continuous audit. He did not altogether believe in professional auditors, who were almost as liable to be hood-winked as private auditors. The auditors ought at all times to have access to all the books of the company, and to be able to certify that the weekly returns presented to the directors were such as to enable them to see clearly the state and course of the business of the bank or other company, and to discharge their duties intelligently and confidently, in the interests of the shareholders. So far he thought legislation was both justifiable and necessary.

Mr. C. N. Newdegate, M.P., having made a few observations,

Mr. Philip Vanderbyl said that any amount of interference by the Government would never prevent such a calamity as the failure of the City of Glasgow Bank. He thought that one important point had been omitted by the author, namely, the proportion of the calls or claims made on shareholders of unlimited banks in case of failure, compared with the amounts left uncalled in case of limited banks. He ventured to think that the so-called limited banks with shares of 100*l.*, and only 10*l.* or 20*l.* called up, would be found to have a larger proportion of uncalled capital than had been on an average claimed from shareholders of unlimited banks in case of failure (not including the City of Glasgow Bank, which must be considered exceptional), and he for one did not therefore see the necessity for converting the unlimited banks into limited. The desire to do so had only arisen from panic and clamour. In the Bill of the Chancellor of the Exchequer, the term "reserve liability" is proposed to be applied to the unlimited banks desirous of becoming limited to a certain extent. This is a senseless term, requiring explanation and it would be preferable to use the term "*specified liability*" for these banks, and the share certificates should have the liability stated or *specified* on them, say for double or treble the amount of the nominal capital, but in no case exceeding four times the nominal capital. At present the Limited Liability Acts allow banks to become practically unlimited. Now as to "reserve fund," which had also been mentioned, people not practically acquainted with banking were under the impression that this ought to be invested in consols, but if that were done, the shareholders would have to be satisfied with less dividends; well then the public would not invest in bank shares. To avoid any misapprehension it would be well to make people understand that "reserve fund" is only another term for "undivided profits," and that it is for the advantage

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of shareholders to work with this money until it is wanted to equalise dividends. It was difficult to say where banking began, or where it terminated, and there was no more need to control by Act of Parliament a trade in money than a trade in any other commodity. Trading in money or banking did not differ very much from trading in produce. The discounting of trade bills is generally considered one of the most legitimate of banking operations, whereas the accepting of bills by banks is usually looked upon with suspicion. Shareholders often want to know the amount of their bank's acceptances, but during a panic (like 1866) it has happened that the bills discounted proved worthless, while the acceptances, which were really liabilities, not only yielded a better profit, but being accompanied by bills of lading with a margin left no loss.

The CHAIRMAN (Mr. Wm. Newmarch, F.R.S.), in moving a vote of thanks to Mr. Martin for his carefully prepared paper, said that Mr. Martin had followed in the steps of former investigators, and had made an useful contribution to the accumulated mass of experience and deduction which formed the scientific part of the knowledge of the business of banking and everything related to it. At the same time, looking to the experience of the last year or two, there could be no doubt that the time had come when facilities must be given to joint stock banks, whether limited or unlimited, to adopt modifications of constitution in one form or another. The subject of audit and form of balance sheets was more difficult, and on neither point were the facts ripe for legislation. There was hardly any kind of enterprise or business in the country which had advanced more markedly than the business of banking during the last twenty-five or thirty years. It might be said, perhaps, that the advancement had been somewhat too rapid, in consequence of the allowance of over liberal rates of interest by all the joint stock banks, and as a consequence, to a certain extent by the private banks. There had been a tendency to accumulate in the banks a larger part of the floating capital of the country than could be properly and adequately employed in the limited kinds of securities which alone were proper for banks to accept. He could not doubt that some of the amendments and reforms of late years that had taken place in the allowance of interest on deposits were among the most wholesome changes that had taken place in banking. There was a time when interest was allowed on current accounts in London, and that, he believed, had been entirely given up. Not the least important consequence was that during the last year or so the banks in London had recognised the fact that they were no longer bound to follow the variations of the Bank of England minimum rate of discount. The great losses of 1875 resulted in a very marked manner from the extreme accumulation of money in certain quarters, and there were always 'cute men, like Alexander Collie, who could calculate to a nicety in this direction how far they could operate. The great number of failures in 1878 of worthless and old firms were illustrations of the operation of the same causes. During the last fifteen or twenty years there had been

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a considerable alteration between the relations of the money market of this country and the Bank of England. It was as true as ever that the only central reserve in this country upon which the superstructure of banking was based, was that portion of reserve which was available in the banking department of the Bank of England: and it was a reflection not free from alarm that, looking at the incessant increase year by year of the business of the country, especially in London, and the accumulation year by year of financial transactions and deposits which belonged not only to this country but to all the world, the ultimate central reserve on which dependence was placed did not in the least increase. It was now nearly thirty years since any Government inquiry was made into the facts of the case, and circumstances had entirely changed since the last inquiry was made in 1858. It was only reasonable that a reinvestigation should be made at an early opportunity.

(Owing to the length of the discussion, Mr. Martin had no time to make the usual reply).

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