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The Evolution of our Banking System

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Source: *The Economic Journal*, Vol. 1, No. 3 (Sep., 1891), pp. 539-544

Published by: [Wiley](#) on behalf of the [Royal Economic Society](#)

Stable URL: <http://www.jstor.org/stable/2956120>

Accessed: 12/01/2015 00:17

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An honest debtor will pay all he can pay. This bargain offers the debtor an opportunity to shirk. The badness of the plan lies in its precedent. If adopted, we shall have every other unscrupulous state which finds itself in difficulties, or whose finance minister thinks that he can get popularity at home by fleecing the creditors who hold the bonds of his government, making some such arrangement. The Spanish precedent of 1881, when 3 per cents. of Spain were so converted and reduced as to yield $1\frac{7}{8}$ per cent. only, is the worst of all. Whether Uruguay will reap much benefit from the cutting down of interest remains to be seen. The chances are that it would have better consulted its own credit and interest generally if it paid as much as it could in the bad times, giving evidence of good faith and good intentions in the future by promising to resume the full rate on Uruguayan 5 and 6 per cent. bonds, whenever its resources should permit. Men of business shrug their shoulders, and affirm that "half a loaf is better than no bread," and that is, perhaps, how the great financiers excuse their not very creditable action in the matter of Uruguay.

A. ELLIS

THE EVOLUTION OF OUR BANKING SYSTEM.

THE financial disturbance which culminated on the 15th of November, 1890, will probably pass into history as the Baring crisis. At the same time no more complete misnomer than the word 'crisis' could be applied to a condition of affairs in which the commercial public is content to surrender its critical faculties, and to be guided by the unreasoning suggestions of fear and panic. But the word 'crisis' may with propriety be used to describe a movement in the banking system towards which events had evidently long been tending, which was distinctly accelerated by the catastrophe of November, and which, when it has spent its force, will probably be found to have established new relations between the banking community and the public with which it deals, as the result of the considered judgment of both parties. It is, moreover, not impossible that these changed relations may entail changes of an economic nature in the general trade and commerce of the country.

The 'Mystery of Modern Goldsmiths or Bankers' came gradually into being about the time of the Restoration, when the goldsmiths proper, who were also dealers in exchange, began to receive deposits of coin at interest from traders, merchants, and private persons. This new departure evoked no small amount of hostile criticism, and a cloud of pamphlets or tracts. The coin of the realm, said the critics, would, under the new departure, be collected from the pockets of the people into the chests of the goldsmiths; facilities would be given for lending large sums to reckless traders or spendthrift borrowers; the money required for the purposes of trade would thus be diverted

from its legitimate purpose; or, finally, it might be exported from the country to the impoverishment of the realm and to the advantage of our enemies.

But in spite of opposition the conveniences of the new system more than countervailed its alleged drawbacks, and the foundations of modern banking were laid on a basis that endured for some two centuries. The private bankers held the field; they gave no security for the sums deposited with them; they furnished no statement as to the soundness of their financial position, and they trusted to their personal character for a continuance of the confidence of their customers, pledging their entire private fortunes in case of need for the liquidation of their debts.

They did not long enjoy an undisturbed monopoly. In 1694 the Bank of England was established with a capital stock of £1,200,000, with general powers to carry on banking business, and to issue bills payable on demand, *i.e.* bank-notes. The Bank of England was vigorously opposed by the private bankers, who recognized in it a formidable competitor, and who, in the words of Macaulay, greeted its establishment with a howl of rage. But it had at least this in common with its opponents, that the original charter does not make any prescription as to the rendering of accounts, nor is anything said as to the liability, if any, of the stock-holders in the event of failure. In the early days of the Bank of England this question might very conceivably have been put to the test: it is still only by inference that the non-liability of the stock-holders is assumed, but it is less likely that the point will be settled in a court of law as a consequence of the failure of the Bank. It was nearly a century and a half before any other competitor with the private bankers came into the field; the Bank of England, clinging to its valued privilege of issuing bills payable on demand, continued to hold this monopoly as against any combination of persons exceeding six in number. It was not until 1834 that the issuing of bank-notes was recognized not to be of the essence of banking, and the establishment of the London and Westminster Bank laid the foundations of joint stock banking. This created again a new order of things; the Joint Stock Banks were recognized as rivals both of the private banks and of the Bank of England. The former held aloof from the intruders as much as possible, and marked their jealousy, under guise of mistrust, by excluding them till 1854 from the advantages of the Clearing-house. The latter clung tight to its privileges of bank-note issue, and drew round itself the magic circle of a sixty-five miles radius, within which no one henceforth should have the right to issue notes. But the public, for whose advantage, no less than for the profit of the banks, these various systems were maintained, had now their choice; they were free to intrust their cash either to a banker whose character they knew, whose integrity they trusted, and of whose financial position they thought they were assured; or they could have dealings with a manager comparatively unknown to them, behind

whom was a body of proprietors of whose names and means they were alike ignorant ; but at the same time they had the compensating advantages of periodical publication of accounts.

This was really a crisis in the history of banking ; the public exercised its right of judgment, and public opinion began to incline steadily towards the joint stock system. It is true that the shortcomings of the private bankers themselves contributed to the success of their rivals. Many disastrous failures of Joint Stock Banks have taken place through reckless, and even culpable mismanagement ; but the crimes of Fauntleroy and of Rowland Stephenson, and the defalcations of Paul, Strahan, and Bates, probably produced a greater effect, and did more damage to the cause of private banking than did the failures of the Western Bank, the City of Glasgow Bank, or the West of England Bank.

In the meantime, the Companies Act of 1862 had placed shareholders on a more satisfactory footing by limiting their liability. It is true that there has in some cases been an insufficient recognition of the fact that there is any liability at all, and that shareholders have more than once been rudely awakened from their dream that in embarking in banking they shared profits, without any corresponding duty of permissive control or responsibility for losses. By a subsequent Act of 1880 provision was made whereby the liability of the proprietors, restricted by the Act of 1862, might be once more enlarged for the better ultimate security of the depositors.

Under such conditions the Joint Stock Banks continued to increase in relative importance, until the volume of their deposits in some cases rivalled that of the Bank of England, whose controlling influence in the money market became sensibly affected. The growth of the Joint Stock Banks was stimulated by the fact that it was by this time nearly impossible to found a new Private Bank. A Private Bank is of slow growth, and in recent years such have arisen rather as offshoots from some unusually successful trade venture, than on a special and independent foundation. The growth of population demanded increased banking facilities, and in a district where this demand arose, it could only be satisfied by the establishment of a Joint Stock Bank with a considerable capital, or by the extension to it of branches of banks already established elsewhere. Of the system of Branch Banks the Joint Stock Banks were much more prompt to make use than were the Private Banks ; while the right of issuing bank-notes enabled them, here and there, even to anticipate the needs of a district by supplying facilities which its growth was certain shortly to demand. It was thus that while the increasing use of banking accounts and of cheques assigned a constantly diminishing importance to the part played by bank-notes in the business transactions of the country, and while the circulation of both is constantly shrinking, the Joint Stock Banks have always contrived to keep afloat a larger percentage of their maximum circulation than have the Private Banks.

Under these circumstances the Private Banks began seriously to consider the advisability of publishing periodical statements of account. On the one hand the success under this system of the Joint Stock Banks, and their growing importance and rivalry, pointed to the expediency of such a course; on the other, there was little or no evidence on the part of the customers of each bank, whether expressed directly or by the removal of their accounts, that they were dissatisfied with the old order of things. Business, in most cases, continued to grow, or at least did not fall off; no doubt the force of habit and tradition had weight in many cases with banker and customer alike.

Messrs. Glyn, Mills & Co. were the first to move. In 1884 they re-organized their business, converting the private firm into a Joint Stock Company, but making no change in the proprietary. This entailed publication of accounts, without disclosure of profits, so that publication of accounts was the only apparent evidence of any change. This occurrence created some stir at the time, and brought still more prominently to the front the question of publication of accounts. The next important event in the banking fraternity was the failure of Messrs. Greenway & Co., of Leamington. Although the figures disclosed were comparatively small, the occurrence created an impression out of all proportion to its intrinsic magnitude. This was specially felt throughout the Midland district. Not long afterwards Messrs. Berwick, Lechmere & Co., of Worcester, published their balance-sheet, and at least one other bank prepared a statement of account for the private inspection of their own customers.

It was thus clear, as had already been foreseen, that the position of affairs was now such that any unexpected incident might precipitate a movement in the direction to which the tendency was already marked; it hardly needed so startling an occurrence as the liquidation of Messrs. Baring Brothers and Co. to bring matters to an issue. The fall of this great house not only created a panic in which credit was temporarily almost destroyed, but also raised a wide doubt whether in the management of vast undertakings, and the disposal of enormous resources, it was expedient to trust to the uncontrolled discretion of a firm, or, it might be, of an individual. It became clear to bankers that public opinion now required, whether reasonably or unreasonably it mattered not, that they should publish their accounts; it was also clear that the public were attracted by big figures, and that large totals went a long way towards securing an increase of business. This consideration had weight when a decision had to be taken as to the method to be followed in the publication of accounts; and the importance attached to it may be estimated by the result. Since the events of November, two Private Banks in London have merged themselves in larger Joint Stock Banks, while two others have combined with two of their country correspondents in a quadruple confederation; in the provinces at least a dozen Private Banks have been absorbed by Joint Stock Banks having head offices in their own neighbourhood or in London. The

reduced number of City Private Banks that remained were also the largest, and these were content to publish their accounts without any change in their constitution. Later on several country banks followed their example, and were bold enough to publish statements showing comparatively modest totals.

From the foregoing sketch of the evolution of our banking system, it is evident that in the crisis which it is now undergoing three points stand out prominently. First, the increased pressure which has been applied by public opinion in its demand for the publication of accounts. Next, the reduction in the nominal total of Private Banks by the absorption of some of the smaller of them by Joint Stock Banks, and the consequent increase in the preponderance of the Joint Stock over the older system. Lastly, the general tendency to coalition, and the concentration of banking in a few powerful hands.

It is to be hoped that the desire to see balance-sheets may not be pushed too far. As with a map, so it is with a balance-sheet: it requires some education and training to read the signs conventional in each. It must not be forgotten that all balance-sheets are not to be held to stand or fall as they may or may not be found to adapt themselves to one Procrustean measuring-rod. Varying conditions must at all times prescribe varying rules for the conduct of business with prudence and safety: nor even when comparing what is apparently like with like, can we always be certain that we have before us things that are really identical. Furthermore, a sad experience has shown that a fair balance-sheet may cover an unsound position, and in the United States it has been abundantly shown that the official examination of the accounts of National Banks is not only insufficient to guarantee solvency, but also that such examination is apt to create a false confidence that defeats the very end and object of the published statement of accounts. There seems therefore some little danger in the proposal submitted to Parliament during the past session, that publication of accounts should be compulsory and uniform.

The passage of any such enactment would in all probability give a further impetus to the elimination of the smaller Provincial Banks by absorption into their larger competitors—a process perhaps inevitable, but whose march it is scarcely desirable to accelerate. The Provincial Banks, under the old system, have done good service to the trade of the country. Intimately acquainted with the needs of their districts, the position and characters of their customers, they have fostered and developed local trade, agriculture, and industries in a manner that might be impossible under new conditions. It has been made a complaint from Scotland that the resources of the country have, since the Scotch banks opened branches in London, been diverted from their legitimate use to the metropolis; and that heavy discount rates are charged locally, while the money is being employed at lower rates in the London money market. The same complaint has here and there

been made in England, and it seems desirable that any change in the conditions of banking in this respect should take place gradually, rather than by any sudden movement that might entail some dislocation of local trade and industry.

But it seems inevitable that, more or less rapidly, the banking power of the country will be gathered into few hands. There are signs that the absorption of the smaller country bankers will be followed by the combination, or coalition of those that remain, into territorial groups. The result will, as regards the public, be much the same, and it is possible that some of the objections raised two hundred years ago against the new-fashioned goldsmiths, will be revived against their more powerful successors. These objections proved to be ill-founded in the past, and may again be found to be invalid. Nothing can be more admirable on the whole than the management heretofore of the large Joint Stock Banks, but a few great and sinister examples to the contrary make it well that we should bear in mind that 'celsæ graviore casu decidunt turres.' In any case, the development of a movement that involves the possibility of an alteration in the economic conditions of the country deserves to be carefully watched by a wider circle than that of those who are directly concerned in the banking business.

JOHN B. MARTIN

THE COINAGE ACT.

WE may congratulate our readers on the passing of the 'Coinage Act, 1891,' which, notwithstanding the fears which have been expressed to the contrary, may safely be taken to have definitively settled the question of the withdrawal of light gold coin from circulation.

The Coinage Act of 1889 empowered the Government to receive light gold coins of former reigns at their full nominal value, and was followed by Orders in Council directing the withdrawal of these coins by the Bank of England on behalf of the Mint. This operation was practically concluded by March 31, 1890, and finally a Proclamation dated November 22, 1890, called in all pre-Victorian gold coins and made them uncurrent from February 28 last. After these measures, therefore, nothing remained but to deal with the light coins of the present reign.

Under the Act just passed any gold coins still legally current, which are below the least current weight as provided by the Coinage Act of 1870, and which have not been defaced or illegally dealt with, may, subject to regulations to be made by Order in Council, be exchanged or paid for by or on behalf of the Mint at their full nominal value. In the Act of 1889 it was provided that a loss exceeding four grains in a pre-Victorian sovereign or half-sovereign should be *prima facie* evidence that the coin had been illegally dealt with, and in the Act of 1891 the limit has been reduced to three grains. In order to defeat