Growth of Banking.

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Banking is about as old an industry as is known, reaching back in history through the Romans, Greeks, Phoenicians, and Florentines, and even biblical history records acts of usury. In primitive times when man produced everything he used, and there was no exchange between individuals, banks were useless and would have been of no advantage, hence they were not thought of. As industry became diversified and each man was no longer an organism of industry within himself, barter became the first means of exchange but as it was a very awkward method it soon gave place to a medium of exchange by which trades could be made easier and also at a great distance. Now to facilitate these exchanges, it became necessary that the bank should be originated.

The bank in its primitive form is not creative, but only an intermediary between the buyer and seller. Another necessity which demanded the establishment of the bank was variety of mediums or moneys in the different countries. One country wishing to carry on commerce with another could not easily do it, or probably it would be impossible, owing to the great difference in the currency of the two countries; hence an arbitrator between the two, or in other words a bank would be established in order that trade might easily ensue. The persons from the trading countries would meet at the bank and through the arbitration of the bankers, make an exchange which would otherwise be impossible. The bank at this time was nothing more than a bench at which the bankers sat to make exchanges, and the word "bank" is a corrupt form of the word "bench". Later, when money was entrusted the bankers, and after unsuccessful speculation failed, his bench was broken by his creditors, and here originates the word "bankrupt". At this stage, deposits of money in anothers care were unknown, but soon it would be highly probable that the two persons would not meet each other at the bank and consequently one would leave his money at the bank to be exchanged when the other arrived. Following on in this same line we have the person who does not need his money immediately and so leaves it with the banker, because he is perhaps more competent and has better means to protect it. The next step leads us to the credit system upon a solid basis. The depositor is given a receipt for his deposit which he can now transfer to his neighbor as representing so much value, and his neighbor may transfer the receipt to someone else and so on; then we would have our paper money or certificates of deposit. This later develops into the true credit system which may or may not have a metallic basis.

Following the evolution a step farther we find the banker evolving into a speculator and instead of being simply a receptacle for money, as he has been heretofore, he becomes a lender of money entrusted him. Deposits by every body were not readily made however until banks began to issue notes. People were always shy about trusting bankers with money, but when notes were held by persons they were no safer than if deposited in the bank, so notes were deposited first, and afterwards seeing that they were safe, gold and silver were taken from their hiding places and thrown into circulation.

Now it is that he becomes a true banker, who acts as an intermediary between the people, a facilitating agent in the progress of commerce. After thus examining the necessities causing the establishment of the bank, and tracing its evolution from the arbitrator to the speculator and creator of effective money (credit), we may come to some conclusion as to the function of a bank; Such a conclusion would be that a bank is an office for the circulation of capital, either in accumulated labor or labor yet to be done. This is the prime and underlying function of all banking to the community. All other business as discounting, collecting interest, exchanging etc., are but auxilliarys to the main function.

Banking as practiced to any extent undoubtedly originated with the Romans, as we have evidence that as early as 350–308 B.C. strangers from foreign countries began to flock to Rome with their money, as she was gaining an ascendency over other towns. The Romans great success in conquering a large part of the world is wrongfully ascribed to her hardihood and discipline alone, as her methodical ways of carrying on business must have played a very important part. All families kept a ledger of their accounts and it was the law at that time, that no debts could be collected unless properly recorded in the books. The Argentarii of Rome were what corresponds to banks in these days, and as Rome extended her empire, banks were organized in the new territory and capital thus found its way from the center of the domain to the most remote parts of it. What are now known as "bills of exchange" existed at this time. When a person travelled from Rome out through the kingdom, he did not carry his gold and silver with him, but procured a bill of exchange with which he could obtain money at any of the banks in the empire. With the downfall of Rome, the banks ceased to be and were not revived until the Republic of Italy was formed.

The Greeks, being a great commercial people, were also among the pioneers in the banking system and long before this, the Phoenicians had attained considerable dexterity in the handling of money. Nearly all parts of Europe were once furnished with goods from the Florentines and as a useful means

of exchanging foreign money with their own, they established an exchange table and so eminent did they become, that nearly all the money of Europe passed through their hands, and some countries even entrusted them with the collection of their public revenues.
All banks thus far considered have been private institutions, but as banks deal more or less with public affairs they soon become owned or operated to some extent by the government. Such a bank was first organized at Venice in 1157. Italy becoming involved in debt levied subscriptions on the citizens, payable back in twenty years, but nearing the end of the stated time she saw that it was impossible to pay the debt, and so started a bank with the debt as a capital. Notes were issued to the contributors and were used as a money. This bank was successful and lived a profitable life until destroyed by the French invasion in 1797. Another important institution

marking an era in the progress of banking is the bank of Amsterdam established in 1609. This was not a public functionary, but was formed merely for the protection of commerce from the spurious coins current. Some banks had already began to coin money at its true commodity value, but such money was at once grabbed up by financiers and sold at a premium, or else hoarded away and left the inferior coins to circulate. Now this bank took all money at its commodity value and coined it anew into coin of full value. On account of this it soon became famous among merchants, and consequently nearly all exchange in Europe took place through it, much the same as it passes through the bank of England at present. It held all deposits and made no loans or speculations, hence, money deposited was absolutely safe. But, the germ of corruption, that greed of gain worked its way into the institution and large sums of money were loaned to the East India Company, and elsewhere, and not being able to realize on the security at the proper time it was forced to dissolve in 1790. This was a very high grade bank and served as a model for many European banks afterwards founded.

Now, every country in Europe has its bank and banking system, but the one upon which rests all others to a certain extent, and which is now the money center of the world, is the Bank of England founded in 1694 with their public debt as a greater part of the capital. During the reign of the Stuarts, the goldsmiths who held most of the gold at that time, were requested to deposit it at a high rate of interest which they did, and then the kings put their thumbs on it and held it. Shortly afterwards, when William and Mary came to the throne, as there was a financial stringency at this period, considerable discussion arose as to the best method of improving the financial condition. A Scotchman named William Patterson came to the rescue with a scheme by which a National loan could be made and the lenders organized into a banking association. It thus originated as a private corporation and continues as such to the present day with only a few governmental restrictions. All the reserve money of the country banks are sent to our center, the Bank of England, where it is loaned to speculators and commercial men. The Bank of England is to the monetary system of the world as the heart is to the circulatory system of the animal body, and any change in one is immediately reflected to the other. Nothing stands between the Bank of England and the people except public opinion; its stock holders continually cry for a small reserve while public opinion, honest citizens and statesmen plead for a substantial reserve for upon this rests principally the security of the bank.

Having noted a number of the most prominent banks in Europe, let us turn to America and note the progress there with more accuracy and detail. In starting out into a new country to develop its resources, about the first essential thing is a bank where money may be deposited and aggregated into larger amounts for the building up of new industries. All the Colonies, before the Revolutionary war, saw the need of more money in order to unfold its resources, so bank notes were issued to a more or less extent by all of them. Massachusetts took the lead in this line by issuing paper in 1690 to carry out an expedition against Canada. These notes and all of the others, circulating from colonial treasurys and used for colonial purposes were not private issues but public ones governed by the governor of the colony. As industry grew, trade became stagnant for lack of capital and to remedy this a land bank scheme was proposed (1713) which was to issue paper money on land security. The measure was lost, but the colonial treasury was authorized to issue more paper and loan it to individual traders. This was styled a loan bank which afterwards became adopted by nearly all the colonies. Still the cry was "More money; give us money that we may develop the resources" consequently (1733) an association of merchants at Boston issued small notes redeemable in ten years; in 1739 the land bank was started in Massachusetts; the same year a specie bank was established in Massachusetts, which issued notes based on specie.

This paper money was an immense detriment to the English capitalists across the water, as it shut out their capital which demanded a high rate of interest; so the Bubble act which had existed in England since 1720 was extended to America (1740). This act had the effect of laying an interdict upon all banking associations not having a legal charter from the King. After the extension of this act, the paper in circulation depreciated rapidly and all persons holding these promises or certificates rushed headlong to the banks for redemption. A panic ensued, and all the private and corporate banks suspended; however, the colonial treasury notes remained fairly good, being on a more solid basis. Colonial treasuries were allowed to continue issuing paper for certain stipulated purposes, as the payment of taxes, duties, etc.

When the continental congress was formed they were denied the power of taxation, but needing money for governmental transactions they authorized the issue of notes. All these depreciated, and in time became worthless and disappeared from circulation. Such experience as this with paper money completely discouraged the people and when the original draft of the constitution was under discussion, an article giving congress the right to emit bills of credit was struck out, as was also a qualified permission of states to issue paper. This latter article was not struck out but rather amended so to deprive states of all power to coin money, emit bills of credit, or make anything but gold and silver a legal tender in payment of debts. On this ground it has been held that banks chartered by the state had no right to issue bank notes.

The first organized bank in North America was formed in Philadelphia June 17th 1780, for the purpose of supplying the army. It was afterwards approved of by congress and given a charter. The capital of this bank consisted of donations, subscriptions and amounts deposited by congress. After the war was over the nation became badly in want of a depository for its funds, other than a private chartered institution. Private enterprises, as a general rule, do not have the welfare of every body at heart, and this was soon detected by an eminent statesman, Alexander Hamilton, who proposed a United States Bank which should issue bank notes and thus relieve the government from the duty of issuing government notes. His bill passed and a United States Bank was founded Feb 2nd 1791, with a capital composed of United states, private, and corporate subscriptions. The bank was a grand success and did a rushing business, but by party strife and a few minor objections it was killed March 4th 1811. The war of 1812 came on the next year, and the United States had no backing except the State banks and they suspended specie payments and issued large quantities of paper with an unreliable or in some instances no basis what ever. Currency depreciated rapidly and 1814 found over 9,000,000$ of government funds in suspended banks. The situation became perilous and as a rescue the United States Bank was re-chartered for twenty years, its charter to expire in 1836. It started with a capital of 35,000,000$, 7,000,000$ of which was subscribed by the government besides being made a depository of public money. The bank was launched in the midst of a financial crisis extending to 1820; however, the bank rallied and came to the front and soon suppressed all the opposition towards it by the pleasing sight of rising stocks and profitable returns. Profitable as it was, its destiny was wrought when Jackson attacked it. He strenuously opposed its renewal and after six years of constant strife, accomplished his end. The State banks were now made public depositorys and all the United States funds found a place in nearly every State in the Union. The result was, that money became plenty and a great stimulus was given to investments. In a short while nearly all the money in circulation became locked up in investments and speculations, while but little remained current for use in ordinary trade. The sound currency of 1830 was an item of history when the financial crisis of seven years afterwards befell the nation; banks suspended in every state in the union and even the old United States Bank (which continued as a state bank after being suppressed) closed its doors. State banks flooded the country with notes, and became reckless and careless. A more strict examination of banks was resorted to by most of states, which proved helpful but yet, States discounted paper of other states, banks watered their stock and made enormous profits, and there was no universal system combining all the banks and making their notes of uniform value.

We are indebted to Salmon P. Chase, Secretory of treasury under Lincoln, for the solution of the problem and deliverance from our tangled situation. He proposed a national system of banking, to be copied from the State system then existing in the State of New York. In New York, the circulation of the banks were secured by state bonds, these bonds to be bought by the banks before starting in business. Then, if a bank failed its circulating notes were redeemed by the state.

This system was opposed from all sides but Chase saw in it a great improvement over the state system, so he kept at it interpreting the articles and explaining its advantages until he secured the admiration of many of his enemies, and on Feb. 25th 1863 the bill was passed. On June 3rd the next year the bill was overhauled and amended, and with the exception of a few later amendments it stands to-day the same as the original. In substance, it provides for a National currency secured by a pledge of United States bonds, and the circulation and redemption thereof. Frequent thorough and exhaustive examinations are relied upon as a means of preserving honesty and straightforwardness in the banking business. Strict laws and their rigid enforcement are prominent features in the National Banking system.

"Wild Cat" banks and "Red dog" currency no longer infest our land, but in its stead we have National banks and National currency both of which are conducted on the very best principles. This system has undoubtedly served its purpose well, but will it stand forever? No; already, defects are being located which render it obnoxious to some; the constant flow of bank reserve to the east is to the detriment of the south and west; the reserve required by law to lie idle and to not be used even in times of panic, is to the disinterest of every one, and a great many other minor objections might be made. The system has lived the greater part of its useful life and in course of time will be reconstructed, or replaced by another, to conform to our advanced age.

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