Growth of Banking

John Potter
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Banking is about as old an industry as is known, reaching back in history through the Romans, Greeks, Phoenicians, and Egyptians, and even biblical history. In primitive times, when man produced everything he used, and there was no exchange between individuals, labor was valued and would have been of no advantage, since they were not thought of as industry. 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 trade could be made easier and also at a great distance. How to facilitate this exchange, it became necessary that some bank should be originated.
The bank in its primitive form is not creative, but only an intermediary between buyer and seller. Another necessity which demanded the establishment of the bank was variety of mediums of exchange 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 occur. The procure 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 table at which the bankers sat to make exchanges, and the word "bank" is a corrupt form of the word "banker". Later, when money was entrusted the bankers and after unsuccessful speculation failed, his bank was broken by his creditors.
and here originates the word "bankrupt." At this stage, deposits of money in another coin were unknown, but now it would be highly probable that the two persons would not meet each other at the bank and consequently we would have live money at the bank to be exchanged when the other arrived. Following on in this same line we have the person who has not used his money immediately and so leave it with the banker, whereas he is perhaps more competent and live lather means to protest it. The next step leads us to the credit system upon a solid base. The depositor is given a receipt for his deposit which he can now transfer to his neighbor representing no medium value, and his neighbor may transfer the receipt to someone else and so on; thus we would have our paper money or certificate of deposit. This latter develops into the true credit system which may or may not have a marketable value.
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 became a leader of money cultivated finance. Deposits by every body were not readily made however until bonds began to incur notice. People were always wary about trusting bankers with money but when notice were tall by furnish they were no safer than if deposited in the bank, as notice 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 became a true banker who acts as an intermediary between the people, a facilitating agent in the progress of commerce. After thus examining the necessity causing the establishment of the bank, and tracing its evolution from the artificer 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 accumulated labor or labor yet to be done. This is the prime and under-laying function of all banking to the community. All other branches are discounting, collecting interest, exchanging etc., and out our clerks to the male 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, and as they even gave an abundance over other towns. The Romans gave evidence 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.
nulice properly recorded in the books. The Augusteum of Rome was what corresponds to money in those days, and as Rome extended her empire, she was organized in the new territory and capital thus found its way from the center of the domain to the remotest 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 live gold and silver with him, but forewrote a bill of exchange with which he could obtain money at any of the banks in the empire. With the downfall of Rome, the tractive credit to be and were not revived until the Republic of Italy was formed.

The election, being a great commercial people, was also among the pioneers in the banking system and long before this, the Romans had attained considerable activity in the handling of money. Nearly all parts of Europe were other financed with goods from the Flora time and as a result were
If 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 there are considered to have been private institutions, but as banks did more or less with public affairs they soon became involved in debt and subscription on the citizens, payable back in twenty years, but nearing the end of the stated time they found that it was impossible to pay the debt, and so started a trade with the debt as a capital. More were issued to the contributors and were used as a money. This trade was successful and lived a profitable life until destroyed by the French invasion in 1797. An 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 coin current. Copper had already begun to come money at its true commodity value, but such money was at once grasped up by speculators and held at a premium, or else hoarded away and left the inferior coins to circulate. Now these banks took all money at its commodity value and coined it into what 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 loan or speculation, sober, money deposited was absolutely safe. But, the germ of corruption that grew of gain worked its way into the institution and caused war.
If 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 back and served as a model for many European banks afterwards.

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 thus 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 this first method of improving
the financial condition. A besteman named William Patterson came to the rescue with a scheme by which a national base could be made and the currency organized into a banking association. Of these 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 one center, the Bank of England, where it is loaned to speculate and commercial uses. 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 stockholders continually cry for a small reserve while public opinion, honest citizens and states men plead for a substantial reserve for upon this rests principally the security of the state.
Having noted a number of the most praiseworthy facts 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, one of the first essential things is a fund 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. To meet this need, issues 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 treasuries and used for colonial purposes were not private issues but public ones governed by the governor of the colony. An 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 adapted by nearly all the colonies. Still the cry was "more money; give us money that we may develop this resource" consequentially (1733) an association of merchants at Boston issued small notes redeemable in ten years. In 1739 this loan bank was started in Massachusetts; the same year a specie bank was established in Massachusetts, which issued notes fixed 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; as 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 interests not having a legal charter from the King. After the extension of this
act, the paper-money circulation depreciated rapidly and all persons holding three
promises or certificates rushed heading
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 treasurers
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 needed money for govern-
mental transactions, this authorized
the issue of notes. All these depreciated,
and in time became worthless and
disappeared from circulation. Such ex-
perience as this with paper-money
completely discouraged the people and
while 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
privilege of states to issue paper. This
latter article was not struck out but rather amended so to deprive state 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 had 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 17, 1781, 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 totally in want of a depository for its funds, other than a private chartered institution. Private enterprise, as a general rule, do not have the welfare of every body at heart, and this was soon handled by an eminent statesman, Alexander Hamilton, who proposed a United States Bank which should issue banking and thus relieve the government from the
duty of issuing government notes. The first inaugural act of the United States Bank was founded Feb. 2nd, 1791, with a capital composed 17 United States, private, and corporate subscriptions. The bank was a great success and did a running business, but by party strife and a few minor factions it was killed March 4th, 1811. The war of 1812 came in the next year, and the United States had no banking except the state banks and they augmented their paper notes and issued large quantities of paper with no redeeming or in assuring no value what ever. Currency depreciated rapidly and 1814 found over $40,000,000 of government funds in suspended banks. The situation became serious and as a result the United States Bank was re-established for twenty years, its charter to expire in 1836. It started with a capital of $35,000,000, $7,700,000 of which was subscribed by the government twelve years made a depository of public money. The bank was please in the midst of a financial crisis extending to 1820; however, the bank
vulnued and came to the front and soon sur-

pried all the opposition towards it by the

pleasing sight of rising stocks and profitable

interest. Profitable as it was, its
distress was corrugated when Section at-
tacked it. It strenuously opposed its re-

seval and after six years of constant

stiff, accomplished his end. The State

banks were now made public de-

prestigious and all the United States

junks found a place in nearly every

state in the Union. The result was that

money became plentiful and a great stim-

ulus was given to investments. In a

short while nearly all the money in

circulation became locked up in mort-

muses and speculations, while but little

remained current for use in ordinary

tools. The word currency 17830 was

a term of history. The financial

crisis of 1809 year afterwards kidney

the nation; banks unsound in every

state in the union, and even the all

United States Bank (which continued as a

state bank after being suppressed) closed
the doors. State banks flooded the country with notes, and became reckless and careless. A more strict examination of banks was resisted by most of States which prove helpful but yet, States discounted paper of these states, banks restored their stock and made enormous profits, and there was no universal system containing all the notes and making their notes of uniform value.

We are indebted to Salmon P. Chase, Secretary 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 these banks were secured by state bond, these bonds to be bought by the banks before starting in business. Then, if a bank failed its circulating notes were ordered 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 article and explaining its advantages until he aroused the admiration of many of the currency and on Feb. 25th, 1863, the bill was passed. On June 3d the next year the bill was overhauled and amended, and with the exception of a few later amendments it stands today the same as the original. On 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 the stead we have National banks and National currency both of which are conducted on the very best principles. This system has undoubtedly
avoid its purpose will but will it stand forever? No; already, defects are being located which render it undesirable to come; the constant flow of salt water to the east is to the detriment of the south and west; the reserve required by law to be idle and to not be used even in times of famine in to the detriment of every other and great many other minor objectives 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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