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AN ESSAY
ON
THE GENERAL PRINCIPLES AND PRESENT PRACTICE
OF
BANKING,
IN
ENGLAND AND SCOTLAND,
TO WHICH IS ADDED
AN EXPLANATION OF THE PRINCIPLES OF
BANKERS' BOOK-KEEPING,
AND AN
ESSAY ON THE PREVENTION OF FORGERY.

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DIRECTIONS TO THE BINDER.

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PREFACE.

ORIGIN OF JOINT STOCK BANKING IN ENGLAND AND IRELAND.

THE Publisher having called for a new Edition of the following Essay on Banking, it may not be amiss briefly to trace the history of the Joint-stock System in England and Ireland from its first suggestion, by this Pamphlet, to its present flourishing state.

The numerous failures and repeated panics which occurred in our Banking Establishments, from 1793 to 1816, gave rise to a variety of suggestions for preventing their recurrence ; the most feasible of which was, in 1818, embodied by the then Chancellor of the Exchequer,* in a

* Mr. Vansittart, now Lord Bexley.

proposition to compel Bankers to give security for their notes. This, however, was soon discovered not to meet the evil, and he was induced to withdraw it. It was not, indeed, until 1821, that Government evinced any cognizance of the fact that England and Ireland owed the instability of their Banks to the charters of their two great national Institutions, which limited the number of partners in other Banking Companies to six.

In that year, in consequence of nearly all the Banks in the South of Ireland having failed, an alteration, with the consent of the Directors, was enacted in the charter of the Bank of Ireland, to permit a greater number of partners, in Banks established beyond the range of 50 miles from Dublin ; but this, as far as it went, was a permission, and nothing more, for the public to adopt a remedy, of the virtues of which they were totally ignorant. The Act explained nothing ; nor yet did the parties who brought it forward. Neither information nor instruction was afforded the public, upon whose hands were left the task and risk of carrying it into execution. It was, indeed, afterwards found

that the Act only admitted an extension of partners on the old system, and did not contemplate the system that was afterwards established, which required a new act, against which the Bank of Ireland vehemently protested as involving a principle not contemplated by her, in the concession she had made. We, therefore, cannot wonder that the measure was passed over, almost unnoticed, both in England and Ireland.

This apathy could only be banished by diffusing that information, from the want of which it arose. Few people were aware of the existence of the Scotch system, and when known, it might be thought well adapted to the peculiar condition of Scotland, without confidence in its answering equally well under different circumstances; and doubts of this kind could only be removed by making the public acquainted with its *principles*. If the mere fact of its existence elsewhere had been sufficient to recommend it, England had had the example before her in Scotland for fifty years; but the people of this country are slow to adopt any foreign system, until awakened to the truth and importance of its principles, as applicable to

themselves. This the author attempted in 1822, with regard to Joint Stock Banking, in the following pamphlet ; and, by it, he not only raised, but settled, the question, as to its advantages. It may be said to give the simple and entire philosophy of the subject ; and as no writer had preceded him in this line of exposition, so no subsequent one has added anything to it.

To produce, however, the intended effect, it was necessary that the Pamphlet should not only be *written* but *read*. The first step which the author took, was to circulate it gratuitously, not only amongst public men, but in the northern counties, with the view of getting together the materials for a Company, and then pressing upon the government for the alteration in the Bank Charter, requisite to legalize it. He had fair prospects of success, when his proceedings were arrested by government taking up the subject themselves, and proposing such an alteration of the Charter as was afterwards effected in 1826. Unfortunately, however, as they had hastily taken it up before the public mind was prepared for it, they as hastily abandoned it,

without assigning any reason, although they had obtained the consent of the Bank and its proprietors.

The efforts of the author did not relax under this disappointment. The Bank Charter was the great obstacle ; and he employed the next two years in endeavouring, by various writings, to impress upon the legislature and the government the policy of its being altered. Upon the *public at large*, however, more effect was to be produced by the establishment of one successful Joint-stock Bank, than by the most elaborate treatises ; and in 1824, a favourable opportunity for this purpose presented itself to the author, who proposed the formation of the Provincial Bank of Ireland, which was established in the following year, and of which he became the chief officer.

On the alteration of the Bank Charter, in 1826, he resigned this situation, to carry his views more extensively into operation. A new edition of the Pamphlet, with an Essay on Bankers' Book-keeping, and the steps proper for the formation of a Bank, was widely distributed, for the instruction of those not familiar with such affairs ; and no labor nor expence

were spared by him in any other respect that could contribute to his object. There were, however, still many difficulties to encounter, and many prejudices and fears to overcome. The great labor is in giving the *first impulse* to the public mind in such matters. That being done, and a few examples of the safety and advantages of a new system being supplied, the stream of public opinion no longer retards, but accelerates it. The author, by much exertion and perseverance, was at last instrumental to the establishment of several respectable and successful Banks, which gave the requisite impulse; and the subsequent rapid progress of Joint-stock Banking may be gathered from the returns made to the Parliamentary Committee on Joint-Stock Banking, last year, (1837). By these it appears, that besides the Metropolitan and Colonial Banks, which the report did not embrace, the paid up capital embarked in Country Joint-stock Banking, in England and Ireland, amounted, at that time, to £11,287,120: that in Ireland, there were seven Banks: that two had not been sufficiently long established to pay dividends; but that five, besides considerable reserved funds, paid an aggregate dividend of £99,855, upon an aggre-

gate capital of £1,503,682, being an average of £6. 12s. 6d. per cent.

That in England, there were ninety-seven in all ; that thirty-seven had been only recently established, and had not paid dividends ; but that sixty, besides their reserved funds, paid an aggregate dividend of £513,112, upon an aggregate capital of £6,492,868, being an average of £7. 18s. per cent.

Thus, from the following pamphlet, as from a germ, has grown up a system which, in a few years, promises to extend its branches over the whole breadth and length of the land, for the protection of our trade, commerce, and manufactures. Nor is the phenomenon a singular one. The country owes most of its great national improvements to the exertions of individuals ; and though these parties rarely reap the reward of their discoveries and labors, it is no reason why they should be debarred from the credit of them.

In the two previous editions a description was given of the steps proper to form a Joint Stock Bank,

with prospectusses, deeds of settlement, and other matters, which are now so familiar to the public, as to render their repetition unnecessary. The supplement, therefore, merely contains the Essays on Bankers' Bookkeeping, and on the prevention of forgery, the latter of which, it has been deemed advisable to repeat on public grounds.

AN

ESSAY ON BANKING.

BANKS are by far the most important of all our commercial establishments. They are the fountains of our currency, the depositories of our capital, and at once the wheels and pillars of our trade. Business to any great extent could not be carried on without them. All who have cash transactions of any kind are more or less dependent upon them. The landed proprietor finds them a convenient place of deposit for the ready money he possesses, or a useful resource in case of need. The capitalist, when he deems them safe, can lodge his money with them, receive interest for it, and have it ready when the chances of trade or changes of property may throw a desirable purchase in his way. Merchants and traders of every denomination are enabled through them to send money to, and receive it from the most distant places; to raise money when in want of it upon the Bills which they receive from their customers;

to have those Bills presented for payment through a channel which in general secures their being duly honoured, and to deposit in them those sums which any particular occasion, or the current demands of their business, require. Their Promissory Notes, also, furnish the country with a useful and convenient circulating medium, and are in the hands of every one.

They are therefore intimately connected with every class of society. Every person who has any thing to do either with capital or money is interested in their stability. But the capitalist, merchant, manufacturer, and tradesman, and all who have large payments to make and receive, are continually under the necessity of trusting them in amounts, the loss of which might prove their utter ruin. They have besides daily to confide in them for the negotiation of Bills and advances of capital, which, in commercial transactions, are continually required.

On this account, a very deep interest is felt in the welfare of Banks. Nothing can in any way affect them without exciting the immediate attention of the public, and (if it involve their credit) without producing the greatest possible agitation and alarm. Thus when the slightest apprehension is entertained respecting their solvency, however groundless it may

sometimes prove, a run upon them immediately takes place. That is, hundreds of people immediately crowd the doors of the Banks, to demand payment of the Notes they hold, or to withdraw that money out of their hands, which they have deposited with them. This puts a stop to their usual Banking operations. People in trade cannot receive that accommodation upon which they have relied, upon which the regularity of their payments, and, consequently, upon which their credit, depends; and no person can take their Bills upon London, for the purpose of remitting money to meet their engagements at a distance (the only mode by which they can make such remittances), without placing their money in a state of peril, which they cannot ascertain to be groundless, until the run upon them is over. All is, therefore, confusion; and the whole community is thrown into a state of apprehension and alarm, which may be better conceived than described.

Upon such occasions the greatest exertions are always made to allay the fears, and restore the confidence of the public; and very great risks are sometimes run in doing so. It is not unusual for the friends of a Bank so situated, to issue out Bills or Notices, pledging themselves to the public, to take its Notes in payment, to any amount. By this measure,

should the Bank happen to fail, many of them would necessarily be ruined. Within these few years, pledges of this kind were repeatedly issued in favour of the Durham, Stockton, and Sunderland Banks, all of whom ultimately failed. As, however, these pledges were not attended with any serious consequences, to those who issued them, it is probable that the Banks did not stop payment immediately when they were issued, or otherwise the public must have overlooked the obligation contracted, and from inadvertency, not have called upon the parties to redeem the pledge they had given.

We may, however, form some idea of the inconveniences in which the mercantile world are involved, when people are found wandering so far out of the track of ordinary prudence as to guarantee the security of establishments with whose affairs they have no intimate acquaintance, and whose insolvency would involve them in certain destruction.

Nothing, in fact, can affect the credit of the Banks without being immediately felt in a corresponding degree by the public; and the actual stoppage of an extensive Banking concern deranges the whole frame of mercantile affairs, and carries confusion, misery, and ruin, into every department of society.

Great, however, as the inconveniences are which the discredit of Banks, and consequent

runs upon them occasion : and great as are the calamities by which their failures are uniformly attended, they have been, both in this country and Ireland, of very common occurrence.

By an account printed in the appendix to the Lords' Report upon the Bank resuming Cash Payments, it appears, that in seven years, viz. from 1810 to 1816 inclusive, no fewer than one hundred and forty-seven commissions of bankruptcy had been issued against Country Banks alone, and in thirty years nearly three hundred ; an average of failures, proportioned to the total number of these establishments, in all probability far exceeding that of any other regular business. -

Sometimes, as if epidemically, the Banks of a whole district fail together, as was the case a year or two ago, in the south of Ireland.* That part of the country, was, in consequence, involved in the greatest distress ; its trade was materially injured, and a shock given to its prosperity, from which it is said not yet to have recovered. The same event happened also in the counties of Northumberland and Durham a few years back, when the Durham, Sunderland, and Stockton Banks failed within a short time of each other. This district, however, was better able to endure it, though the inconveni-

* This was written in the latter part of the year 1821.

ences generally felt were great, and the sufferers numerous. Even in this town, to which the evil but partially extended, the want of confidence and the general state of alarm which it produced, must be fresh in the recollection of every one.

Now, while England and Ireland are continually subject to disasters of this kind, it seems an extraordinary fact, that Scotland is totally free from them : the Scotch Banks rarely, if ever, either failing or losing money.

No one, I dare say, will, from this, imagine, that there is any thing different in the nature of their money transactions, or that trade is subject to fewer vicissitudes in Scotland than with us. I believe that trade is pretty much the same in both nations, or if there is any difference, that the merchants of Scotland are the more speculative, and less stable of the two. But the true cause of the difference is to be found in the nature of their respective Banking Establishments : the Scotch Banks being Joint Stock Companies, while the English Banks are private partnerships.

The Scotch Banks consist of a great number of Proprietors or Stock Holders, who contribute, some to the extent of one hundred pounds, some of a thousand, and some of many thousands. By these means they form a joint capital, establish a Bank, and entrust the ma-

nagement of it to a Committee chosen from their body, called a Court of Directors. The English Banks, on the contrary, seldom consist of more than six partners, though often fewer, and are for the most part, managed by one, or at the furthest by two of them.

To the uniform success of Joint Stock Banking Companies, history affords but one exception, viz. ;—The case of the Douglass, Herron, and Co. (or Ayr) Bank, some account of which is given by Smith, in his *Wealth of Nations*. If, however, we examine the circumstances which produced that failure, we shall find it attributable to causes which are not likely again to occur, and that as an exception, it merely establishes the rule.

About fifty years ago, this Bank was formed in the West of Scotland, by a number of country gentlemen, totally ignorant of business, and entertaining erroneous views of Banking. Their object was not to make money, but to furnish capital, (which was then scarce), to the country at large, in order to promote and improve the cultivation of land, &c. This they imagined could be done by means of a few reams of paper, manufactured into Notes. They were unable to see that it was not in the power of any Bank to keep more than a given amount of Notes in circulation at any one time, and that

the surplus would inevitably be returned upon them for re-payment. Conformably to the object of its establishment, the Bank therefore issued its Notes, with great freedom, in permanent loans, which were immediately expended in agricultural improvements, and when they were returned for payment (having been issued in advances which could not be recalled) it had nothing to pay them with ; and was compelled in a short time, to raise money by improvident expedients, at eight or ten per cent., when it had lent it out to others at five. Such a mode of business was not likely, of course, to be long pursued. The Bank came to a stand in about two years, its proprietors lost money, and it now remains the only exception to the success of such concerns.

It must, however, be understood, that the uniform success of the Scotch Banks, applies only to the Joint Stock Companies. Private Bankers fail in Scotland as well as in other places. The Private Banks in Scotland, however, are but few, and only one or two of them at present issue Notes. They keep the accounts of individuals, and transact business with the Public Banks in the same manner as the Bankers of London transact it with the Bank of England. But the credit requisite even to Private Banks is much greater in Scotland than with

us, in consequence of their having to compete with establishments of superior stability, which do business upon the same terms.

The only Bank failures, however, that I have heard of in Scotland, with the exception of the Ayr Bank already spoken of, are the Merchant Banking Company of Sterling, Grace's Bank of Dumfries, and the Falkirk Union Bank. The first two were each of them carried on by an individual, and the last had only three partners. To these must be also added, the Merchant Banking Company of Glasgow, about twenty years ago, a very small concern, which must likewise, I think, have been a Private Bank, as but few particulars are generally known respecting it. Had it been a Public Establishment, a greater degree of publicity would have been given to its affairs.

In consequence of the uniform success of the Public Banks of Scotland, the most unbounded confidence is felt and reposed in them, both by the stock-holders and the public. Every holder of stock, (except with the chartered companies) however small the amount, incurs all the responsibility of a partner, yet that responsibility having been proved by all experience to be merely nominal, has no effect whatever on the sale of it. A person buys a hundred pounds share of the stock of any of the Banks with the same freedom that he would purchase the same

amount of stock in the three per cent. consols, without the responsibility weighing with him one shilling in the purchase.

In addition, however, to their success, some of the Scotch Banks have very considerable capitals, particularly the Edinburgh Banks, which have from five to fifteen hundred thousand pounds each. Hence their credit is almost unbounded, being considered by the Scotch equal to that of the Bank of England itself. The evils, therefore, which we suffer from the feeble and fluctuating credit of most of our Banks, and the disastrous failures of many of them, are nearly unknown to the people of Scotland.

From the very great credit enjoyed by the Scotch Banks, they are enabled to transact business to a much greater extent, and on very different principles, than with us. From this source still more important, though less obvious benefits arise, and these it may not be improper for us in the first place to consider.

The original and proper business of a Banker is to trade in capital. He ought to be that medium between the borrower and lender in the money market, which a merchant is in other commodities. It is the business of a merchant or trader to buy of the producer on the one hand, and to sell to the consumer or retailer on the other. He acquires a knowledge of both

parties, and they of him, and for his credit, capital, labour, and knowledge, he charges a profit upon the commodity which, through his agency, is transferred from the party who has it to sell, to the party wanting to purchase it. Now, what a merchant is in other commodities, the Scotch banks are in money. They borrow of those who have it to lend, and lend to those who want to borrow it, acquire a knowledge of both parties, and charge a profit of one per cent. upon the transaction. Any person opening an account with them, receives four per cent.* upon the balance in their hands. He may pay money to the credit of his account when he chooses, and he receives interest for it from the day it is deposited; he may draw his money out of the Bank when and in such sums as he thinks proper, and only loses interest upon the sum drawn, from the day of receiving it. On the contrary, any person giving proper securities, may open an account with them, and draw to the extent of the security given, for which they will charge him five per cent. upon the fluctuating balance he owes. Consequently, a person who has money to lend is saved all the trouble, not unattended with risk, of mortgages, and may have his money, or any part of it, at any

* Since the above was written, they have reduced the rate of interest to $2\frac{1}{2}$ per cent., and have raised it again to 4 per cent.—Note to 5th Edition.

time, should a desirable purchase fall in his way ; whereas with a mortgage he cannot draw his money when he wants it—must take it altogether when he does draw it—or, if the borrower chooses, must take it, whether he wants it or not. Their object, however, in borrowing, being to lend, the facilities given to borrowers, are equally great. In the first place, they will discount bills and other mercantile securities, that are perfectly regular and good, at any time, and to any amount. Thus merchants can calculate with certainty upon being accommodated in the course of regular transactions to any extent, which is of infinite service to them, as it would be better for a merchant not to have such assistance at all, than to have any uncertainty respecting it. In the next place, they grant Cash Accounts ; that is, any person in business, by giving two sufficient securities, may open an account with them, and overdraw them to the extent of the security given, for which, as before stated, he is charged five per cent. upon the balance he owes. Very great advances, not to mercantile men only, but to all classes of persons, are made in this way ; and in the last place, they make advances upon real property, some of them to a very considerable extent. The plan they pursue, I believe, is, for the proprietor to pledge his estate, or other property, with the Bank, for a given amount,

open an account with it, and draw as his occasions may require, to the amount prescribed. Thus, when any persons wish to borrow, the facilities held out to borrowers induce them equally with the lenders to make application to the Bank.

As individuals often call in the money they have lent out on mortgage when they can find better employment for it, or when the death of a party produces a division of his property, by which a great expence to the morgagee is incurred in procuring a fresh mortgage, Banks are therefore more to be depended upon, and borrowers being just as much wanted by them as lenders, and the money which they lend being rarely, or in fact, never, called in again until it is the pleasure of the borrower to pay it off, people in want of money, will prefer dealing with the Banks at even a higher per centage, while lenders, on their part, prefer dealing with them at a per centage something less than individuals would give. Thus in consequence of the security of their property, and the readiness with which they can at all times obtain it when wanted, a difference of one per cent. is not found to be a sufficient inducement for the borrowers and lenders to pass by the Banks and to transact their business direct with each other. If they did, the gain would, of course, have to be divided between them, and

a half per cent. would be no compensation to either party for the additional inconvenience, risk, and trouble, in which they would be involved. Whereas the bank being open and ready at all times to meet the wants of each party, unless among particular friends, neither party ever thinks of making further enquiries upon the subject, but transacts the business with the Banks as a matter of course. They are, therefore, at once, the great depositories of the money capital of the country,* and the source from whence the supplies of it are drawn.

Although considerable advances are made by the Scotch Banks upon real property, it is rather a ground of complaint, that they have been too much in the habit of speculating in the funds, when it might have been more to the advantage of their country that they should have lent out their capital at home ; and while lending their money at home appears to be preferable for a Public Bank to gambling in the funds, it seems also to be the duty of such an establishment to lend its money at home whenever it can do so with safety.

The failures which continually take place

* There are thirty-two Banking Companies in Scotland ; and it is computed by the Bankers themselves, that the money deposited with them, by the Public, is considerably above 20 millions.—Note to the 5th Edition.

amongst the English, particularly the Country Banks, and the consequent discredit in which they are held, of course almost totally preclude them from trading in capital in the manner pursued by the Banks of Scotland. The London Bankers are the only Bankers, it is generally understood, who at all do so, and they are not considered good mortgagees. Their strictness in requiring powers of sale, &c. to be granted them, which their limited credit renders necessary, in order to be able to call in their money at the shortest notice, should the state of their credit at any time require it, places the mortgager in a state of disagreeable dependence. The business of an English Country Bank is, however, principally confined to lending out that capital which it raises by the circulation of its Notes, and the comparatively small sums deposited with it, mostly without interest, (its customers seldom depositing more money with it, than their current occasions require) and to buying and selling bills upon London. The advances of capital which it makes are, of necessity, principally confined to the discounting of such short-dated Bills of Exchange, as, through its London agents, can be turned at any time into cash; as it is always liable to be called upon to pay off its Notes, and all the money in its hands, at the shortest notice, it should always be prepared to do so;

and the most prudently managed and best English Banks are those which confine themselves most strictly to the limits which their uncertain credit prescribes to them.

Credit is, in fact, the proper capital of a Bank, without which it is impossible for it to be carried on with any great advantage to the country. For want of this the business of English Banks, extensive as it may appear, is quite inconsiderable compared with that of the Banks of Scotland, and far short of what it would be with a different system.

Thus, then, it appears to be the result of experience, that while our Banks are often destructive, at all times dangerous, and at the very best totally inadequate, from want of stability and credit, to perform their proper functions, the Scotch Banks never fail, nor is any danger ever apprehended from them ; and that, in consequence, Banking is carried on in that kingdom to an extent unknown, and of course, with advantages totally unfelt in our own.

We have stated that the superiority in the success, as well as in the stability and credit of the Scotch Banks, arises from their being public, and not private concerns, which is also

proved by our own experience. We have but one Public Bank, the Bank of England, and it has uniformly done well since its first establishment. The same may also be inferred of the Bank of Ireland, the only Public Bank in that country: lately, when applying for a renewal of its charter, it appeared, that besides its annual dividends, it had made and saved a half a million of money, a sum much greater than the Stock-holders had any conception of. This at once proves, that successful management is not at all peculiar to Scotland, or any nation, but is inherent in the system itself.

The cause of this difference proceeds from the charters of the Banks of England and Ireland, which prevent, in their respective countries, more than six persons from forming a Banking Company, while in Scotland, there is no such monopoly, and Banks can be established on the proper principles, and as many people become partners in them as choose.

From the limited number of partners in our Banks, their management has frequently fallen into hands totally incompetent to such a trust. There is, perhaps, nothing in the theory of Banking very complicated. But to manage a Bank well, requires a degree of firmness, and judgment, which every individual does not possess. If a Banker be too safe, and injudi-

ciously cautious in his transactions, he is apt to ruin his business for want of liberality; if too confident, to ruin himself for want of prudence; while he must possess firmness sufficient to enable him to refuse the most pressing solicitation of even his friends, when necessary to do so. This knowledge, discrimination, and firmness, not only require natural talent in the person possessing them, but previous practice and experience in the business of the world. Whereas persons are often placed in the management of English Provincial Banks, by some connection or other chance, which usually determines the lot of individuals in the common affairs of life. Or, if they are chosen expressly for their presumed fitness for the trust, their fitness will then depend upon whether the partners who chose them, are themselves sufficiently competent to form such a choice; independent of which, however, the energy and vigilance of every individual is at times apt to slumber, and we occasionally find the ablest men get very far wrong.

Now, the true reason of the success of Public Banks may be ascribed to their never being managed by any single person, but by a Court of Directors, periodically chosen by the holders of stock; and their fitness for the trust does not depend upon the opinion of an individual

or two, but of hundreds, founded upon the clear evidence which their successful management of their own affairs has afforded. No man is ever chosen as the Director of a Joint Stock Company, where the choice is unbiassed by influence, who has not given sufficient proof in the eyes of the world of his ability for the management, and has not justly inspired his fellow proprietors with that confidence which they repose in him.

The principal causes which produce the ruin of Private Banks may be stated to be,—first, a confusion in their accounts, arising from a bad or relaxed and careless management, so very frequently exhibited in common affairs ; but which, in Banking, must ever be fatal ; secondly, speculations with the capital in the Bank ; and thirdly, and most frequently, accommodating great houses, either from motives of private friendship, or the temptation of extra Banking profits, until they are so involved that they must stand or fall with them. The two great failures which have happened in this part of the country, were Surtees, Burdon, and Co. and the Durham Bank. The first was produced by entering into private speculations with the capital in its hands, and the last by accommodating a great mining company. But with Public Banks these causes, by which

failures are generally produced, cannot exist. In the first place, the vigilant check necessarily kept upon the Accountant, and those who have the charge of the books, which must at all times show, without trouble to the Directors, the state of the Company's affairs, prevents the possibility of their getting back or into confusion. In the next place, the Directors could not appropriate the money of the Bank to views of private speculation, if they were wishful to do so, as they are a check upon each other. If they were respectable men, they would not attempt it, and if they were not, they would not be there: besides, there is no instance recorded of such a thing. In the third place, they have too little personal interest in the Bank to be tempted by extra profit out of the path of safety, in accommodating great houses: or if any of them were influenced by private friendship to do so, it could never be the case with them all; and they would be also in that respect a check upon each other.

Independent of the general Court of Directors, there is also a Managing Director, Cashier, Secretary, and Accountant, or sometimes Cashier, Secretary, and Accountant, or Cashier and Accountant alone, according to the business done, either the Cashier or Secretary in the latter cases acting as Managing

Director, and taking all the practical management; and if the Directors are careful to choose men fit for these stations, and see that they do their duty, the Company will generally succeed.

The Directors having in general business of their own to attend to, cannot give their whole attention to the Bank affairs. Their part is more to deliberate, judge, and determine, than to contrive. Consequently the Managing Director, or he who is at the head of the executive department, sits with and joins the Directors in their deliberations, and proposes to them such views and opinions as his practical knowledge and undivided attention to the affairs of the Bank, suggest to him. These they take into consideration, and approve, alter, or otherwise direct, as they may think proper. The energetic and profitable management of such a business, therefore, greatly depends upon the ability of its officers, who are expected to submit a variety of views and propositions to the Directors, of which there is no fear that they adopt any which are too speculative. The errors of Public Banks are generally on the side of safety. But when the practical management is not in the hands of men possessed in some degree of ready apprehension, practical energy, and talent for business, it is consistent, I understand, with

experience, that the business is apt to become less profitable.

The business, however, of such a Bank, though it may not be pursued with energy, is seldom neglected. When the directors can give no attention to the concern, they resign, or when it is their turn to go out, are not re-elected. On the other hand, they are not likely to get wrong in taking up sanguine views, by which individuals often mislead themselves. They are responsible in the estimation of the Stock-holders for all that is done, and individually have but little to gain by success ; whereas, if their management produced any considerable loss to the Company, they would be turned out of office, and stand committed with the public in a manner that would necessarily produce feelings of a most painful nature.

As it thus appears that the causes which operate in producing the failure of Private Banks are totally prevented by the constitution of Public Companies, we cease to wonder at the uniform success by which the latter are attended. But the risk incurred by Bankers is not, perhaps, so great as we are apt to imagine. With loans on property, or on the personal securities required to establish a cash account, there is no risk at all. Property is not taken, if not sufficient to cover the loan upon it, and the

sureties accepted when a cash account is opened, are each of them required to be sufficiently able to fulfil the obligation of the bond they enter into. Should anything happen to either of them, another name must be immediately substituted. Independent therefore of the party with whom the account is opened, there are always two perfectly good and sufficient sureties, to make up any deficiency, even to the full amount of the debt, should it be called for.

The greatest risk incurred by a Scotch Bank, is in the Discounting of Bills of Exchange. But even this risk, under proper management, is much less than is supposed. It is said, that the Bank of England, in ordinary times, does not calculate upon a greater loss than one pound in three hundred thousand. Leith is a very speculating town, and its merchants are subject, in consequence, to considerable vicissitudes. Yet the Branch of the Commercial Bank there, during the first four years of its establishment, did not lose one pound out of many millions of discounts, although, in consequence of having entirely new connexions to form, it rejected no business that it could with any degree of prudence accept. The experience of those also, who live in country towns, where the losses which the Banks sustain are generally known, will point out to them, if they have made the observation, that it is only very

rarely that a well managed Bank suffers any loss at all.

The Scotch Banks, in fact, in the arrangements which they make with their agents established in distant towns, assume that there is no risk whatever, and lay it down as a rule, that if they incur any loss, they are to suffer it themselves. The Directors in general select for agents, tried men of business, who have proved, by the manner of conducting their own affairs, their capability of successfully transacting any other that may be confided to them. Securities are required of them in a town of any business, to the extent, I understand, of not less than ten thousand pounds, and they receive a fixed salary of (say) from two to four hundred per annum, according to the size of the place and business done in it. It is, I believe, generally calculated by the Agent, that if he can make out a case of very unforeseen loss, it will be partly allowed him ; but the assumed principle is, that there need be none at all.

It is a most curious circumstance, however, and completely proves the insecurity of private management in Bank affairs, that the Banks lose more money through their agents than in any other way.

The great sum required as a security, the business character he possesses, and the risk he

himself runs, naturally remove all suspicion as to the prudence of his transactions. Should his affairs become involved, he is, perhaps, sufficiently clever to hide it for a considerable length of time. This he probably does with the hope of recovering himself, until the failure, perhaps of some house he has imprudently accommodated, or his deficiency is too great for further concealment, when his own ruin, the loss sustained by the friends who are security for him, and the loss of the Bank besides, to perhaps three times the amount, prove his unfitness for the trust that has been reposed in him.

This does not unfrequently happen, and no greater proof of the insecurity of private management could well be afforded. If Agents, without the temptation of profit, and under the control of their Banks, cannot keep right, how much more likely are Private Bankers to get wrong, without any such control, and with all the usual temptations to influence them.*

Although our Banking System has been so long in its present insecure state, the cause of

* Since this was written, the Scotch Banks have very much improved their system of management, and control over their Branches.—Note to 7th Edition.

this insecurity does not appear to have forced itself on the consideration either of the Government or the public, until lately, when the failures in Ireland, and the lamentable effects produced by them, attracted the notice of the whole kingdom, and called the attention of those interested in the welfare of Ireland, to the subject.

In a conversation, which, in consequence, took place in the House of Lords, upon the state of commercial credit in Ireland, the Marquis of Lansdowne stated, that *the present* distress in Ireland was principally occasioned by the late failures amongst the Banks in that country, which failures were to be attributed to the law that limited the number of partners in Banking Firms, and he called upon Lord Liverpool, with reference to Ireland, to remedy the evil by an alteration of the law in this particular. In answer to this, Lord Liverpool said, "that
 "not only did he agree in the suggestion of the
 "Noble Marquis, but it was his anxious wish
 "that the number of partners should be ex-
 "tended not only in Ireland, but in England," and instanced the hardship of Liverpool, Bristol, &c. being prevented from establishing Banks that would be instrumental to their prosperity and strength.

Since that time a negotiation has taken place

between Government and the Bank of Ireland, in which it has been stipulated, that the Bank shall give up the restrictive clause in its charter with respect to Country Banks, and it has done so without an objection. A Bill has consequently passed through Parliament, by which, in the country districts of Ireland, Public Banks may now be established.

After what has been said by Lord Liverpool, as well as what has been done for Ireland, there can be no doubt of the disposition of Government on the subject. It is the declared wish of Lord Liverpool, who expressed the general sentiment of Ministers, (as their subsequent conduct with respect to Ireland has proved) that the impediment to the establishment of proper Banks ought to be removed, and that this country should enjoy the advantages of a better system.

To again call the attention of Government to the subject, is all that is now, therefore, necessary; and it will be creditable to the spirit and intelligence of the Gentlemen, Merchants, and others of the town and neighbourhood of Newcastle-upon-Tyne, to be the first to set the example. The proper plan to pursue is, in the first place, to form a Company, and then appoint a deputation to wait upon Ministers, and the Directors of the Bank of England, and negotiate with them respecting the alteration pro-

posed, and at the same time pursue such other steps as may prove necessary to the ultimate attainment of the object desired.

That such an application must be made by a Company, to be made with proper effect, is evident. A Company will carry with it a weight which no individual can have, while it will prove how much alive the country is to the advantages of a better system, by its readiness to adopt it. It will also evince a proper confidence in the declaration of Ministers, as made by Lord Liverpool, that they wished to see a better system of Banking introduced; and there can be no doubt that the Ministry will have every disposition to give to their own declaration the earliest effect.

There is in fact but little doubt that Government will use all its influence to get the charter altered, on an application to it for that purpose. There can exist no reason why it should not. Ministers have declared the clause a great evil, and are bound by their sense of duty to endeavour to remove it. They have done so with respect to Ireland; and can have no motive or apology for not doing so with respect to us. Ministers, I suppose, will occasionally be wrong as well as any other set of men; yet so far as we can see, they are generally conscientious. A sufficient ground may sometimes exist for their opinions and conduct being at variance;

but there is evidently none in the present case, and their co-operation may therefore be relied upon.

The charter of the Bank of England does not, however, expire until 1833, and the obnoxious clause will require to be immediately expunged from it. But this can be done without injuring the Bank, and the wishes of Ministers, with the Directors of the Bank, must necessarily be imperative. Besides, we have nothing to fear from the Directors themselves, who, in conducting the affairs of the Bank, have always acted upon disinterested and public spirited principles. Neither can it be supposed that any measure for the public welfare, which was conceded by the Bank of Ireland without an objection, would be resisted by the Bank of England. The consent of the Directors to any alteration which benefits the public without materially injuring the Bank, may, therefore, also be relied upon. Yet, as to anticipate the worst is sometimes the best policy, (viewing it as a possible case that the Directors may not be at once disposed to accede to the wishes of the nation,) we will examine whether, in that case, Parliament ought not to alter the clause without their consent.

The Bank, though intimately connected with Government in its transactions, is an independent establishment, governed by Directors of

its own choosing. It was commenced by individuals as a speculation, and was chartered by Government on the grounds of its public utility. Upon the same principle it has been continued a Bank by its proprietors, and the charter renewed by Government to the present day. It would be absurd to suppose that the Bank proprietors would have carried on the Bank merely to serve the public, had they not thereby served themselves, or that the public would have conferred upon them, A. B. and C. the holders of Bank Stock, any exclusive privilege from time to time, except upon the ground of public advantage.

That the Bank is held to be as much a public institution as a private speculation, is evinced by the interference of Parliament in its affairs. This interference is quite opposed to the common law of the land, yet it is perfectly justifiable with respect to the Bank of England, in consequence of its enjoying privileges as much for the public benefit as for that of its proprietors. The Bank is in fact an engine of the State; and Acts of Parliament are continually made for regulating its affairs, without any reference to the proprietors, but solely for the public convenience; and the right of parliamentary interference in its affairs, when the public good is involved, is clearly established by this usage.

It must, however, be kept in view, that though the affairs of the Bank have been regulated by the independent authority of Parliament, its substantial interests have never been infringed upon. At each renewal of its charter a pecuniary fine or loan, at a reduced rate of interest, has generally been exacted, by which it has fairly purchased the profit to be made by its charter during the term of it. Hence the pecuniary emoluments which were intended to be secured to it, have never been curtailed. Mr. Pitt, when he persisted in drawing the specie from the Bank, protected it from the consequences of his doing so by an Act of Parliament, to suspend the payment of its notes. From this restriction it derived great advantage; and although when the Bank was ordered, by Act of Parliament, to return to cash payments, the measure was contrary to its interests, it only restored the contract to its original footing.

Now the exclusive right of Banking, as a Joint Stock Company, in this kingdom, is of no advantage whatever to the Bank, except in London and Lancashire, and the latter is probably the result of chance. The advantage it derives from it is the monopoly which it secures in those districts to the circulation of its notes. Private Bankers, in London, are not prevented, any more than Country Banks,

from issuing notes, if they thought proper, but they would be continually liable to runs upon them from the never-ending rumours of the metropolis. In the country, a Banker's property is seen; his economical habits, and prudent management, if he possess those qualities, are generally known, and a run upon him, without some cause, cannot so easily happen. In London, on the contrary, the public at large, or even the customers of a Bank, have hardly any means of forming a knowledge as to the management, prudence, or property of its partners. Hence its credit would be totally at the mercy of every offended or malignant individual, runs would continually happen upon one Bank or another, and the town would be in a continual commotion. No Bank, therefore, whatever may be its present credit, would find its interest in issuing notes, and it is probable that as the charter, and the present system of Private Banking now stands, it is perfectly effectual in securing the Bank the monopoly of London.

In the country, however, with the exception of Lancashire, Bank of England Notes have no circulation at all. The Bank of England having no means of issuing its Notes out of London, the Country Banks entirely possess the country circulation. Independent of this, Bank of England Notes do not pass in most

parts of the kingdom, as, where Local Notes can be had, no person in the more Northern or Western Counties, will take a Bank of England Note if he can avoid it. The signatures of Country Notes are, generally, written in a legible and distinct uniform character, peculiar to the writer, and well known to the public. Hence every person can, at least, attempt to form a judgment, whether a note is forged or not. Should his observation upon hand-writing not be sufficient to enable him to distinguish any discrepancies in it, or between it and a printed fac-simile, the notes have, in general, some little figure or etching, with which he is familiar, and in which he might discover any slight variation from the original. But, in consequence of the number of Bank of England Notes to be signed, from their not being more than once issued, the signing clerks and signatures are so numerous, and the latter are written so hastily, that nothing can be ascertained from them ; and the object of the signature is totally defeated. I never remember having once seen a person look at the signature of a Bank of England Note, in order to ascertain whether or not it was a forgery. The rest of the note is also little more than a piece of plain printing, and presents (at least to a person in the country) nothing by which a forgery can be distin-

guished ; Country Notes, therefore, are always preferred.*

In Lancashire, however, there seems to be a prejudice in favour of Bank of England Notes ; and the Banks there do not, in consequence, issue their own, but those of the Bank of England, by which it enjoys the almost exclusive circulation of Lancashire.

It has been very usual to consider the derangement and loss by the circulating medium, particularly to the poor, the greatest evil attending the failure of Banks. This is, however, an erroneous view of the matter ; for Country Notes are, upon the whole, a better currency than Bank of England paper. A good deal of present inconvenience may occasionally for a short time be sustained where the Banks of a country fail all together (as was before mentioned of Ireland) ; but the loss by the notes in actual circulation is widely spread, and, comparatively speaking, little felt. The evil would be trifling if it extended no further than to the Notes which are in the hands of individuals ; that proportion which is held by the lower classes, even taking it in the aggregate, can never be considerable, more especially since the Savings' Banks were established ; it will probably seldom exceed a pound to a hand, and

* For further observations on this subject, see an Essay in the Supplement, on the Prevention of Forgery.

even in that case, the Bank ought to fail on Saturday, the day on which wages are generally both paid and spent. The circulation is principally in the hands of tradesmen, and the richer classes; and there are very few of the latter who would not prefer the risk attending Country Paper, if it were three times as great as it is, rather than incur the plague, trouble, and inconvenience which they suffer from the fear of forgeries, so prevalent with Bank of England Notes, as well as the loss by them, which there is no avoiding. This is incontestably proved by the decided preference which is actually given to the Paper of Country Banks wherever it is circulated, except in Lancashire*.

The circulation of the Bank of England Notes in Lancashire, is therefore founded upon a view of the subject taken by the Manufacturers and Merchants in that county alone, and in consequence it is only enjoyed by a kind of chance. To give the Bank that circulation was evidently not the intention of the charter, while the tenure by which it is held is too frail to be relied upon, and can neither be argued upon as a matter of right conferred by the charter, nor depended upon as a source of profit.

The right, consequently, of the Bank to prevent more than six partners entering into a

* This was written before the One Pound Notes of the Bank of England, and Country Banks were withdrawn.

Banking Company, is, with respect to the whole kingdom except London, a right which confers no permanent advantage upon it, while it loosens the whole frame of commercial credit, of which Banks are the pillars and support. To call it, therefore, a right, with respect to the country, is improper; legally it may be so termed, but equitably it is nothing but a wrong.

It seems also by the Act which conferred it, that this privilege was first granted by a mistake. By stat. 6 Anne, c. 22, it was enacted that "*for securing the credit of the Bank of England,*" no other Banking Company in England should consist of more than six partners. Now it did not secure the credit of the Bank of England in the smallest degree. The credit of the Bank of England depended upon the amount of its capital and the state of its affairs. This Act merely ruined the credit of every other Bank; and it is almost certain that had the true object of the Bill been stated, and had the preamble run thus, "*for the intent and purpose of ruining the credit of all the unchartered Banks in England, it was enacted, &c.*" it may be safely affirmed, that no such Act would have been passed by any British Parliament, at least since the Revolution. The error then committed, has been continued to the present day; but when the practical evils produced by it have been so severely felt, and are become so evident, it is the duty of Parliament to correct it.

Parliamentary interference in the affairs of the Bank, is, as we have endeavoured to shew, a right which practice has conferred ; but, admitting, for the sake of argument, our conclusions on that view of the subject to be erroneous, it must be obvious to the commonest apprehension, that there is a right in any Government to take from any body of men, a monopoly which does them no good, while it does the country a great deal of harm. An indefeasible right of inflicting a wrong, would be a new principle in our institutes.

The only permanent and substantial good which the Bank derives from the clause in its charter is the monopoly of the circulation of London, and its neighbourhood. The circulation of Lancashire, as we have seen, cannot be depended upon.

Now, a worse way of securing the circulation of London cannot be conceived. The object is to prevent the Bankers of London from issuing Notes ; and the manner of doing it is to weaken their credit, and keep it so low that they dare not attempt to do so. Nothing could be more simple, nor more effectual, than to pass an Act to prevent their issuing them. But, instead of that, the object is accomplished by taking from them their credit, the vital principle of their trade. It would be just as proper to bleed a horse in order to diminish his speed ; instead of restraining his pace by an additional bridle and curb,

check it by the weakness produced from the frequent use of the lancet: the object would, no doubt, be accomplished thereby most effectually, but it would also ruin his constitution, and the probability is, in such a case, that upon the slightest trip, both horse and rider would tumble into the ditch. Nothing, in fact, can be more absurd than the present manner in which the monopoly of the Bank is secured, while its baneful influence extends to every part of the country. Our Private Banks are unequal to the burthens they have to support; and it may be truly said, that the Banks and the country are continually, in some part or other, tumbling together into a ditch, and often one so deep that they never get properly out again.

It must be admitted that the restriction is productive of less apparent ill consequences in London than in the country. The reason of this is, that the business of Banking is more profitable in London, (where all business is generally better managed) than it is in the country; for it is principally in the hands of old houses, conducted by acting partners, who have been all their lives in the houses which they manage, and who have raised themselves by their industry, experience, and talents.

All, therefore, that the country requires is, that the monopoly of the Bank of England be secured to it, in a more simple and direct manner. That in lieu of the clause enacting, that not

more than six partners shall enter into other Banking partnerships, it be enacted that no Banks shall issue Notes within the boundaries of the present monopoly. In doing this, there is no infringement of the rights of the Bank. The object of its charter is to give it an exclusive privilege, which by this alteration, will be the more effectually preserved; for it is merely incidentally secured by the present terms of it.

Government have no right to do the Bank an injury, but they have surely a right to remove from its charter any impediment to the public welfare, upon granting it an equivalent. This is nothing more than the principle upon which all Acts of Parliament are passed, for making roads, canals, &c. through private property. The individual is fully compensated for the loss he sustains, and substantial justice being done him, his inclinations are not consulted in the matter.

If an argument in favour of the present system should be drawn from the circulation enjoyed by the Bank in Lancashire, the Merchants and Manufacturers of Manchester have it in their power effectually to destroy its efficacy. They have but to encourage, instead of suppress, the circulation of Local Notes; and whether the present Banks issue them or not, they will, no doubt, by the competition of trade from other quarters, find their way into circulation.

It is, however, equally the interest of the

Bank, to have its monopoly secured in a more direct and less questionable manner. Any person may, at present, issue Notes in London, and nothing but want of credit, prevents Private Banks from doing it. If any plan, however, should be thought of, to give the Notes of Private Banks sufficient credit, there would, doubtless, be found Banks to issue them, and there can also be little question, that the public would, as in the country, give them a preference.

Without entertaining any wish to deprive the Bank of its monopoly, but to show that it does not stand upon the securest footing, how easy would it be for Private Banks in London to adopt the plan proposed by the Chancellor of the Exchequer, two or three years ago, with respect to country establishments. If, for instance, a Private Bank were to issue half a million of paper, it might purchase stock to that amount, and assign it to trustees, and these trustees might indorse and guarantee the Notes, holding the stock to meet their payment, should they be ever called upon by the failure of the Bank. There would then not only be value in the funds sufficient to pay them with, which could not be applied to any other purpose, but the holders of the Notes, should it be necessary, would have a claim upon the estate of the Bank to the full amount of their value, and thus no apprehension respecting them could possibly be entertained. A renewal would, of course, from time

to time, be requisite, but the trustees would take care, for their own sakes, before they endorsed a new Note, that an old one of the same value should be cancelled.

Many other plans might, I have no doubt, be contrived to attain the same object, and render the Notes of Private Bankers perfectly safe to the public, by which they need not as now apply to the Bank of England for notes, but issue their own, and in that case the charter of the Bank would be rendered almost useless. The alteration proposed, therefore, is as much the interest of the Directors and Proprietors of the Bank, as of any set of men in the kingdom. The charter of the Bank does not expressly confer a monopoly, nor could it be discovered from the charter itself, that the monopoly of a circulation of Notes was intended. But if a monopoly was intended, there needed to have been no fear of expressing it in words ; and it would now be desirable to the Bank for it to have that monopoly which it has paid for, clearly expressed and secured to it. Thus there can be but little doubt that we shall meet with the ready co-operation as well of the Directors, as of Parliament and Ministers, in the measure.

The only persons who will be injured by it, will be the present Bankers. But no set of men can expect a country to continue voluntarily to submit to an evil after it has discovered the

cause, and can apply the remedy. They must take the fate incident to all rights or institutions, founded in error: as soon as truth appears, the fabric, for want of its foundation, must be destroyed. But on none can a loss fall more lightly. If a Banker be not independent of his trade, he ought not to be a Banker. He has gained a credit that he is not entitled to; and to deprive him of a business he ought not, and could not carry on, if the public were aware how little security he afforded them, is nothing more than an act of justice. If he be independent of his business, which the great majority of Bankers are, he may lose, but cannot feel his loss very severely.

The Clerks and Managers of those Banks, whose business may be curtailed, will find as good, if not better situations than they had before, with the New Companies, who will, as a matter of common sense, be anxious to employ them, for the sake of their practical knowledge. Hence we may safely calculate, that the amount of positive injury to individuals, produced by the loss of the means of support, from the proposed change, will not be great; and by no means equal to what the failure of any one considerable Banking concern would occasion, under the present system, if it be continued.

In order that we may form an idea of the profit to be made by establishing a Public Bank in this town, we will next examine the success that has attended those which we propose for our models.

The stock of many of the Provincial Banks of Scotland has sold much higher than the stock of the Edinburgh Banks. The Edinburgh Banks, however, are those to which we shall more particularly refer, as the business of this town and neighbourhood is sufficiently extensive to require an establishment of equal magnitude.

There are four Banks in Edinburgh: The Royal Bank of Scotland, The Bank of Scotland, the British Linen Company, and The Commercial Bank. The last established was the Commercial Bank, in 1810; it commenced with a paid up capital of Six Hundred Thousand Pounds; it has divided from 6 to 8 per cent., and its stock is at present at 50 per cent. premium. It has had to contend in a ground completely pre-occupied, and the most ruinous times in our mercantile history; and in struggling to form connections, it has been led into the midst of the failures that have happened, and has met with considerable losses. The Directors have, in consequence, reduced the dividend from 8, which they had paid the first few years, to 6 per cent. Its stock, how-

ever, has not fallen in consequence. It has never, I understand, been higher than it is at present; and there is little doubt, that had it continued to divide 8 per cent., the stock would by this time have doubled its original value. The Directors, it is supposed, will not again divide more than 6 per cent. until they have accumulated such a reserved fund as that, in future, when the dividends are increased, there may never be a necessity for their being reduced again. The success upon the whole of this concern, considering the opposition it has encountered, which was very great, and the bad times it has met with, which were equally so, has not, I have heard, disappointed its Stock-holders.*

The Bank of Scotland,† and Royal Bank Stock, are at a premium, I understand, upon the original capital advanced, of from about 90 to 140 per cent. But their capitals are, I believe, a million and a half each, being unnecessarily large for the trade of Edinburgh. Their credit would be as good, and their business as extensive, if they were to pay off half their

* The stock of this Company is now at £100. premium, besides its having, within the last twelve months, paid its shareholders a bonus of 25 per cent.—Note to 5th Edition.

† The Bank of Scotland has, within the last seven or eight years, paid two bonusses of 25 per cent. each, and its stock is now at 150 per cent. premium upon its actual capital.

capitals, each Stock-holder would then get as much profit upon half his present stock as he now does upon the whole of it. All that a Bank can gain by capital is credit, and when its capital is sufficiently large to put that upon the most solid basis, it is as large as there is any occasion for. More only incumbers it, and would be as well in the hands of the original Stock-holders, many of whom would probably turn it to better account.

The most successful, however, of the four establishments, has been the British Linen Company. It commenced originally with one hundred thousand pounds, which afterwards, either by an accumulation of profits, or by a further advance of capital, was doubled. Upon this capital it annually made very handsome dividends, and also accumulated a reserved fund, which, about eight or nine years ago, amounted to nearly Three Hundred Thousand Pounds, making its capital, in all, nearly half a million. It was not then a chartered Company, but it applied to Government for a charter, and got one, the Proprietors having, it is understood, subscribed a small deficiency necessary to raise their capital to Five Hundred Thousand Pounds. Since then they have gone on, notwithstanding the precarious and disastrous state of the mercantile world, with almost unparalleled success, so that now their half

million of stock is worth a million and a half ; it meets a ready sale at not less than 200 per cent. premium. I do not imagine that their charter has contributed much, if any thing, towards this increase of value. The only advantage the charter gives, is to free the Stockholders from responsibility beyond their respective shares in the capital of the Bank. This, however, can be no advantage in Scotland, where the very idea of danger, beyond a capital of half a million, would be considered as one of the absurdest chimeras that could be entertained. It does not appear that the stock of the Commercial Bank, which is not chartered, sells for a pound less on that account. It is, in proportion to the interest paid upon it, nearly about the same price as the 3 per cent. consols, and it is not likely a charter would raise it higher. It may, therefore, be inferred that the value of the British Linen Company's stock arises altogether from the ability with which the Bank is managed, and the amount of dividends it pays. It must be also considered, that Government could not, with justice to the public, and therefore would not, grant a charter, if it was really any thing more than a name. It would never agree to exonerate any set of men, who enjoyed a certain gain, from the loss incident to it, and throw it upon the unsuspecting public. It is only when the capital of a

Bank is sufficiently great to satisfy the most sceptical doubt with regard to the safety of the public, that a charter can ever be granted. Besides which, if the freedom from personal responsibility conferred by the charter on the Stock-holders of the British Linen Company, had been of any real use in freeing them from risk, it must have destroyed their trade. Nobody would make permanent deposits in a Bank, whose partners, by any peculiar privilege, were freed from the loss which their own transactions involved. They would naturally have dealt with those that had no charter, in preference, or with the other Chartered Banks that had three times the capital. Had the charter not, in every respect, been a mere dead letter, it must have injured the concern.

It is evident, that if Banking is carried on at all, it must be with a profit more than adequate to the risk incurred; and those who gain the profit must take the risk they are paid for. The reason why the charges of Bankers are so small is, that they are found, with judicious management, to cover all risk, besides leaving a sufficient profit.

The business for a Bank in this town and neighbourhood, I should think by no means inferior to that of either the Commercial Bank or the British Linen Company. In the present state of the country, however, as it is far from

being certain that Government may not be compelled to reduce the interest of the national debt,* it is not necessary to make out a case of extravagant profit, in order to induce capitalists to enter into such a concern. Equal interest, with greater safety, would of itself be a sufficient inducement. But with the chance, which experience has reduced to a certainty, of increasing their capital at least 50 per cent., what probability is there of capitalists turning their money at present to such account in any other way?

As this Bank will be the first of the kind, it will also, with equal management, be the best. There is no connexion more stable than the connexion of a Bank. When a person once opens an account with it, if he does his business creditably, he never has occasion to leave it; and if he does not, he could gain nothing by the change. Hence it generally happens that Merchants adhere through life to the Bank they begin with, provided it preserves its credit. When, however, in addition to this, we consider the fine field which this great mining and commercial district presents, we may be a little more sanguine in our calculations. I should think we have a right to expect as great a profit

* Since the meeting of Parliament all fears, on this head, appear to be removed.—Note to 2nd Edition.

as has ever been made by any Public Bank yet established.

Where Public Banks have not been established, and I may say, also, where Private Banks have, there appears always to have existed a prejudice on the subject of Banking. On this account, at the first formation of Public Banks, we generally find it has been considered politic to encourage them, by granting charters. That there exists at present in this country a great prejudice against Banks and Banking, from the disasters they have produced both to the partners in them and the public, there can be no question. As also there can be little doubt that when the present impediment is removed, Government will be disposed, for the benefit of commerce, and for the general convenience derived from Public Banks, to encourage them, I should suppose that where a sufficient capital is subscribed, there will be no objection to granting a charter, if it be required. I would therefore propose, that the Bank in question be commenced with a capital sufficient to command a charter, if one were desired, or to make it a matter of perfect indifference in the event of Government declining to grant charters, whether one were to be had or not. It is also reasonable to suppose that in granting charters, Government will only require such an amount of capital, to be possessed by each Bank, as the business of the place where

they may be established, shall seem to render necessary. The capital required for a Bank in Manchester or Liverpool, where mercantile transactions are so large, could not be employed in a small town like Sunderland, and would never pay in a town like Newcastle.

Considering the business of this town and neighbourhood, however, we should suppose that Government would not grant us a charter under half a million of capital, if it would even grant a charter at all with a less sum; and we should think, that with such a capital, it would be immaterial whether we had a charter or not. The most sceptical, whatever their prejudices on the subject might be, could never imagine any danger with such a security, either to the public with a charter, or to the private property of the Stock-holders without.

So large a capital, however, would warrant a greater extension of business than our own town affords. The Edinburgh Banks have agencies, and do business to a great amount, in all the principal towns of Scotland, which no doubt is on the aggregate found to pay them. In that respect it is proposed, with reference to the neighbouring towns at least, that we shall follow their example: but while we do this, we must also endeavour to improve by their experience. And the following is the plan we beg to submit:—

1. That a Bank with a capital of £500,000 be established in Newcastle, with Branches at Durham, Sunderland, Shields, and any other place which may be hereafter determined upon.

2. That no individual shall be allowed to hold more stock than to the amount of, say two thousand pounds.*

3. That the capital be subscribed as follows:—Two hundred thousand in Newcastle and neighbourhood; one hundred thousand in Sunderland; fifty thousand in Durham; fifty thousand in Shields, and their respective neighbourhoods, and the other hundred thousand as may be hereafter determined upon.

4. That the Bank in Newcastle be governed by four Directors, three of them chosen by the Newcastle Stock-holders, and the fourth to be their Chairman, and be chosen by the other three. One of these Directors to go out annually, and not for one year be eligible to be re-elected. That the Chairman be elected annually, and be eligible to be re-elected.

5. That the Branches be governed by three Directors, chosen by their respective Stock-holders, and a Chairman chosen by the three Directors, in the same manner as with the main branch in Newcastle.

6. That the Branches be under the general

* A Director is in general allowed to subscribe for a much greater amount than any other individual.

management and controul of the Court of Directors in Newcastle, who shall receive daily or weekly accounts of their transactions.

7. That the Chairmen of the Branches form, with the Newcastle Directors, a Committee of General Management, and come into Newcastle every month to examine the affairs of the establishment, and consult and decide with the Newcastle Directors all questions and rules of General Management, which it may be necessary from time to time to lay down.

8. That none but the Chairman, and the Newcastle Directors, shall inspect the particular transactions of each Branch; but that a general meeting of the whole Directors, shall be periodically held for the purpose of making laws, or may at any time be called to consult upon any given question, either with respect to the transactions of any Branch with an individual, or upon any specific point of management which may be proposed to it, and its decision to controul and bind the Committee of General Management with respect to that point; and two Directors to have at any time the power of calling a General Meeting.

9. That there also be a Governor and Deputy-Governor, the latter of whom to be chosen by the Committee of General Management, and the former either by the Directors at large, or the Stock-holders. The Governor to be principally

an honorary appointment, and to be a member of one of the two Houses of Parliament, and the Deputy-Governor some gentleman resident in Newcastle, who has leisure and inclination to give his attention to the affairs of the Bank, and preside at the Monthly Meetings.

10. That the executive officers of the Establishment consist of a Cashier and Accountant, with a Secretary, if required; and such other Clerks as are necessary for each Branch, and a Managing Director in Newcastle.

11. That the division into Branches extend only to the division of the capital and management, and not to the profits, which shall be divided equally.

This gives a general outline, and I need not give more. The first step that the Company will have to take must necessarily be to appoint a Committee, to procure all the laws and regulations of the Public Banks of England and Ireland, and the leading Public Banks of Scotland. They must examine into their comparative success, and the cause of it, and from their rules draw out such a constitution, as, with reference to the peculiarities of our local situation, shall be the best fitted to secure both the safest and most profitable management. In proposing this outline, my object is principally to suggest the enquiry, and not by any means to presume that

a better plan may not be adopted. That the constitutions of some of the present Public Banks are not so good as they might be, and not suited to such a town as this, I am pretty well convinced ; and as it is difficult to make a change after a constitution is once acted upon, it will be evidently proper to consider the subject well beforehand. The outline which I have given, I shall, however, take the liberty of illustrating by a few explanatory observations.

In the first place, the capital proposed will at once have the effect of giving the concern stability, and of securing the unlimited confidence necessary to be reposed in it by the public, in order to render it equally profitable and useful. In the next place, limiting the amount of stock held by each individual, will keep the concern in the hands of the public. It is very usual with Private Bankers, and other wealthy individuals, to buy largely of the stock of the Public Banks in Scotland, which is a disadvantage to them, as the greater the number of persons interested in supporting such a concern, the better. There are two individuals who each hold upwards of a Hundred Thousand Pounds of the British Linen Company's Stock, neither of whose accounts with it are so profitable, nor, in all probability, is their influence in its favour nearly so advantageous, as the transactions and influence of a respectable tradesman, or mer-

chant, would be, who was in a situation to hold £2,000 Stock, independent of the capital of his trade. One of them is, in fact, himself a Banker, and issues Notes, so that he must be a rival, as far as his business extends, and not a friend to the Bank. By this means it is deprived of at least a hundred interested supporters, which, by our plan it would have, and the profit of the smaller Stock-holder is diminished in a corresponding degree. There is also another practical evil, of still greater importance, which would be avoided. The Private Bankers in Edinburgh who do not issue Notes, keep an account with one of the Public Banks, in the same manner as the London Bankers do with the Bank of England, and discount with it, or draw upon it, for the cash they require. They have, generally, made it their policy, to buy largely of the Stock of the Bank they do business with, so that by the amount of their stock, together with their private influence as Bankers, they might get themselves chosen Directors. By that means they not only gain an undue preference in their transactions with the Bank, but, as it has been proved, have, sometimes, for years together, contrived to render the Bank totally subservient to the extension and profit of their own private business.

Where great Public Banks are established, there will always be trade to a certain extent for

such Bankers. They draw upon London, act as Bill Brokers, charging a commission upon their discounts, &c., and when capital is scarce, by their superior credit and influence in obtaining discounts, contrive sometimes to do business to considerable extent. We may consequently expect that the same, in a greater or less degree, will be the case in this town; and as such Bankers here will have the same interest to prompt them as in Edinburgh, they may be expected to endeavour to take the same steps.* But by limiting the amount of Stock held by each individual to £2,000, no monopoly can take place, and one Stock-holder cannot possess any advantage over another.

Such persons generally, no doubt, get possession of the Stock by giving the best price for it; and by preventing the competition of cash parties, individual sellers will not obtain, at the moment, quite as much as it would otherwise bring. By a strict adherence, however, to the rule, the profit of the concern will be improved, and instead of a holder having to sell his Stock with a dividend of 10 per cent., it may leave a dividend of $12\frac{1}{2}$. Thus though he may not get so much for it when it comes into the market, as with a free competition, yet he will evidently get more

* It appears to be thought that this would be best guarded against by a law that no Banker should be eligible to be a Director.—Note to 5th Edition.

for it than if, from the consequence of such competition, the dividends were $2\frac{1}{2}$ per cent. less.*

With respect to the division into Branches, there can be no doubt that by thus effectually embracing the business of the different towns wherein they are established, the profit of the concern will be materially increased, and the capital, which might be too large for Newcastle alone, will become only proportioned to a plan so much more comprehensive. But there will be also great advantages derived from it in the system of management which it affords.

There are two objects to be aimed at in planning the constitution of a Bank. First, its safety; and next, its success. And though safety is a natural consequence of success, yet there may be great safety where the success is but small. They are, in fact, partly opposed to each other. That constitution which would best secure the one might be very liable to diminish the other. In a multitude of Directors there would be safety, but the chances would not be so much in favour of success. It is commonly said, and with truth, "What is every person's business is the business of no one;" and this, in

* Limiting the amount of Stock that shall be held by any individual willing to purchase it at the market price, has been considered liable to great objections.—Note to 5th Edition.

some degree, would be the case with a multitude of Directors. The common routine of transactions would be done by the officers of the institution; but no able or energetic, and successful management would be attempted. The responsibility lies with the Directors at large. No individual Director would consequently take any step of the least importance himself. Nothing would be done without a majority present, and too little interest would be felt by the majority for it ever to attend. Besides, when many people meet, they talk more than they act: and if they differ in opinion, are apt to do nothing, leaning always to the safe side. Little being therefore done, and always that little with superlative safety, the business of the concern might suffer by it. It will sometimes happen, as with the Bank of England, where a considerable business is necessarily done, that with a number of Directors a good arrangement may be adopted, and the management go on tolerably well. But the Bank of England derives its business from its monopoly, in spite of its Directors, and not from its superior management. Four and twenty Directors could never successfully compete with the management of a smaller body. This is partly proved by its own experience. It does business upon the same principles as the Private Banks, yet notwithstanding its superior credit, it obtains com-

paratively little private business, the circulation of its Notes, and the business of Government being the chief sources of its profits.* On the contrary, were the Directors fewer, the interest they felt would be greater. The whole credit of the management would attach solely to them ; they would acquire a better knowledge of it, do it with more ease and pleasure, and give that spirit and energy to the direction, by which the business of the concern would be extended, and its profits increased. There is also another disadvantage arising from too many Directors. Few people like their cash transactions to be known, and none, that they should come under the view and cognizance of their neighbours, who might sometimes even be their rivals in trade. This will always be particularly the case with borrowers, who are as good customers, and as necessary to a Bank as lenders : and when there is a great number of Directors, people are apt to feel that privacy is almost out of the question. This, I dare say, is one of the principal causes which gives business to the Private Bankers in Edinburgh ; and it will always induce many *country gentlemen* (more particularly those with whom a few shillings per cent. is less an object) to do their business with

* Since this was written, the private deposit business of the Bank has very much increased, and is now one of its best sources of profit.—Note to 7th Edition.

Private Banks in preference, if they possess the requisite credit, or can give them the accommodation they require.

Now, by the plan proposed, we shall combine all the advantages of both public and private management, without the drawbacks of either.

For these reasons, the fewer the Directors the better : but there could not well be fewer than four ; and, indeed, perhaps no Bank could be safely trusted to the management of so small a number. By the Branches being under the control of the Newcastle Directors, however, while they will enjoy all the advantages of the most private management, they will have all the security of the most public. The same will be the case with the management at Newcastle : it will regularly come under the inspection and control of the Chairman of the Branch Directors, and any thing wrong in the management will immediately be discovered, and corrected or exposed. By this means, no doubt, the transactions of individuals with the Bank will be reviewed by more than four Directors. They will, however, generally be strangers ; and people have a much greater objection, in money matters, to be immediately under the cognizance of their neighbours, and those they are known to, than they have to their affairs being reviewed by persons who do not know them, and who only stand in the relation towards them of A. to B.

A declaration, however, if not an oath publicly made, ought to be required from every Director, that he would never make the transactions of the Bank a subject of conversation to any but those concerned in the management; and from the Committee of General Management, that their individual communications to the Branch Directors, should embrace only points of general management, unless a General Meeting is to be called, and any question to be discussed, which may involve the detail of any particular transactions. By this means the public would be continually *reminded and assured* that their transactions would have the greatest privacy possible, an assurance which, there can be little doubt, would be of considerable benefit to the business of the Bank.

Another great advantage of this plan, is the superior activity which a comparison with and inspection of each other's management will naturally produce. While the Directors at Newcastle will require a good account of the management of the Branches, they will naturally be anxious to give as good an account to the Branch Directors, in return. Thus, by being poised against each other, a mutual emulation will be excited, which, by keeping the interest and attention of all parties continually alive, must prove of incalculable service in promoting the interest of the establishment; for a falling

off in the time and attention given, and the trouble taken, by those entrusted with the management, is the easily besetting sin of the Directors of all public concerns.

If the public could be equally assured of the goodness of the management, it would be better that the Directors once chosen should never be changed. The secrets of the Bank ought to be kept in as small a compass as possible.

The management of a Bank also requires a practical knowledge, which, of so great a business, must take some time to acquire. Of this the Scotch are aware; and though some of the Directors go out every year, they generally re-elect such as have been Directors before, so that the same set of persons, whom experience has rendered the most fit, are continually in the management.

In order, therefore, not to have more changes than necessary, and to introduce no strange faces that can be dispensed with, it is proposed that but one Director shall go out each year in rotation, and that the order of rotation shall not be imperative. If to retain a Director, whose usefulness is such, that his brother Directors think he ought not to retire, or if to permit one to go out who may have found that he cannot give the attention required, the Directors choose to alter it, so much the better. In so small a number, it would neither be desirable

to lose a good Director, nor to retain a bad one; and of their respective qualifications and usefulness, the Directors will themselves be the best judges. It will also generally happen, that there is some one individual who has more time, takes more pleasure and interest in, and gives more attention to, the management than the rest, and the object in giving the Directors the choice of the fourth member themselves is, that they may choose this person for their Chairman. He will always have the most knowledge of the transactions of his particular branch, and will be the fittest to give any explanations respecting it, at the monthly meetings of the Committee of General Management, and will have the greatest tact and fitness for that inspection and judgment which he will be called upon to exercise as to the transactions of the other branches, that will come under his review.

The monthly meetings of the Chairmen of the Branches, with the Newcastle Directors, being for the purpose of scrutinizing and controlling each other's management, it is possible that differences of opinion may sometimes arise. In order, however, to prevent such differences from producing any disunion (which varieties of opinion, when people are earnest in a pursuit, have been known to cause,) it is proposed that the Deputy Governor who presides at these

meetings shall have nothing to do with the particular management of any Branch. Being chosen by the Committee, whose respect and confidence he will in consequence naturally enjoy, he will possess sufficient influence to prevent any such event from ever happening. It is likely, however, from the character and respectability of the parties, that a misunderstanding is merely a possible, but not at all a probable event.

The Governor having an honorary station only, should be chosen in a manner calculated to convey the greatest compliment, and should always be a member of one of the Houses of Parliament, that he may be a man of undoubted rank, and able to secure a parliamentary interest and co-operation in promoting any measure, or procuring any act, which may hereafter be wanted.

The superior power of control possessed by the General Court of Directors, does not involve its interference in the details of the concern, and will not, consequently, in the least degree, embarrass its operations, which might be the case, if it were called upon to take a practical management. It will merely be a superior court of appeal, to which reference may be made upon any particular question or point, by the Committee of General Management, or

any two of its members. Its judgment and interference will be merely occasional, and never exercised without being specially called for, which it is probable will rarely be the case. The existence of the power may be useful, though never exercised.

Independent of these different checks, the Managing Director ought to make periodical visits, more particularly at the commencement of the concern, to aid, with his advice and assistance, the Directors of the Branches. By thus diffusing his practical knowledge into every department, a general uniformity and harmony in the direction of affairs will subsist throughout, which will render the positive application of any one of the checks an event rarely called for.

By the pursuit of this plan, there would be every probability of the establishment being conducted both with safety and success. The whole management, in a short time, would become a very well understood routine. Any appeals would merely take place on particular occasions, by the Directors of the Branches requiring the additional authority of the Committee of General Management; or on any important point, requiring the additional authority of the General Court of Directors, to relieve themselves from responsibility.

Branches may also be established at Berwick, Carlisle, Stockton, &c. upon the same principles, but the distance would be too great to require the monthly attendance of their Chairman. If they came once or twice a year, to ascertain, for the benefit of their constituents, the general state of the concern, it would be sufficient. In any large town, however, where an Agent was appointed, and any considerable business done, it would be better to have a Board of Directors. No business could be done to any extent, without a discretionary power exercised upon the spot ; and the experience of the Scotch Banks has proved, that it is not safe to entrust such a power to an Agent. With these few observations we will leave the plan to the consideration of the Public.*

* The principle of this plan has in several instances been very successfully adopted.

SUPPLEMENTAL OBSERVATIONS TO PAMPHLET.

SINCE the first publication of this Pamphlet (1822)* three Scotch Banks have stopped payment. The Stirling Bank, the Fife Bank, and the East Lothian Bank. The first of these was a private Bank, but the two last were Joint Stock Companies; by which, though the public suffered no loss, the Shareholders lost considerably.

The Fife Bank was established about twenty years ago, and the East Lothian Bank in 1810. The uniform success of the public Banks of Scotland, for a long period of years, had at this time, produced a general confidence in them as profitable investments for capital, and had removed much of that prudent caution on the part of the public, necessary to be observed in entering upon any undertaking, but more especially on that of a Bank.

The Fife Bank was established at Coupar, a small town, the capital of Fife, and centre of an

* These Supplemental Observations were written in 1826.

agricultural district. The subscribed capital, I believe, was £25,000., divided into fifty shares of £500. each, and only part of it was paid up.

The parties who formed it, as well as the shareholders, chiefly consisted of the proprietors of land, and farmers in the neighbourhood. They chose a Board of five Directors, who knew nothing either of business or Banking; and they appointed a lawyer for their cashier, who was as little competent to conduct the business as they were. He was consequently obliged to employ a deputy, and this deputy had the almost uncontrolled management of the Bank. The impunity with which he could make use of the Bank's money, from the ignorance and inattention of the Directors and principal Cashier, was too great a temptation to be resisted, and the first one appointed died a defaulter to the Company. This did not lead the Bank, at least for any length of time, to adopt a better system; and the next that was appointed was, by the same facilities, led to embark in different speculations with the Bank's money. The remissness with which the parent Bank was conducted extended itself to every department, and they lost by one or two agents 25 or £30,000. Independent of this, the principal Cashier became largely indebted to the Bank as well as some of the Directors. In short

the Bank in about twenty years lost £80,000. During the greater part of this time its books had never been balanced; and although its losses had been so great, it continued to pay handsome dividends until it stopped payment. In this there must, of course, have been fraud; but it is, I believe, probable that the Directors were in a great degree ignorant of it. The absurdity committed was that of entrusting, in the first instance, the management of a Bank to parties who, from their occupations and habits, were totally incompetent not merely to manage it, but to exercise any check over those to whom they entrusted the management under them. No Bank could be expected to succeed, without a miracle, under such circumstances. We might as well expect to make a safe voyage in a ship with a landsman for a pilot who had never been at sea before, or without any pilot at all.

The East Lothian Bank was established under circumstances precisely similar to the Fife Bank. It was situated at Dunbar, in the centre of the agricultural district, the name of which it bore. The capital paid up was £20,000. The Shareholders were chiefly farmers, and, with the exception of one person, the Board of Directors consisted of persons who were merely nominal Directors: this one person also was practically engaged in extensive concerns, and did not attend to the Bank. The management of the

Bank was thus left almost exclusively to the Cashier, and the temptation was too great for him. He entered, in connexion with his brother, into extensive speculations with the Bank's money; these speculations proved unfortunate, and he was led to adopt an extensive system of forgery in order to hide his defalcations. The Bank lost by him upwards, I believe, of £100,000. It would have proved, I have understood, a good concern, had it not been for this robbery; which, however, might have been prevented by a good system of accounts, and the least attention on the part of any one Director who understood accounts, or would have taken the trouble to make himself master of them. Had such a system of accounting, for instance, been adopted in both these Banks, as is pointed out in the following essay, and had a balance-sheet been produced every week, with a list of all the debtors of the Bank who owed them above a given sum, say £1,000., I do not imagine, even with the Directors of these Banks, that they could have got far wrong. Every temptation to apply the money of the Bank, on the part of the Cashiers, to their own purposes, would, in that case, have been removed. It was simply by not being called upon to produce clear and comprehensive statements of the accounts of the Banks, that these frauds were at all practicable. Had such statements been requir-

ed, and their correctness been properly ascertained, which might have been done with ease, the idea of misapplying the funds of the Bank would, probably, never once have entered into the mind of the Cashiers of either establishment. Instead of employing their thoughts in the conducting private speculations underhandedly, and their ingenuity in mistifying the affairs of their Banks, to prevent their malversations coming to light, they would have devoted themselves, in all probability, to the honest discharge of their duty, and the concerns would have both been very successful.

There have been, I find, one or two more instances in Scotland of the same kind of blind confidence in one individual, being attended with losses of a similar description; but their timely discovery prevented their being carried to such lengths.

Now the question for every person who may feel disposed to embark his capital in a Joint Stock Banking Company is this, are the Directors of such Banks fit persons for Directors, and is there any chance of them, at their own hazard, as well as that of the proprietors, leaving the uncontrolled management of the Bank in the hands of a Cashier for a great number of years? If they think there is no apprehension of such being the case, these instances prove nothing against the principle,

that the Banking business is a safe one in the hands of a Board of Directors ; they, on the contrary, serve to establish that Banking never is safe in the hands of an individual.

It may certainly be admitted that these instances afford a strong argument against the establishment of small Banks in agricultural districts where proper Directors are not to be obtained ; and indeed generally against the establishment of Banks on a very limited scale. The business of small places can be just as well, if not better done, by Branches from a large establishment ; while the division of labour necessary in every large Bank, and the system of checks consequent thereon, put an end to the idea of frauds of any great magnitude ; besides placing the superior officers more out of the reach of temptation, not merely by rendering fraud impracticable, but by their receiving better salaries, and holding a more respectable station in society. So that they have more to lose by any deviation from the strict path of rectitude, than any chance of gain they can propose to themselves.

ON BANKERS' BOOKKEEPING,

ILLUSTRATED WITH REFERENCE TO A COUNTRY JOINT STOCK BANK, ON A LARGE SCALE.

In the common mode of book-keeping by double entry, with which all merchants are familiar, every transaction is entered in one journal and one ledger. An account in the ledger is opened for every person who has dealings with the house, and for every speculation or investment in which its capital is employed. An account is likewise opened for the capital in the trade, and one for the profit made and the losses incurred. These, with the account of cash, or money paid and received, which is usually kept in a separate book, embrace the whole affairs of the concern.

But though the ledger thus contains every particular of the transactions and circumstances of the house, it will, at the same time, only give explanations in detail. Reference to it

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can be had only as to particular accounts. In order to be put in full possession of the general state of the transactions, it is necessary to take out and bring into one view the balance of every individual account, and of course to balance every account for that purpose. This is a work of some labour, which interrupts the regular course of business, and can only be done once or twice in the year.

The balance of each account is either a Dr. or a Cr. balance ; it shows either a sum due to the house by some individual or some speculation, or the converse ; and, if a list of each class of balances be made, including that of cash, they will agree in amount, provided the accounts have been correctly kept.

These lists will give the balances in the order in which they stand in the ledger, but every merchant finds it necessary to have a more comprehensive view of his situation. He wishes to know the extent of capital employed in different speculations, and the amount of the debts he owes on the one hand, and what is due to him on the other, so that he may at once know how he stands at present, and how to govern his future proceedings. With this object, he will make separate lists of his debts and credits, and other classes of accounts so as to ascertain the the totals of each. Indeed, every merchant must, at all times, have some such general

idea of his engagements and resources, or he would never be able to conduct his affairs with the requisite judgment and prudence. But if he be in any extensive trade, he cannot obtain a complete and accurate statement more than once or twice a year.

Such a statement once or twice a year, for a merchant, may perhaps be sufficient; but a Banker is obliged to pay off the greatest part of his creditors at a moment's notice if called upon, and ought to know, at all times, with great accuracy, the amount of his credits and the state of his funds and resources. Those Bankers, notwithstanding, who keep their accounts in the common manner, cannot any more than merchants, balance them above once or twice in the year; and, in consequence, have sometimes a very imperfect idea of their engagements, and take steps they have too often occasion seriously to repent.

When the transactions of a Bank, however, become extensive, and the posting of the cash-book* and ledger become too much for one clerk to accomplish, it is obvious that more

* The cash-book is to a Bank what a journal is to a merchant, namely, the book in which everything is entered before being posted to the ledger. The only difference is, that the cash-book, like most of the other books in a Bank, has a Dr. and Cr. page, which a journal has not.

ledgers and cash-books than one will be necessary, under any system of book-keeping ; and two modes of multiplying them may be adopted. First, the accounts may be divided alphabetically, and ledgers and cash-books be kept for the different letters of the alphabet ; and next, the accounts may be classed, and cash-books and ledgers be kept for the different classes. The former would be an extension of the common mode of book-keeping ; the accounts would be mixed in one mass as before, and give the Banker no general idea of his situation. But this would not be if the accounts were classed : it would in that case be a matter of no difficulty to produce a correct account at all times of both the funds, debts, and credits of the Bank, so that a clear view of its situation might at any time be had. We shall say, for instance, that the Bank has two classes of persons who deposit money with it ; one class who place sums at interest, and have no running account ; and another class who have an open account, and at all times keep a balance in its hands ; and that it is desirable to know the amount of deposits by each class. If each class had a separate cash-book and ledger, each cash-book, on being added up at night, would show the amount of money which had been paid in on the one hand, and drawn out on the other, through the day by each description of depositors ; and if the

amount of every day's receipts and payments by each were carried to a separate account, in a book for that purpose, these accounts would at all times show the total amounts of deposits which each class had in the bank.

Thus we shall suppose that fifty people, who have current accounts, pay in to their accounts, in the course of the day, £40,000. altogether, and that forty people drew out £30,000.; it would appear, on adding up the current depositor's cash-book, that £40,000. had been received on the one hand, and that £30,000. had been paid on the other, making a balance of £10,000. which the lodgments by that class of depositors had been increased. Now by carrying each day, from the commencement, to one account, the results thus obtained, the balance of this account would show, at any time, the amount of lodgments which this class had in the Bank. This, with regard to every class of accounts, whether creditor or debtor, is precisely what a Banker wishes at all times to know; and by carrying this principle of classification throughout all the transactions of the Bank, he could constantly possess the information desired: and this too by merely increasing the number of books, without any material addition to the quantity of writing: for, by classing the entries, he would not increase them.

Let us suppose, then, that all the accounts of a Bank are divided, as above-mentioned, into such classes as are necessary to give a complete view of how it stands; that, in a book or ledger for that purpose, a head is opened for each class, to which the gross amount of transactions in it, both Dr. and Cr., are posted every day. By taking out of this book the balance of each account, and arranging them Dr. and Cr., we should have such a balance-sheet as the Banker, who keeps his accounts on the common plan, can only obtain once or twice a year with great labour; whereas, in consequence of there not being more, probably, than fifteen or twenty accounts in this book to balance, a statement can be obtained from it in an hour or two, whenever it is wanted, without interrupting the general business of the Bank.

The most improved system of Bankers' book-keeping is founded upon this principle of classification. In a book or ledger, called the general ledger, or ledger of general balances, there is a head for every class of accounts, and for those particular accounts, the state of which must be known at all times. There is besides a general cash-book, in which the result of each day's transactions from the different subsidiary cash-books are first entered, and then posted to their respective heads in the ledger, from which such

a balance-sheet as the following may, at any time, be produced.

*Pro Forma Account of the Balances in the General
Ledger of a Bank.*

Dr.		Cr.	
	£		£
Invested in London . . .	790,000	Capital	500,000
Cash in the hands of the		Money deposited on receipts	
London Banker . . .	50,000	bearing interest . . .	500,000
Bills in hand of ditto . .	150,000	Balance on current ac-	
London bills discounted in		counts	500,000
hand	50,000	Notes in circulation . .	500,000
Local bills discounted ditto	600,000	Bills current upon London	200,000
Past due bills	5,000	Unclaimed dividends . .	20,000
Lent on cash accounts . .	400,000	Annual profit and loss . .	60,000
Ditto on mortgages . . .	300,000	Reserved funds	120,000
Cost of Bank-house & Offices	5,000		
Cash on hand	50,000		
	<u>£2,400,000</u>		<u>£2,400,000</u>
Bills received for collection £20,000			

Such a statement as the foregoing ought to be laid before the Directors of a Public Bank at least once a week. The cash on hand ought then to be counted by them; and if the cash be found right, all the accounts will be correct also.

It will be proper to observe that we are exclusively speaking of the books kept by the accountant, and not by the teller who receives and pays the money. He makes no distinctions in his cash-book; nor would he have time to make any. He enters the money in the order in

which he receives and pays it. His cash-book is his own account of his own doings, and has no connexion with the other books of the Bank. When a person brings a check for payment, he must first present it to the accountant, who will enter it, and put his initials to it, and then it must be presented to the teller, who will pay it. On the contrary, when a person pays money into the Bank, the teller, on receiving it, will give the party a printed slip of paper, in which he has inserted the amount, and to which he has put his initials. The person must then present this slip to the accountant, and obtain from him whatever receipt he may require. In short, until he has presented the accountant with this evidence of his having paid the money into the Bank, he has no right, strictly speaking, to expect credit for it in its books.* The same principle must be adopted with all the transactions of the Bank : the teller must pay nothing without the imprimature of the accountant, and receive nothing without giving the party an acknowledgment, to hand to him. By this means, the accountant will be able to record the particulars of every transaction, totally inde-

* The Scotch Banks make the party paying money into the Bank insert the amount so paid in the printed slip themselves.

pendent of the teller ; and not having any thing to do with the care of the money, he will be enabled to give his whole attention to the proper classification of the entries.* Upon casting up the general cash book at the end of the day, the accountant ascertains how much money has been paid, and how much received, and, of course, how much more or less money the teller ought to have in hand at night than in the morning.

This plan, of persons applying to two clerks in the Bank on paying and receiving money, may appear troublesome, but it is not so in practice ; while, in a Public Bank, it is necessary not only that a perfect check should be kept against the teller, but that the accountant should be able to post his books without interfering with the teller, or their troubling or retarding each other.

The statement from the general ledger, of which we have given an example, will, as before mentioned, prove the correctness of the accounts of the Bank, and, of course, render it necessary that the accounts be kept correctly, in

* This is the most correct principle, and necessary when the establishment is on a great scale, but is not generally adopted, the customers being seldom obliged to communicate with more than the cashier, or teller, which renders the checks in some degree less perfect.

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order that this statement may prove them to be so.

By this system an unintentional error could not occur without its being apparent, and a fraudulent error would be very difficult, if not impossible, without a collusion between the teller and accountant. The most practicable kind of fraud would be for them to agree to make a wrong addition of their respective cash-books, and for the accountant to make a corresponding error in posting to the general ledger. Thus the teller might add up his cash book so, that the amount might be £100. less than he had received, and the accountant the same. By this means the teller might put the £100. in his pocket; and, in order to make the general ledger balance, the accountant might carry £100. short to the debit of the current deposit, or any other account, and the deficiency of the cash would not be observed. The proper check against such a fraud, of course, is to sum up the cash books after the teller and accountant: for which purpose there should be two sets, to be used on alternate days, so that one set might be left in the hands of the managing officer for his inspection. Any attempts to falsify the account of an individual would be more difficult, as the customers of the Bank generally know whether or not credit is correctly given them for the sums paid into the Bank; or whether

they are charged with more money than they have drawn out.

With proper vigilance, however, on the part of the principal officer, fraud may be rendered nearly impracticable. This vigilance ought, also, to be exercised with regard to the private character and conduct of all individuals holding places of trust in the Bank, as well as to their accounts: for men are led by folly into fraud. It is desperate circumstances which generally lead them on to desperate expedients*. But the Bank, it must be observed, is, in general, freed from the consequences of such frauds, as the chief officer is security for the teller, who on the other hand, gives security to the chief officer. Hence if the latter, by inattention, and a want of proper investigation, permits a teller to commit a fraud, the loss, if any, falls upon himself.

The weekly balance sheet will likewise exhibit not only the general state of affairs at the moment, but the variation which has occurred, and is occurring, in the amount of notes in circulation, the amount of its deposits, its funds in London, &c, by which the Directors will be able to regulate their loans, and

* The checks are always more perfect in a large Bank, where there are many clerks, than in a small one, where there are few.

other transactions, so as to accommodate themselves to those changes, as they arise, to which every Bank is subject.

In order to mark these variations more distinctly, and keep them always in the eye of the Directors, it would be useful to have a book ruled with columns, corresponding in number with those items in the statement which it is proper to keep in view. In these columns the particulars of the items should be weekly entered, a column being appropriated to each item, and each week's statement forming a line, thus :

Record of certain Items in the Weekly Balance Sheet.

Date.	London Investments.	With London Bankers.	Current Deposits.	Notes in Circulation.
January 2	790,000	50,000	500,000	500,000
9	830,000	55,000	549,000	501,000
16	840,000	49,000	550,000	505,000
23	850,000	50,000	540,000	525,000

By this means the Directors would have such of the transactions of six or twelve months, as they wished to keep in view, presented to them on opening a page, and would be able to refer a number of years back by turning over a few leaves.

Some of the entries in the general ledger, as

will be observed by the *pro formá* statement, contain one account only, and not a class, such as the "Cost of Bank-House and Offices," which cannot be included in a class, unless the Bank should have more house-property, and the London Bankers' account, the state of which it is necessary to know daily. For these accounts, and one or two more which we shall speak of hereafter, no other books than the general cash-book and ledger are requisite, but for the rest either separate cash-books, or separate ledgers, or both, will be desirable, if not necessary.

In some Banks, however, the particulars of every transaction are entered in the general cash-book at once, and in no other, though different ledgers are used. This, with a very limited business, may, with advantage, be adopted; but, with numerous transactions, it causes a great deal of unnecessary posting, and does not admit of that division of labour amongst different clerks which is necessary, and which is always conducive to accuracy and despatch.

When one cash-book only is kept, the entry is posted both to the account to which it belongs in the general ledger, and to the personal or other account in the separate ledger of its class. Thus, if A has a current deposit account, and pays in £100., B has a cash-account, pays in another £100., and C has lodged £100., for which he has received an interest-receipt, they

would be entered in the general cash-book as follows:—

Dr.						Cr.					
		£	s.	d.		£	s.	d.			
	Current				deposit-account						
					A	100	0	0			
	Cash				account						
					B	100	0	0			
	Deposit				receipt						
					C	100	0	0			

From the general cash-book, the £100. paid in by A would be posted to the credit of current deposit-accounts in the general ledger, and to the credit of A's personal account in the separate ledger which contained the current deposit-accounts. The entry in the cash-book would thus be posted to two ledgers, which would be the case, also, with the payments of C and B, making in all six postings. If A, B, and C, indeed, should belong to one class, and happen to come together in the general cash-book, then two postings would be saved; the three sums would be added up into one, and be carried in one line to the general ledger; but if other entries came between them, each £100. would still have to be carried to the general ledger separately.

If there should be—say fifty transactions in a day in each of these classes of accounts mixed up with each other, and with other entries, the

probability would be that there would be thirty or forty postings to each account in the general ledger: whereas, if each class had a separate cash-book, subsidiary to the general cash-book, the total amounts only of the receipts and payments would be carried to the general cash-book, and in place of forty postings to the general ledger there would be only one.

The particulars of many transactions may, no doubt, be entered in the general cash-book, without multiplying labour, and whenever this can be done there will be no propriety in multiplying books unnecessarily.

We shall now examine in detail the different books and modes of entry necessary in an extensive Bank, for each class of accounts, enumerated in statement p. 87, to which statement we beg the reader's particular attention. We shall begin with

CAPITAL, the first item on the credit side of the account. For the stockholders, there must be a separate ledger, and with each of whom a personal account must be opened. When the capital is once paid up, no further receipts and payments on account of it will occur; and, of course, no further entries in any cash-book be required. For this class of accounts it will not be worth while, therefore, to have a separate cash-book, which would only be required at the time the capital was called up. The particulars

of each payment may be entered into the general cash-book at once, and from thence be posted to the personal account of each party in the stockholder's ledger, or they may be entered in the transfer journal, of which we are about to speak.

The stockholders cannot, of course, withdraw any part of their capital after it is paid up ; but they can transfer it, and a journal must be kept, in which to register such transfers. These transfers will make no difference in the total amount of the capital, and no notice of them is, therefore, required in the general cash-book and ledger. If A shall sell, or transfer, £500. of the stock to B, the particulars of such sale and transfer must be entered in the journal above mentioned, and £500 must be posted to the debit of A's account, and the credit of B's ; or if B held none of the Company's stock before, a new account will have to be opened for him : thus the stock may be transferred from one name to another, but the total amount of stock, in the stockholder's ledger, will remain the same. If the capital be also entered in the transfer-journal as it is paid up, the amount received each day will, of course, have to be carried to the general cash-book, and from thence to the general ledger, but the transfers, as before mentioned, will be posted to the stockholder's ledger only.

The account in the stockholders' ledger is all that it is necessary to keep with the parties ; it is all that the Banks of England, of Ireland, and the Bank of Scotland keep, and it is the mode in which the accounts are kept with the fundholder. Some companies number their shares, and keep an account of each number. This causes a great deal of additional accounting and much inconvenience, without offering one single advantage in return. The shares cannot be made transferable from hand to hand, like a promissory note or an Exchequer-bill, otherwise numbering would be proper ; but in that case, personal accounts with the stock-holders would be unnecessary.

The DEPOSIT RECEIPT and CURRENT DEPOSIT Accounts.—These two classes of accounts it is proper to keep separate, as different rates of interest may be allowed upon them, or if not, the latter may be subject to a charge of commission ; besides which, as deposits, the latter are more to be depended upon. The former class of depositors lodge their money for the sake of the interest only, and often withdraw it for other purposes, when money becomes more valuable ; whereas, the latter class keep their deposits for the convenience of their trade, and feel it necessary always to have a certain balance in their bankers' hands, whatever changes in the value of money may take place : it is, therefore, at all

times desirable to know the amount of deposits by each. There must, for this purpose, be a head for each class in the general ledger; and, as before mentioned, a cash-book for each also. Some Banks keep no personal ledger account with the holders of deposit receipts—all the deposits and payments are carried to the general account alone, and a register is kept of the receipts issued, which receipts must be produced by the parties when they demand payment, either of principal or interest: by this the trouble of opening heads in a ledger for this class of accounts is, of course, saved. If this practice be adopted, the old receipt should be cancelled when any partial payments are made, and a new one granted. The record of each receipt by this means, will always show the state of each person's account.

NOTES IN CIRCULATION.—For these there must be a head in the general ledger, and, at the end of each day, the gross amount, or balance, paid away or received, must be entered in the general cash-book, and posted to such head, which, consequently, will at all times show the total sum of notes which the Bank has out. The particulars of the notes must be kept in other books, which have no connexion with the general cash-book. There must be a register of the number of each sort made, and of each sort cancelled, and the balance of these two accounts

will either be in circulation, or in the Bank. Of the amount and kinds in the iron safe, there must be a particular account kept in a book for the purpose, and, also, of the amount and kinds delivered out to, and received from, the tellers; the tellers must also keep an account of the kinds they have on hand at the termination of each day. By deducting the amount of each sort in the Bank, from the balance of each sort in existence, the amount of each sort in circulation will, of course, be obtained.

Some Banks consider their notes money in their own hands, and enter them as such, when they are made, or, at least, when they send them to their agents; but the notes of a Bank are never money, either in its own or its agents' hands, and to state them as such only falsifies and obscures the accounts, without being productive of any convenience. The note account against the agent, as well as that of the Bank, should be a separate one; notes should never be considered cash until they are issued, and have become so in point of fact.

BILLS CURRENT UPON LONDON.—These, as they are granted, must be entered in a separate bill-book, ruled as such books generally are. This book is subsidiary to the general cash-book, to which the total amount of the bills must be every day carried, and the general account in the general ledger credited for the

cash received for them. As they are paid, the London Banker must be credited, and this account, of course, debited with such payments. Upon these bills, charges of interest, commission, &c. will occasionally be made, of which an account should be kept in a column ruled in the bill-book for that purpose, in order that the total amount of them may each day be known, and carried to the credit of profit and loss in the general cash-book and ledger, as well as to a particular account in the profit and loss ledger, of the interest, &c. received on these bills.

Some Banks have a head in the general ledger for stamps, to which is charged the quantity purchased, and in which credit is given for the amount sold and used ; but the item is much too trifling for a head in the general ledger, which ought to contain as few accounts as possible, consistent with the object of giving a comprehensive view of the affairs of the company. It will be better to charge the stamps to the debit of the particular account of interest received upon these bills ; it is a charge against them which must always be made when the profit upon them is estimated, and it may as well be made at once, by which trouble will be saved.

UNCLAIMED DIVIDENDS.—There must be a head in the general ledger for dividends, to the credit of which the total amount of each yearly

or half-yearly dividend should be carried, as it is declared, and the account of profit and loss, of course, be debited with it. There must, likewise, be a dividend-book or ledger, in which is entered the amount of interest due to each stock-holder, and a separate cash-book, in which the dividends must be entered as they are paid. From this cash-book, the payments must be posted to the dividend ledger, and, at the end of the day, the amount paid must be carried, in one sum, to the debit of dividends in the general cash-book and ledger, and the balance of the account in the latter, will show the amount remaining unclaimed.

LONDON INVESTMENTS.—The Bank must always have a considerable sum of money in London, invested in different securities, and employed in different ways, which can be, at any time, rendered available, should it be wanted. The total amount so employed is all that is required in the general statement ; but the amount invested in each kind of security &c. must also be preserved. For this a separate ledger will be necessary, but not a separate cash-book, as the entries will be few in number, and never made more than once a day. The accounts in this ledger ought to contain the particulars, in full, of each purchase and sale, so that the transactions in each kind of stock may be seen, upon turning to its respective head.

LONDON BANKERS' CASH ACCOUNT.—For this account no other books than the general cash-book and ledger are required. The London Bankers will regularly advise the Bank of the bills collected and money received, and of the bills discharged and money paid, on account of the Bank, which may be passed through the general cash-book at once.

LONDON BILLS IN THE BANKER'S HANDS.—The remittances to London consist chiefly in bills; these will be held by the London Bankers for the Bank until they become due. Credit will then be given by the London Bankers for the cash received for them, and those which are not paid will, of course, be returned. As these bills will be entered in a bill-book when discounted, it will not be necessary to enter them at the same length again when remitted to London. If the remittances to London are not numerous, the particulars of them may be entered in the general cash-book at once; but if they are, it will be better to enter the list of the bills sent in a separate book, and the total of each remittance in the general cash-book. From such book any clerk will then be able, without interfering with the general cash-book, to write up the account, which it is necessary to keep, of the days on which the bills fall due, and the amounts due on each day. This must be known, in order that the Directors may

estimate the funds the Bank will have in its agents' hands at particular periods, and give orders or provide accordingly.

There must also be a similar account kept of the bills drawn upon the Bankers, which they have to pay. These two accounts it would be better to keep in one book. The bills to be received each day on the one side, and those to be paid on the other.

LONDON BILLS DISCOUNTED.—These bills must be kept separate from the local bills; and, as they are discounted, must be entered in a bill-book, in which must be a column for the interest and charges upon them that have been received. From the bill-book, which is subsidiary to the general cash-book, the amount discounted each day must be carried to the debit of the general account in the general cash-book and ledger, and the amount of interest to the credit of profit and loss in the general cash-book and ledger, as also to the particular account of profit on these bills, in the profit and loss ledger. When the bills are remitted to London, this account must be credited in the general cash-book, with the amount of each remittance in the gross, the particulars being recorded in charging the account of bills in the London Bankers' hands, with the remittance as before mentioned.

It may be proper to observe, that it makes no

difference with reference either to this account, or the account of local bills discounted, whether the bills be discounted for cash, or the proceeds be carried to the credit of the accounts of the parties discounting them. In the latter case, the parties will have credit given them for the cash, the same as if they had received it over the counter for their bills, and paid it back again into the Bank, to be placed to their credit.

LOCAL BILLS DISCOUNTED.—For these the same kind of bill-book, &c. will be required as for London bills discounted. As the bills are paid, the general account must have credit given it for the amount so paid, as also for those which are returned and carried to the debit of the past-due bill account; the daily list of both which can either be entered in the general cash-book, or in a book kept for the purpose. The latter would, perhaps, be preferable, as a clerk will have to post them to the discount ledger, &c.

Some Banks have a column in the bill-book to mark the bills that are paid, which a clerk must post up from the last-mentioned list; but this is a waste of the clerk's time. For, besides the list of those which have been paid, there must be a particular list kept of those which have been returned, and those which are not in the latter must be in the former. A case can-

not well be conceived in which the entries in the bill-book, of the bills having been paid, would ever be referred to, or be of any use. After a bill is paid, and the cash received for it is entered in the proper accounts of the Bank, the Bank can want to know nothing further respecting it.

PAST-DUE BILLS.—Of these there must be a proper record, so as to keep them constantly in the view of the Directors, until they are paid by one party or another, or until every step that shall be proper has been taken to obtain payment. When an undoubted loss has been incurred, it will be proper to credit this account with it, and carry it to the debit of profit and loss.

CASH ACCOUNTS.—For these accounts a separate cash-book and ledger will be necessary, the same as with current deposit accounts. The presumption is, that every person having a cash account will be indebted to the Bank ; but cases will frequently occur in which persons have ceased to make use of their credit, and on the contrary, keep a balance in the hands of the Bank. When this happens, their accounts should be removed to the class of current deposit accounts, or otherwise the general statement will be falsified. Thus, for instance, if, in the class of cash accounts, there were a hundred parties who owed the Bank a thousand pounds each, and one hundred that had a thousand pounds in its hands, the Bank would

have a hundred thousand pounds deposited with it, which it was liable to pay at a moment's notice, and a hundred thousand locked up, and not available to meet any sudden pressure. But if the accounts of both these classes were mixed up, and posted to one head of cash credit accounts in the general ledger, they would balance each other, and the Bank would not appear indebted a shilling, or have a shilling indebted to it, by that class of its customers. Whenever, therefore, a party ceases to avail himself of his cash credit, and becomes a current depositor, his account must be removed to the class of current deposit accounts. This will occasionally give trouble; more especially in cases where a person has temporarily overpaid his account, and become a depositor only for a short time; but this there is no avoiding without the risk of great inaccuracy.*

MORTGAGES.—For these a separate ledger will be necessary, but not a separate cash-book. A

* It was no doubt the inaccuracy in the balance sheet, produced by not separating these two classes of accounts, which gave rise to the mis-statement complained of by the Banks of England, as having been made by the Northern and Central Banks, on applying to it for assistance. The balance sheet of the Northern and Central Bank, shewed they had overdrawn accounts to the extent of £800,000, whereas they had overdrawn accounts to the extent of £1,200,000, and deposits to the extent of £400,000, and of course obligations to the extent of £400,000 to be provided for, which their balance sheet did not exhibit.

book, properly indexed, must also be kept, in which an abstract of the nature, value and other particulars of the securities that the Bank may hold, must be recorded ; but this book will be for the use of the Directors in reviewing the state of the securities, it will have no connection with the accounts of the Bank.

BANK HOUSE, &c.—For this investment no other account is necessary than that which will be contained in the general cash-book, and ledger. The expense of occasional repairs, &c. will be included in the charges. If the Bank were to possess other house property, it would then become one of a class for which, of course, proper books would have to be provided.

ANNUAL PROFIT AND LOSS.—To the debit of this account all the interest, commission, postages, salaries, and charges of different kinds, as well as losses incurred during the year, will be carried ; to the credit of it, all the interest, commissions, &c. received ; and the balance of it will show the total of profit and loss made during the year. This is all that is necessary for the general ledger ; but the Bank will be desirous to have separate accounts of the salaries, stationery, postages, commission paid to Bankers, interest paid to depositors, interest and commission received from its different kinds of business, and from its investments in London, &c. in order to know the particular sources of its profit, and the charges to which it is subject. For this

purpose, there must be a profit and loss ledger, in which heads must be opened for these various particulars, and to which they must be posted from the general cash-book. By taking out the balances in this ledger, the Directors will, of course, be put in possession, at any time, of all the particulars regarding the profits and charges, &c., they may wish to know.

Besides the interest, commission, &c. received on the bills discounted, the particulars of which will be obtained from the bill-books, the personal accounts will be subject to charges of commission, &c. of which an account must be preserved, in order to carry them to the credit of profit and loss, as also to their respective heads in the profit and loss ledger. For this purpose, it would be well to have an additional column ruled in the different subsidiary cash-books, in which these charges may be placed, so that they may be added up, and the amount obtained, at the end of the day, with the greater facility.

If the current deposit accounts, for instance, are debited with £20,000 paid away during the day, of which £100 consists in commissions charged to the accounts of different parties, then, though £20,000 be charged as paid away, the teller will only have paid £19,900; but the receipts and payments will be made to balance, notwithstanding, by credit being given to profit and loss for the £100. The amount of the £100, consisting of different items mixed up with the

other payments, must be ascertained for this purpose ; and the only way, without such a column, would be to pick them out, and enter them in another book ; but it would be evidently much less trouble to place them in a separate column at the time they were entered in the cash-book, while picking out is not a very regular and systematic, and seldom a very accurate, mode of proceeding, whatever pains may be taken.

When only one cash-book is kept, and each entry stands alone, this additional column is unnecessary, as each item of charge will be separately posted, both to profit and loss, in the general ledger, and to the head to which it belongs in the profit and loss ledger.

RESERVED FUND.—Under this or any other title, an account of the surplus funds of the Bank must be kept. The balance of the annual profit and loss account, after it has credit given it for the amount of dividends, should be annually carried to this head.

CASH ON HAND.—The cash on hand will not consist of gold and silver only, but of the notes of other Banks in good credit, which have been received by the Bank, and have not been exchanged or paid. It is not usual, but it would be very useful, to have a head in the general ledger for cash on hand. In that case, the amount of cash paid away or received each day, ought to be carried to it. It would, conse-

quently, show the gross amount of cash on hand, with the daily variations which had taken place in it. By this means also, the general ledger would furnish an abstract of the whole affairs of the Bank, without reference to the accounts of cash in any other book.

The particulars and amount of cash in the safe, the particulars and amount delivered out to the tellers, &c., must, of course, be kept in the proper books for that purpose already mentioned, under the head of notes in circulation.

BILLS RECEIVED FOR COLLECTION.—These bills are not carried to the credit of the parties until they are paid. A separate bill-book must be kept for them. Some Banks enter them short, as it is called, to the credit of the personal accounts of the parties who deposit them; that is, they enter them, but do not place the sum of their account in the cash-column. A head may be opened for them in the general ledger, but it is not worth while to include them in the general balance sheet.

Besides the books spoken of, there are two which must not be passed over. These are **THE DISCOUNT LEDGER** and **THE CHECK LEDGER**. The former will contain the amount of bills discounted for each house. The accounts are not kept Dr. and Cr. The amounts discounted are added each day to the former balance, and the bills paid are subtracted; thus if a house

had £10,000 discounted, and were to discount another thousand, while five hundred of the former bills had fallen due, the account in the ledger would stand thus :—

Previous Balance	£10,000
June 20th. Discounted	1,000
	<hr/>
	11,000
Paid	500
	<hr/>
	£10,500

By this means, upon turning to this ledger, the Directors will be able to see at once the amount of discounts which any house has obtained. Should any question, however, arise about the quality of the bills discounted, the bills themselves should be examined. The paper, indeed, of any house about which doubts came to be entertained, should be kept by itself, for the benefit of more easy reference.

THE CHECK LEDGER.—People will sometimes draw checks which ought not to be paid ; and where a Bank has much business, it would be too tedious an operation, in the hurry and bustle of it, to cast up two sides of a personal account, and balance it, in order to ascertain whether a check ought to be paid or not. To obviate this difficulty an additional ledger is kept, in which the balance of the account is always made to appear, in the same manner as the discount ledger. Whenever a check is pre

sented, or a sum paid into the Bank, the accountant enters it at once into this ledger; so that, if there were twenty transactions in the day on one account, the balance of it would be seen at any moment.

In this ledger the interest on the account is also calculated. The Scotch Banks, for this purpose, have two columns ruled to the right of the money column, one for the interest due to, and the other for the interest due by, the party. They multiply the number of pounds by the number of days which each balance has remained, and the result is placed in the column to which it belongs. The columns are then added up, and give the number of pounds upon which one day's interest is due; this again being divided by 365, gives the number of pounds upon which one year's interest is due; after which, whatever be the rates given and allowed, the amount of interest due on each side of the account is easily ascertained. The English Banks that have a ledger of this kind, and an interest account with their customers, generally calculate the interest at once on each balance for the number of days it has stood, by means of an interest book: I am unable to say which way is done with most facility and correctness.

A check ledger, however, is not necessary to a Bank with a limited business, or in a town where many checks are not drawn. With any

Bank, indeed, it is but few of its customers with whom such precautions are necessary ; but in calculating the interest, as well as in other respects, such a ledger is extremely convenient.

There are many books, particularly those connected with the secretary's department, which I have not noticed, my object not being to give those details which every person brought up in a Bank can furnish ; but to call attention to those general principles of which every Director ought to have some idea. Nor have I, in doing this, confined myself to the plan of any particular establishment. The system of the Provincial Bank of Ireland, framed by its able and excellent Accountant, is that which I had most in view. But the Provincial Bank of Ireland is peculiarly circumstanced : and in treating of general principles, with reference to establishments which will, probably, be formed under every variety of circumstances, there would be no propriety in holding up, as a model to be implicitly followed, the practice of any one Bank.

By the plan pointed out it will be seen that, though the number of books is increased, the writing is not. With the exception of four or five heads in the general ledger, and four or five entries a day in the general cash book, no additional heads of accounts, or entries of any kind, are proposed, which would not have to

be made under any system, or which, under any system, could be dispensed with, consistent with keeping a proper record of the transactions of the Bank; while, in the bill accounts, a great deal of posting is saved. Every book spoken of, as a part of the general system, is either a branch of the ledger or the cash book, under the common form of book-keeping, in which one ledger and one cash book only is kept. Every book contains a class of heads of accounts which would have to be raised in the ledger, were there but one; or a class of details, each particular of which would have to be entered separately in the cash book, were there no other book kept for the purpose. The object of the system being to bring out the results by classification alone, and not by additional writing. In short, it may be laid down as a rule, that if, under any system, more writing is, upon the whole, necessary than the simplest form of book-keeping, by double entry, requires, in so far it is imperfect.

Should a Bank have branches, the accounts will have to be kept at each Branch upon the same general principle as we have pointed out: but with regard to the returns to be furnished

to the chief office, it will be proper to make a few observations.

It is the practice of the Scotch Banks, the Branches of which consist of agencies without the control of a Board of Local Directors, to require a daily account of all their transactions, in order that they may keep for each a set of duplicate accounts; this renders the Bank independent of the accounts of the agent, who seldom gets in any way wrong himself without suffering his accounts to fall into confusion. It likewise prevents any mystery in any of his transactions, and furnishes the inspector with the materials for a proper inquiry into the nature of them, when he shall visit the Branch. But when the Branch is under the management of a Board of Local Directors, with the necessary adjunct of a proper establishment, the production of a balance sheet once a week, with the attestation of the Directors that they have counted the cash, will be a sufficient proof of the accounts being right. The object, in the case of a Local Board, will be to have such statements furnished to the chief office as shall give a view of its general management; for this purpose duplicate accounts, and the voluminous returns consequent upon them, will be quite unnecessary. There should, however, be transmitted weekly, besides the balance-sheet, a copy of the minutes of the Board, in which

should be recorded all the applications for discounts, with the particulars of those accepted and those refused; as also for cash credits and other loans, with the answers thereto. It will be proper likewise to transmit the amount of discounts, of every principal house, from the discount ledger, with the amount of cash at the credit of their accounts, together with the bills drawn upon London. These particulars will not prove voluminous, and will give a pretty correct idea of the proceedings of the Branch: the chief Board of course, from time to time, calling for any other information that circumstances may point out as necessary. In addition to this, however, a more complete statement should be sent from the Branch once a quarter, containing the balance of every account, the names of every depositor, with the amount of his deposits, and the amount of discounts for every house, great and small, with a report on the state of the securities for the cash-credit, permanent loans, &c.

If the Branch is at no great distance, the bills discounted should be transmitted, in order that they may be seen. One of the first steps necessary to judge of the value of a bill is to see it; all practical Bankers lay great stress upon this; no description of a bill will afford the information which may be obtained from an inspection of the bill itself. Every application

for a cash-account should also be forwarded to the Chief Board, with a report upon it, before it is granted, if it can be done conveniently ; if not, all applications above a certain amount should be so transmitted. A principal officer ought occasionally to visit the Branch, though it will not be necessary that this should be done so frequently if it have a Board of Directors ; but explanations will frequently be required that cannot be so well made by letter. The control of the Chief Board will always be useful, and will, in all probability, be effectual in preventing any serious loss at any time ; but the only radical cure for bad and inefficient management, when it shall appear, will be found in a change of managers.

ON THE PREVENTION OF FORGERY.

FORGERIES of the notes of Country Banks, as well as those of the Bank of England, have become frequent of late years, and it is necessary to take some pains to obtain a note which cannot be successfully imitated. It is important to Joint Stock Banking Companies generally, that the objection to paper money, on account of its liability to be forged, should be, as far as possible, done away ; it is important to the public that it should be secured against imposition ; and it is important to the cause of humanity, that temptation to the crime of forgery should be diminished, at least, if it cannot be removed.

Experience seems to point out that the notes which afford the requisite security, in the high-

est degree, are those prepared by Messrs. Perkins, and Co., * on a principle invented by Mr. Perkins, and secured to them by patent. Most of the Banks which have been forged upon, with the exception of the Banks of England and Ireland, have resorted to their system of engraving for protection, and they now supply, I believe, two or three hundred Banking establishments. The Provincial Bank of Ireland is one of these, and from my connection with that establishment, I had occasion to become particularly acquainted with the nature of their system, and as it appears to me that its general adoption, under proper regulations, would go far to exterminate forgery, I shall endeavour to give an explanation of it, and the manner in which so desirable an end might be accomplished, a little more fully than would otherwise be necessary for the purposes of this publication.

It is generally assumed that no Bank note can be prepared which cannot be successfully forged, so far as regards the production of a correct imitation. I am by no means disposed to admit that this has been sufficiently established; at the same time it is not necessary to doubt the correctness of the assumption, if it be true that Bank-notes may be made which could not be forged with any chance of profit. A forger

* Now Messrs. Perkins, Bacon, and Petch.

must have some prospect of gain by his hazardous profession, to tempt him to pursue it ; and if this prospect be removed the crime will be prevented ; and it is, of course, perfectly immaterial to the public, if forgery be prevented, whether it be by the adoption of notes which cannot be forged, or which cannot be forged with profit.

The principle of security which Messrs. Perkins and Co. offer is, that they can make notes which cannot be forged with profit ; and in examining the degree of security their system affords, it is necessary to consider, first, the difficulty and expense a forger must be put to in making a passable imitation of their note ; and next, the circulation he might expect to obtain for his forgery, and the return it would make him, to compensate for the expense and risk he would have to incur.

Both these considerations would necessarily enter into the forger's calculation. He would first estimate the cost of the forgery in time and risk, and then the chance of returns from it, on the very same principles as the manufacturer of broad cloth, or any other commodity ; only his rate of profit would not be a mercantile rate of profit, it would be high in proportion to the risk. If it were life merely that were to be hazarded, many rogues would venture it for a trifle, with

any reasonable chance of escape ;* but rogues, like other men, are more circumspect in venturing their money. When they are willing to risk their lives for a trifle, it is when they are utterly destitute of money. But if they are obliged to bring capital into an undertaking, they are certain to bring a proportionate degree of prudence with it, and would not venture upon it without the prospect of an adequate return.

The way to make engraving expensive is, of course, to make it difficult and laborious. The forger must have money to support him until his forgery is completed, and the longer he is about it the more capital he will require. A bad copy of a very good engraving, likewise, is easily detected ; and if it be a good copy, it can only be executed by a man of some professional talent, who will put more value upon his labour. Engraving is also divided into branches, and an engraver in one branch can seldom engrave in any other. A note, therefore, ought not only to be engraved by the best artists, but by different artists, so as to render it necessary that two or three persons of some ability should join in the forgery, by which the difficulty would be multiplied incalculably.

In the ordinary mode of engraving, however, no more than a limited number of copies can be obtained from one plate, and the number dimi-

* The punishment for forgery, since this was written, in 1826, has been commuted to transportation for life.

nishes as the quality of the work is improved. Thus the Bank of England can obtain five or six thousand copies of their present note from one plate; but were they to possess a note, the engraving of which would cost a hundred pounds, they could not probably obtain so many as a thousand. This would make each note cost 2s., which, of course, would put an end to the idea of adopting this simple and obvious mode of improving the security of them.

But the invention of Mr. Perkins entirely removes this difficulty. Instead of a thousand copies of one engraving, a thousand millions may be obtained if necessary. This is effected by engraving, first, on softened steel plates, which are then hardened, and, by means of a powerful pressure, are transferred to softened steel rollers; these again are hardened, and the engraving re-transferred to any number of either copper or steel plates at a trifling expence. The consequence of this is, that with an extensive circulation, such, for instance, as that of the Bank of England, Messrs. Perkins and Co. could afford to spend several thousand pounds, if it were necessary, upon the engraving of a plate, and supply the Bank as cheap with notes as it is supplied at present, although the engraving of its plates does not, it is probable, cost it more than seven or eight pounds each.

In this principle of perpetual reproduction, consists the value of the invention. The mode

BANKERS SPECIMEN.



No.



No.



18

London

FIVE POUNDS

Entd



By order of the Board of Directors



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of turning it to the best account, by the production of a plate out of the forger's reach, may not yet have been attained : but this is to be discovered rather by practice than by theory ; for, assuming that every note can be forged, the only manner of ascertaining whether a note can be so, with profit, is to put it in circulation, and see whether the forger will attempt it or not. If it be not forged, all is obtained that is wanted ; if it be forged, each forgery will point out the manner in which the forger has overcome the difficulties opposed to him, and suggest new modes of baffling his subsequent efforts.

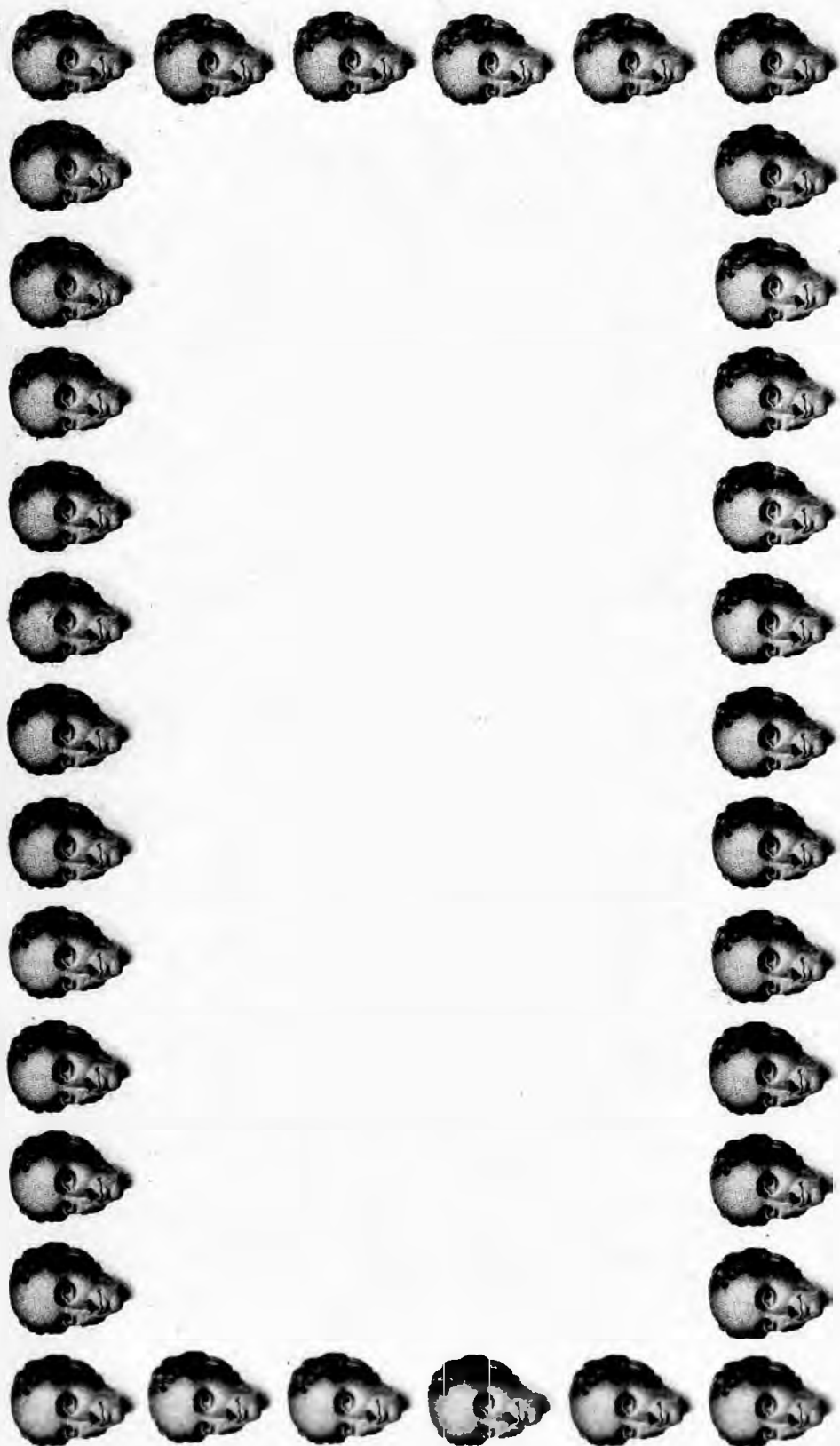
The annexed is a specimen which Messrs. Perkins and Co. have furnished me for this publication. They consider it would make as safe a note as any they have in circulation, and sufficiently safe for a Country Bank. There are four distinct species of engraving upon it, viz. the vignette and two heads, which were engraved by eminent historical engravers ; the plain and ornamental writing, which were done by a writing engraver ; the small writing in the centre of the note, where the words "five pounds" are repeated eleven hundred times, which was done by a stump engraver ; and the ornamental border and corner piece, which was engraved by a machine.

I consulted two celebrated engravers, as to the expence a forger would be put to in making

a passable forgery of it, valuing the time of men, who were competent to make such a forgery, at the price they could otherwise obtain for their labour. It was their opinion that it could only be forged by artists who could make a decent livelihood by their profession; that it would probably take three persons to forge it; and that it could not be done under one hundred pounds.

But this is by no means so difficult a note as might be prepared. For instance, no artist can execute two faces, that have much character and expression in them, so much alike as that the most ignorant person could not discover a difference. If, therefore, the forger were obliged to copy, by his hand, the same portrait a great many times upon one plate, as per the annexed specimen, No. 2, such a difference between them would inevitably appear, as would at once detect the forgery; for no two faces would be exactly alike, whereas the heads in this specimen, as will be seen, are repetitions of one engraving, and identically the same.

It has indeed been stated that a forger might produce identity by engraving one head, and re-printing it the requisite number of times upon one note, but, independently of other objections, this would be impossible, as the paper itself would be destroyed by the process.





THE
GOLD
COIN
OF THE
REDEMPTION
FUND
OF THE
GOVERNMENT
OF THE
UNITED KINGDOM
OF GREAT BRITAIN
AND IRELAND

ON

For the Governor and Company of the
Bank of England



Such identity can only be produced by the expensive machinery that Messrs. Perkins and Co. possess, which no forger could command ; or if he possessed it, could avoid detection, were he to employ it for any such purpose. It may, therefore, be safely affirmed, that a Note with such a number of heads upon it, the perfect fac-simile of one engraving, as appears in this specimen, never could be forged with the remotest chance of success.

The expence and difficulty of forging a Note might also be increased by its having a back to it, which would double the forger's labour, and the annexed specimen of a back, No. 3, presents a combination of difficulties, which hardly any forger would be able to grapple with.

In the year , a commission was established, of which Sir William Congreve was Chairman, to obtain, if possible, a Note that could not be forged, but its labours were rendered abortive, by an attempt on the part of Sir William, to induce it to give a preference to a discovery of his own.

The principle, however, which appeared to be established, was that any Note, however difficult, could be forged, inasmuch as it was understood that the Bank of England engravers had successfully forged every specimen that had been presented to them. This, however, was a mistake. They never succeeded in forging those

offered them by Messrs. Perkins and Co., which consisted of the back, No. 3, and the annexed specimen, No. 4. In three months, Mr. Bawtrey, the engraver to the Bank, was only enabled to produce copies of the vignette, a small part of the narrow border, two inches and a half of the black pattern on the back, and the die with the denomination of One, and all from separate coppers, and on separate pieces of paper, from which it may be inferred that four persons were employed. and that each was the greater portion of three months in completing his task, and consequently that it would have taken nearly twelve months to have executed the same upon one piece of copper, upon which only one of the parties could have been employed at one time.

The imitations, it appears, were very well done, but Mr. Bawtrey is a very able artist, and had no doubt obtained able assistance. When these were presented to Messrs. Perkins and Co., they represented that they were not a proper forgery, both because they were not on one plate, and even when put together only formed a small part of the note ; though they might prove that with sufficient money, time, and talent, a forgery could be produced ; and upon their urging that one ought to be produced, a Director stated to one of the partners, that it would take

them twelve months to do it in.* The question consequently is, whether the labour, expence and talent which it thus appears would be necessary to get up a forgery of such a note, would not prevent its ever being attempted. It is probable that the Bank could not forge these specimens under an expense of one or two thousand pounds, presuming they could have forged them at all ; and in determining whether any such attempt would be likely to be made by a forger or not, it is necessary to ascertain the probable circulation that might be expected for a forgery, which is the second point for consideration.

The circulation of forged notes is much more difficult than has been generally imagined. They cannot be issued in the dark ; the crime of utterance must be perpetrated face to face with the party imposed upon ; and if detection on the instant does not follow, a person cannot have issued half-a-dozen ones, or a single five pound note, without having established proofs

* The opinion even to the present day amongst the Directors themselves, is, that their engravers had made a successful forgery of these specimens, and recently the present governor, Mr. Curtis, having stated this to Mr. Bacon, one of the partners, was induced by him to enquire into the fact, and found that the Bank never had produced a forgery of these specimens.—Note to 7th Edition.

against himself, which, if brought forward when he might be detected, would inevitably lead to his conviction. If they had even the whole note for incurring this risk, who, consequently, but those who almost court transportation, would incur it? There is hardly any description of fraud in which the prospect of remuneration is so trifling, compared with the certain risk which has to be run. It is, therefore, only amongst the most desperate of mankind that utterers of forged notes are to be found, and these must have the greater part of the profit. The system, I am informed, is for the persons who make the notes to sell them to wholesale dealers, who find out the proper characters to issue them. They are seldom, if ever, sold by the forger direct to the utterer. The price the latter pays for them, in general, is about four or five shillings for a pound note, out of which the wholesale dealer must be paid for his risk, which is next in degree to that of the utterer : so that a couple of shillings per note is probably the utmost that the forger obtains. This is for forgeries on the one pound notes of the Bank of England ; notes of a larger denomination are as easily imitated, but the difficulty of uttering them is so much greater, that the temptation to forge them is infinitely less, notwithstanding their superior value in circulation.

Now the perfect identity of Messrs. Perkins

and Co.'s notes, adds most materially to the difficulty of circulating them. Every line, every dot, however minute, of the original engraving, is the same in all ; and the most trifling deviation is a proof of forgery ; whereas from the superiority of the engravings, and the impossibility of copying the machine work by hand with accuracy, no forgery could be made in which, though the general resemblance might be good, innumerable differences could not be at once observed by an experienced eye, and might be so pointed out to the public as to produce instant detection. This has been proved in cases of forgeries which have existed upon notes of Messrs. Perkins and Co. In the choice of the pattern for their note, Bankers usually exercise their own taste, and too generally at the expence of safety. The piebald mixture, which gives security to the note, is neither so chaste and elegant, nor yet so simple as is consistent with the business object of the note, and it is very generally objected to ; so that Messrs. Perkins and Co. have many notes in circulation which they do not consider to offer any high degree of security. Of these, two or three have been forged upon, and in a manner which was a subject of surprise to engravers themselves. So good, indeed, was the forgery upon one of them, the Leeds Union Bank, more especially upon the hand-writing, that the partner whose

signature was forged, would not at first believe that it was a forgery; yet the moment the points of dissimilarity in the engraving were pointed out, the forgery was so obvious that not more than forty-eight got into circulation, and five men were detected in uttering them: every one, most probably, that made the attempt. The other forgeries, it is understood, had but little circulation; and it is probable the forgers have found no great inducement to repeat the experiment.*

The price at which the forged notes of the Leeds Bank were sold to those who uttered them, was eight shillings each, the highest price ever known to be given; and the plea made for charging such a price was, that they could not be afforded under, in consequence of the labour which had been expended upon engraving them; of this the engraver got four shillings.

Now if we assume that the specimens of the note and back, for the Bank of England, might be forged for only one hundred pounds, that a thousand copies could be taken from the plate, and that they were all sold at four shillings each to the wholesale issuer, the forgery would only yield one hundred pounds profit. It must be quite evident that no two or three men, of respectable talents, would run the risk of de-

* It is now eleven years since this forgery was made, and no other has been since attempted on any note of theirs.

tection for any such prospect of remuneration. If the forgery was upon a note of a higher denomination, the return would, no doubt, be greater, provided it could be circulated ; but experience has proved that the difficulty of utterance is much more than proportionate to the increased value of the note ; that one pound notes are the only ones which hold out any great temptation to the forger ; and that, if they do not pay the forger, no other will. Hence, it appears to me, that when Messrs. Perkins and Co. presented these specimens to the Bank, they presented a note that could not, for any practical purpose, be forged, even though a good imitation of it could be made for £100 ; whereas it is not in the least degree probable that it could be made for any such sum, or indeed be made at all, by the inferior class of artists by whom such forgeries are generally attempted.

No specimens that have been prepared by Messrs. Perkins and Co., which I have yet seen, appear to offer the degree of security that might be afforded. I am satisfied that a note might be issued, that could not be forged without instant detection : more especially as from the little temptation there is to commit such forgeries, no man of any talent as an engraver has ever been found doing so. Eminent engravers have forged bonds, but never Bank-notes.

It is to be regretted that the Directors of the

Bank have never given Messrs. Perkins and Co.'s system a trial, but there can be little doubt, I think, that sooner or later, either by the interference of Government, or otherwise, the Bank will be induced to take steps to improve its notes, and when that is done there are other modes of increasing the difficulties of the forgers, which might advantageously be resorted to, and which it may be proper to notice.

The preventives to forgery may be considered three in number.

First, the expence and difficulty in forging the note; secondly, the difficulty of uttering it; and lastly, the risk of detection and punishment.

With regard to the first, I cannot avoid thinking, as before mentioned, that repeating a head, a great many times, upon the note, would render a successful forgery impossible. The face is the part in which the difficulty lies; and a head might be so engraved and repeated, on the back, or as a border, that if any sum of money were offered for a passable forgery of such a border, upon Bank-note paper, it could not be produced. But, at all events, we may with safety say, that a note might be made, which could not be forged under an expenditure of at least £200., besides requiring a combination of two or three men of greater professional ability than any of those that have been con-

victed of forging the notes of the Bank of England. Rendering it, in short, necessary that two or three men, with talent sufficient to support themselves honestly, and money sufficient to prevent their undertaking a foolish and desperate act, should concur in the feasibility of the undertaking. This, it is reasonable to infer, if it did not prevent forgery, would very much reduce the number of those who would be found able and willing to engage in it.

Secondly, with regard to the utterance of the notes after they are forged. It is very much to be doubted whether the greatest success that could be expected, even in circulating five-pound notes, would be sufficient to induce forgers to venture upon an expenditure of £200. ; and this more especially as if there were the least suspicion of forgeries being abroad, they could be detected with the greatest ease. With a repetition of heads a forgery would be seen without difficulty, and no forgery upon the machine work could be made, that might not be at once known by the aid of a little magnifying glass. These may be had for a couple of shillings, and every person, who had money to take, would carry one in his pocket, with which he could examine and ascertain the goodness of each note he took with much more readiness and certainty, than he could the same amount of metallic money by ringing

it on a table or counter. But there is a still more effectual mode of stopping the circulation of forgeries, which it would be proper to adopt. There never is a forgery upon any Bank of limited circulation, for this obvious reason; that if the notes can be easily called in, and others issued, the forger runs the risk of losing his labour, by the substitution of a fresh note, before he can get a sufficient number of his forgery circulated to pay him.

Now there is no necessity for every Note issued by the Bank to be of the same pattern. If they were, the Bank, in the event of a forgery, could not call them in; but if it had ten or twenty different patterns, each pattern having its No. 1, 2, 3, &c., in large figures on the back, there would be no difficulty whatever in stopping the circulation, and calling in the Notes of any particular number on which a forgery was found to exist, and issuing a new pattern for that number. This might be done by the agency of the different Bankers. A proclamation might be issued, stating that there was a forgery on a particular number, describing the points by which it might be known, requesting the public not to take the Notes of such number in payment, and stating that any Banker would exchange them for others. The public would be most ready to comply with this order, not only to prevent the success of the

fraud, but to avoid the risk of being imposed upon, and the trouble of guarding against such risk, by having to critically examine every Note of this number presented to them. With a regulation of this kind, no forgers could calculate upon making any profit by their forgery, if it were only to cost them £20.

Thirdly, if detection and punishment were rendered more certain, the inducements to forge would be less ; and the necessity of more persons than one being engaged in a forgery, leaves an opening for detection which might be turned to account. For this purpose, it might be enacted that a considerable sum, say a thousand pounds, should be paid to any party who might give such information as should convict those who were guilty of forgery ; and the King might grant a free pardon to any one who should convict his accomplices. As this would make it so much more profitable to expose the crime than to promote it, I can hardly think it possible that any forgers would be able to escape ; or, which would be the best operation of the law, that any men would be found willing to trust their lives in each other's hands, by venturing upon such an undertaking.

Thus forgery might be prevented by making a note which none would attempt to forge ; it might be prevented by so quickly and effectually putting an end to the circulation of for-

geries, that, if they were executed with ever so much ease, they would never be attempted ; and it might be prevented by rendering it next to impossible that the forgers should not, sooner or later, be detected and punished. Each of these checks, it is probable, would be sufficient ; but, united, there can be little doubt they would render forgery totally impracticable.

Since this was written in 1826, the general adoption of the system here recommended, by all the large Banking Establishments in England, Scotland, and Ireland, with the exception of the Banks of England and Ireland, has confined forgeries exclusively to the notes of those establishments.

THE END.

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