

BANKS AND BANKING

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Banks and banking by H. T. Easton

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H. T. EASTON

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BY

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PREFACE.

THIS small volume consists of a series of notes on the growth and development of banking in this country. The author has endeavoured to show how the deposit of money in a bank has developed into a complex system of finance, and also how capital, wielding an immense power in the present day, is largely under the management and control of our great banking institutions. The study of banking is of great importance when we consider how dependent the commercial world is upon the existence of a perfectly sound system. To understand the why and wherefore of credit, which forms the basis of banking, is an essential study for those who have adopted it as their profession.

As to the sequence of the work it has been thought desirable, in the first place, to give a short sketch of early banking in this country, and then as an outcome of the expansion of trade to show its connection with commerce. In the early history of banking the subject of the currency was the most prominent feature, and therefore it has been treated separately.

The Bank of England occupies such an important position, that an account of the rise and progress of that institution is given. The subsequent chapters consist of a series of notes on the history of English, Scotch, and Irish Banks.

The connection between commercial crises and banking is of such an intimate character that the leading incidents of every important crisis have been given.

Modern banking is so dependent upon the rate of interest which determines the profits of banks that it has been considered desirable to give a somewhat lengthened account of the causes of fluctuations in the value of money.

The concluding chapters are devoted to incidents of modern practice, such as cheques, bills of exchange, and the opening of branch offices.

The author hopes that the notes may be of some value to those candidates who are preparing for the Institute of Bankers' Examinations.

Reference is made to such standard works as Bagehot's *Lombard Street*, Professor Jevons' *Money and Investigations of Currency and Finance*, Professor Marshall's *Principles of Economics*, and *Notes on Banking* by Mr. Palgrave, and the author trusts that his notes may serve as an introduction to such excellent manuals of finance. The yearly volumes of the Institute of Bankers have also been of great service, as they form almost an encyclopædia of banking.

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§ BANKS AND BANKING.

CHAPTER I.

INTRODUCTION.

THE study of banking is a subject of great interest, because the prosperity of this country is largely dependent upon the stability of our banking system.

We might almost say that the entire capital of the country finds its way into banks in order to be utilised for the benefit of the community. For example, a manufacturer by the aid of borrowed capital obtained from banks is able to produce commodities at a cheaper rate, and thus benefit society at large. It is a known axiom of political economy that an increase of production is a cheapening process. Our modern system of banking has materially increased the prosperity of this country, because no country in the world has the same financial facilities as we have for carrying on trade. Abolish our banking system, and we should find it difficult to compete with other countries; we should, in fact, be heavily handicapped.

Credit is the basis upon which our trade is transacted. One person takes a cheque from another because he believes the drawer has capital at his bankers, and that it will be paid on presentation. This system of credit is of comparatively recent origin, and it has been the means of economising the use of the precious metals. If the cheque system was abolished, a larger amount of gold would be required to act as a circulating medium.

Gold and silver must be bought like other commodities, and when stored in banks represent capital that is not required for the moment.

Our banking system is carried on with a very small amount of the precious metals, and therefore the capital of the country is economised. We should expect to find a country in a prosperous condition where a good system of banking exists.

English banking is comparatively modern. Two hundred and twenty years ago the English banker was a goldsmith, and also advanced money upon plate, jewellery, etc. The Bank of England was not in existence, the date of its charter being 27th July, 1694, and joint-stock banking in England was also unknown, although it was not declared illegal until the renewal of the Bank Charter in 1708.

At an earlier period the business of money lending was carried on by the Jews. They lent money at a very high rate of interest, although a law passed in the reign of Edward the Confessor prohibited usury.

However, we find that in the year 1199 the rate of interest was fixed by law at 10 per cent., and this appears to have been the rate until the reign of Henry VIII. It is stated that the Jews at Oxford during the reigns of Henry III. and Edward I. were in the habit of extracting 45 per cent. from the students. The matter was taken up by the legislature, and Henry III. granted a charter by which they were only to receive interest at the rate of 2d. in the £ weekly. Money so obtained from the Jews did not benefit the trade of the country, but only of individuals who were in pecuniary difficulties.

The Jews were thoroughly hated for the manner in which they transacted business, and consequently were expelled from England in the year 1290, and were not readmitted until the time of Oliver Cromwell.

The Lombards were also money lenders, and settled in this country at an early period from Genoa, Venice, Lucca, and Florence. They lent large sums of money to different governments, for which, like the Jews, they charged an exorbitant rate of interest. Edward III. borrowed 5000 marks from them, for which he paid 7000 marks.

Besides the Jews and Lombards there was another class who were originally dealers in gold and silver bullion, but who became subsequently bankers. These men were called goldsmiths, and possessed considerable wealth. Mr. Price in his *Handbook of London Bankers* gives a very interesting account of these early goldsmiths and money lenders.

Amongst the early goldsmiths we have Otto, in the reign of William I., and later Henry Fitz Alwin Fitz Leofstane, who was Lord Mayor of London for twenty-four years from 1189 to 1213. In the reign of Henry III. we meet with three goldsmiths, *viz.*, Thomas de Frowick, Warden of the Goldsmiths Company in 1270, and Alderman of Cheap Ward in 1279; William de Gloucester, Keeper of the Dies in 1255; and William, the King's Goldsmith, Master of the Mint in 1258. The names of seven goldsmiths are recorded between the years 1327 and 1377.

In 1566 the Court books of the Goldsmiths Company show that out of 107, no less than 76 of them resided in "Chepe"; the remaining 31 resided in "Lumberde Street". It was during the Commonwealth that the goldsmiths began to assume the character of bankers. Many persons left their money with the goldsmiths for safe keeping, and in return the goldsmiths gave receipts or cash notes for the same, payable on demand. These receipts passed from hand to hand, and were called goldsmiths' notes. At a later period the goldsmiths deposited their money with the Government.