

THE PHILOSOPHY OF JOINT STOCK BANKING

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The Philosophy of Joint Stock Banking by G. M. Bell

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A SMALL TRIBUTE

OF

FRIENDSHIP AND ESTEEM,

THIS VOLUME

IS

RESPECTFULLY INSCRIBED



JAMES WILLIAM GILBART, ESQUIRE.

GENERAL MANAGER OF THE

LONDON AND WESTMINSTER BANK.

PREFACE.

The observations scattered over the following pages are the result of fourteen years' practical experience of the system of Joint Stock Banking in Scotland and England, in the successive offices of cashier, accountant, branch manager, and sub-manager of different Joint Stock Banks. It is not presumed that they contain any new discoveries relative to the system of banking, nor is it for a moment imagined that any thing is advanced which is not already very well known to most persons at all acquainted with the subject. On the contrary, it is readily conceded that a much greater amount of information on the points touched upon could be furnished by other parties equally or better conversant with these matters. The writer has no wish to set himself forward as an authority on banking. Nearly the whole of these chapters have already appeared before the public, some of them as leading articles in one of the metropolitan journals.

The successive parliamentary enquiries and discussions on Joint Stock Banking, added to the reckless imprudence and subsequent stoppage of one or two banks of considerable magnitude, have brought the subject so repeatedly and fully under public consideration, that the laws and the

principles which govern these establishments are no longer enveloped in mystery.

Whatever may be the different opinions that prevail with respect to the public advantage and security of Joint Stock Banks, and whatever may be the diversified sentiments with regard to the manner in which they ought to be regulated, every reflecting person must be well satisfied that the best possible, if not the only, guarantee, that can be afforded the public, as well as the proprietors, arises from having the banks placed under the management of practical men. The entire security and whole system of banking rests upon this one point—management. A bank is an establishment instituted by mutual agreement of certain parties for the purpose of trading in money, and, therefore, like every other trade or profession, those will be best conducted that are under the superintendence of experienced and practical men; and, of course, the longer and the more extensive the experience, the greater the prudence and success to be anticipated.

It only remains to be added, that in the following pages no allusion whatever is intended towards any existing establishment. The observations relating to the modes of bad banking, and what ought to be the conduct of directors, are founded upon the parliamentary evidence already before the public, which, it is deeply to be regretted, afford abundant materials for animadversion.

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CHAPTER I.

INTRODUCTORY SKETCH OF BANKING.

A Bank is an institution for receiving the money of individuals, to keep it in security, or improve it by trading in goods, bullion, or bills of exchange, and is either of a private or a public nature.

A Private Bank is merely a contract among a few individuals for carrying on a trade in money and bills, and the responsibility of the parties, who are limited to six in number, is the only security.

A Public Bank is composed of an unlimited number of partners, and is regulated by certain laws enacted by the government, which establish the rules by which it is to conduct its business.

The first establishment of banking in the regular form was at Venice in the middle of the 12th century, and arose from the necessities of the State. The Bank of Venice has served as a model to almost every similar bank in subsequent ages. From its good faith, and the regularity of its transactions, it has maintained a high character in Europe. In 1401 was established the Bank of Barcelona, in 1407 the Bank of Genoa, in 1609 the Bank of Amsterdam, in 1694 the Bank of England, and in 1695 the Bank of Scotland.

Both the Bank of England and the Bank of Scotland were projected by a Mr. William Patterson,