

cancelled. Hence its capital amounted, down to 1848, to 67,900,000 fr. (£2,716,000), with a reserve fund, first of 10,000,000 fr., and more recently of 12,980,750 fr. Since 1806 the bank has enjoyed the privilege of being the only institution in Paris entitled to issue notes payable on demand; and, as will be afterwards seen, it is now the only authorized issuer of such paper in France. Its charter and exclusive privileges have been prolonged and varied by laws passed at different periods.

The bank has established, at different periods since 1817, offices or branches (*succursales*) in different parts of the country. They are managed nearly in the same way as the parent establishment; but their operations were long on a comparatively small scale. These are exclusive of the departmental banks united, as will be immediately seen, to the bank in 1843.

Notwithstanding the skill and caution with which its affairs have generally been conducted, the revolution of 1848 brought the bank into a situation of extreme danger. It had to make large advances to the Provisional Government and the city of Paris. And these circumstances combined with the distrust that was universally prevalent, occasioned so severe a drain upon the bank for gold, that to prevent the total exhaustion of its coffers, it was authorized, by a decree of the 16th March 1848, to suspend cash payments, its notes being at the same time made legal tender. But to prevent the abuse that might otherwise have taken place under the suspension, the maximum amount of its issues was fixed at 350 millions. The bank was then also authorized to reduce the value of its notes from 500 fr. to 200 and 100 fr.

Previously to 1848, joint-stock banks, on the model of that of Paris, and issuing notes, had been established in Lyons, Marseilles, Bordeaux, Rouen, and other large cities. And it was then determined that these banks should be incorporated with the Bank of France, and made branches of the latter. This was effected by decrees issued on the 27th April and 2d May 1848, by which the shareholders of the banks referred to (nine in number) were allowed, for every 1000 fr. nominal value of their shares, a share of 1000 fr. nominal value of the stock of the Bank of France. And, in consequence of this measure, 23,351 new shares, representing a capital of 23,351,000 fr., were added to the stock of the Bank of France, making the latter consist of 91,250,000 fr. divided into 91,250 shares. In 1851 the bank resumed specie payments.

The suppression of the local issues of the departmental banks was, no doubt, a judicious measure, and was indispensable, indeed, to secure the equal value of the paper circulating in different parts of the country. This, however, might have been effected by the mere stoppage of the issues of the departmental banks, without consolidating them with the Bank of France. The latter measure is one of which the policy is very questionable; and there are, as already seen, good grounds for thinking that the banking business of the departments would have been more likely to be well conducted by local associations, than by branches of the Bank of France. Constant additions have been made to the number of branches, which now exceeds seventy.

Owing to the war with Russia, and still more to the rage for speculation, and the drain for silver to the East that followed it, the Bank of France became exposed to considerable difficulties. And in the view of strengthening its position, and also, it may be presumed, of providing a loan for Government, a law was passed (9th June 1857), by which the capital of the bank was increased from 91,250 shares of 1000 fr. each to 182,500 shares of 1000 fr. each. The new shares were assigned to the existing proprietors at the rate of 1100 fr per share, producing a

total sum of 100,375,000 fr., of which 100 millions were lent to Government at 3 per cent. Hence the measure, though it added to the credit and security of the bank, made no addition to the means directly at its disposal.

Down to the passing of this law, the bank could not raise the rate of interest on loans and discounts above 6 per cent. But this impolitic restriction was removed, and the bank authorized to charge any rate of interest which she reckoned expedient, except upon advances to Government, the maximum interest on which was limited to 3 per cent. The bank was farther authorized to issue notes of the value of 50 fr., to make advances on railway shares, &c., and the charter was extended to 1897.

The management of the Bank of France was severely tried in the latter part of 1864 by the occurrence of a financial crisis at Paris; and in January 1865 a commission of inquiry was appointed to examine into the principles and practice of banking. There was, however, nothing mysterious or exceptional in the experience of 1864. Speculation had been much stimulated in France by the establishment of companies (*Crédit Foncier, Crédit Mobilier, &c.*) for the undertaking of public works, and much capital was locked up and more pledged towards the completion of enterprises supposed at first to be highly profitable, but in reality offering a distant and doubtful promise of remuneration. The crisis of 1864 was the dissipation of these delusions, and the voluminous publications of evidence and opinion by the commission of inquiry produced no practical consequences.

The war of 1870-71 could not but have an important influence on the operations of the bank. Successive Governments resorted to it for assistance, which was obtained by increasing the issue of its notes and by giving them a forced currency. The rate of interest, which had been 2½ per cent. from May 1867, rapidly rose to 6 and 6½, at which it remained with scarcely any variation from 9th August 1870 till late in the year 1872. The rate would probably have risen much higher, but on the 13th August a law was approved suspending the liability of the acceptors of bills current to meet them at maturity, and this suspension was renewed until it was finally withdrawn in July 1871. The amount of unpaid bills held by the bank reached a maximum of 368 millions of francs, but the ultimate loss was extremely small. On the 23d June 1870 the metallic reserve at the bank was 1318½ millions of francs, which was reduced to a minimum of 505 millions on the 24th December of the same year. The notes in circulation before the war had been about 1400 millions of francs; but before the end of the year 1870 their volume had increased to 1700 millions; and this again rose to 2000 millions before July 1871, and to 2400 millions before the end of 1871. A law of the 29th December 1871 fixed the maximum at 2800 millions, which was finally raised on 15th July 1872 to a maximum of 3200 millions. The debt of the state to the bank increased concurrently with this increase of issues, which was, indeed, authorized for the purpose of enabling the bank to assist the treasury. On the 26th December 1870 the bank held treasury "bons" to the extent of 174,800,000 francs only, but on the 30th November 1871 it held 1,193,600,000 of these "bons," and in August 1872 the amount reached 1,363,100,000 francs. A law of the 21st June 1871, followed by an agreement between the bank and the Government, provided for the repayment of this debt in annual payments of 200 millions, but up to this time (August 1875) the income of the state has never been large enough to provide the whole of this sinking fund. The bank has, however, been able to increase its metallic reserve through the liquidation of securities and the accumulation of deposits; so that, after having been reduced.

as we have said, to 505 millions in December 1870, and not attaining to more than 634 millions in December 1871, it rose in the same month of 1872 to 793 millions, in 1873 to 820 millions, and in 1874 to 1331, or just the amount at which it stood before the declaration of war. Its volume has, however, continued to increase, and on the 25th March of this year (1875) it stood at 1528 millions; and the forced currency of the notes of the bank might be at any time withdrawn. It must be admitted that the management of the bank throughout these years of difficulty has been eminently prudent and successful.

The bank is obliged to open a *compte courant* for any one who requires it, and performs services, for those who have such accounts, similar to those performed for their customers by the banks in London. The bank does not charge any commission on current accounts, so that its only remuneration arises from the use of the money placed in its hands by the individuals whose payments it makes. It is probable, therefore, as has been alleged, that this part of the business is but little profitable. The bank also discounts bills with three signatures at variable dates, but not having more than three months or ninety days to run. Besides discounting bills, the bank makes advances on stocks and pledges of various kinds, and undertakes the care of valuable articles, such as plate, jewels, title-deeds, &c., at a charge of ½ per cent. on the value of the deposit for every period of six months and under.

The administration of the bank is vested in a council of twenty-one members, viz., a governor and two sub-governors, nominated by the chief of the state, and fifteen directors and three censors, nominated by the shareholders. The bank has a large surplus capital or rest. In 1848 the dividends only amounted to 75 fr. per share. In 1855 and 1856 they were 200 and 272 fr. on each share. In 1870 they fell to 114 fr., but rose again to 300 fr. in 1871, and to 320 fr. in 1872. In July 1856 the 1000 fr. share of bank-stock was worth 4075 fr.; in July 1857 it had sunk to 2880 fr. It is now (1875) worth about 3850 fr.

Banking in the United States.

Before the late Civil War it had been the uniform practice of the different States of the Union to allow banks to be established for the issue of notes, payable in specie on demand. In cases where the liability of shareholders in banks was to be limited to the amount of their shares, they had, previously to 1838, to be established by Acts of the local legislatures; but, in general, these were easily obtained, and it may be said that banking was quite free, and that, practically, all individuals or associations might issue notes, provided they abided by the rules laid down for their guidance, and engaged to pay them when presented.

Under this system the changes in the amount and value of the paper currency of the United States were greater than in any other country, and it produced an unprecedented amount of bankruptcy and ruin.

Between 1811 and 1820, about 195 banks, in different parts of the Union, became bankrupt; and it is said, in a report by the Secretary of the Treasury of the United States, dated 12th May 1820, that these failures, which mostly happened in 1814 and 1819, produced a state of distress so general and severe that few examples of the like had then occurred.

But bad as this instance was, it was nothing to that which took place subsequently to 1834. The accounts of the aggregate issues of the banks differ a little; but the following statement is believed to be very nearly accurate, viz:—

Years	Notes.
1830	\$66,628,598
1834	94,839,570
1835	103,692,495
1836	140,310,638
1837	149,185,890

Now observe, that this sudden and enormous increase took place under the obligation which we are told is quite enough to prevent all abuse of paying notes on demand. The result was what most men of sense must have anticipated, viz., that a revulsion took place, and that every bank within the Union, without, it is believed, a single exception, stopped payment in 1837.

In 1838 such of the banks as had been best managed and had the largest capitals resumed payment in specie. But in 1839 and 1840 a farther crash took place; and the bank-notes afloat, which, as has been seen, amounted to \$149,185,890 in 1837, sunk to \$83,734,000 in 1842, and to \$58,563,000 in 1843. It is supposed that in this latter crash nearly 180 banks, including the Bank of the United States, were totally destroyed. And the loss occasioned, by the depreciation which it caused in the value of stocks of all kinds and of all sorts of property, was quite enormous. And yet, vast as that loss was, it was really trifling, as a writer in the *American Almanack* has stated, compared with "the injury resulting to society from the upheaving it occasioned of the elements of social order, and the utter demoralization of men by the irresistible temptation to speculation which it afforded, ending in swindling to retain ill-gotten riches."

The evils of the American system were aggravated by the lowness of the notes which most banks issued. This brought them into the hands of retail traders, labourers, and others in the humbler walks of life, who always suffer severely by the failure of a bank.

After 1838 and 1842 various measures were taken in nearly all the States, but principally in New York, to restrain the free action of the banks, and to prevent a repetition of the calamities referred to.

In New York, for example, banks were divided into two great classes—the incorporated and the free banks. The former, incorporated by a State law, had to conform to certain regulations, and to contribute a half per cent. annually upon their capital to a security fund, which was devoted to the payment of the notes of defaulting banks. But this was a most objectionable plan; for, in the first place, it did not prevent bankruptcies, and, in the second place, it compelled the well-managed banks to contribute to a fund which went to pay the debts of those that were mismanaged. It consequently declined in favour, and soon became rarely acted upon.

In the other or free banking system, all individuals or associations who chose to deposit securities (minimum amount, \$100,000) for their payment were allowed to issue an equal amount of notes. And this was certainly by far the more efficient as well as the more popular of the two plans. It was, however, not free from objection; because, 1st, A longer or shorter, but always a considerable, period necessarily elapses after a bank stops before its notes can be retired; and, 2d, The securities lodged for the notes were necessarily at all times of uncertain and fluctuating value, while, in periods of panic or general distrust, they became all but inconvertible. The Sub-Secretary of the Treasury of the United States animadverted as follows on this plan, in a letter dated 27th Nov. 1854:—

"The policy of many of the State Governments has of late years consisted in encouraging the issue of small notes, by sanctioning the establishment of what are popularly called 'free banks,' with deposits of stocks and mortgages for the 'ultimate' security of their issues. This 'ultimate' security is, it may be admitted, better than no security at

all. The mischief is, that it is least available when most wanted. The very causes which prevent the banks from redeeming their issues promptly, cause a fall in the value of the stocks and mortgages on 'the ultimate security' of which their notes have been issued. The 'ultimate' security may avail something to the broker who buys them at a discount, and can hold them for months or years; but the labouring man who has notes of these 'State security banks' in his possession, finds, when they stop payment, that 'the ultimate security' for their redemption does not prevent his losing twenty-five cents, fifty cents, or even seventy-five cents in the dollar.

"In a circulating medium we want something more than 'ultimate security.' We want also 'immediate' security; we want security that is good to-day, and will be good to-morrow, and the next day, and for ever thereafter. This security is found in gold and silver, and in these only."¹

The Report of the Superintendent of Banking for the State of New York for 1856 showed that the securities he then held in trust amounted to \$39,359,071, which were almost wholly lodged by banking associations and individual bankers.

During the year the securities held in trust for the under-mentioned banks that had become insolvent in 1855 were disposed of. But the sums realized by their sale did not in any case suffice to pay the notes at par; while a period, varying from two to four years, would have elapsed before the affairs of the insolvent banks were finally settled.

Names of Banks that failed.	Notes redeemed.	Rates of Redemption.	Expiration of Time for Redemption.
Eighth Avenue Bank.....	All	94 cents.	May 21, 1861
Farmers' Bank, Onondaga.....	All	85 cents.	Nov. 12, 1859
James' Bank.....	All	91 cents.	June 17, 1858
Merchants and Mechanics' Bank, Oswego.....	All	77 cents.	Sept. 23, 1860
New Rochelle, Bank of.....	Stock notes.	Par	June 17, 1858
New Rochelle, Bank of.....	Stock and estate notes	81 cents.	June 17, 1858

This statement set the defective nature of the security system, as administered in New York, in the clearest point of view. It might, no doubt, have been improved by increasing the proportion of securities to notes. But, owing to the variety of securities that were taken (viz., all manner of bonds and mortgages, state, canal, and railway stocks, &c., &c.), and the uncertainty of their value, a great deal of risk was always incurred in accepting them, and they could never form a proper foundation on which to issue notes.

In 1857 another crash took place, and all the banks in the Union, from the Gulf of Mexico to the frontiers of Canada, again stopped payments.

There had been a rapid increase of discounts since 1851, and that increase was especially great in 1856, and went on augmenting down to August 1857. On the 8th of that month the discounts and advances by the New York banks amounted to \$122,077,252, the deposits in their possession being, at the same time, \$94,436,417. This was the maximum of both. On the 24th of August the Ohio Life and Trust Company, which carried on an extensive banking business in New York, stopped payments, and by so doing gave a severe shock to credit and confidence, which the suspension of two or three more banks turned into a panic. Notes being in a certain degree secured, the run upon the banks was principally for deposits. And to meet it they so reduced their discounts and advances, that, on the 17th October, they amounted to only \$97,245,826. This sudden

¹ The above statements are taken from a paper read by Lord Overstone to the Committee on Banks.

and violent contraction necessarily occasioned the suspension of many of those mercantile houses that had depended on the banks for discounts. And it did this without stopping the drain for deposits, which had sunk, on the 17th October, to \$52,894,623, being a decrease of \$41,546,784 in about two months. The universal stoppage of the banks was a consequence of these proceedings.

The Civil War had as one of its consequences the introduction of a general banking law in the United States, conformable in many respects to the principles of what we have described as the free banking law of New York. At the beginning of the war in 1861, the amount of paper money in circulation was about \$200,000,000, of which \$150,000,000 had been issued in the loyal States; and the coin in circulation was estimated at \$275,000,000. The necessities of the Treasury very soon compelled the Government to borrow from the associated banks of New York, Philadelphia, and Boston, and to issue demand-notes to the extent of \$50,000,000,—which, however, were not at first made legal tender. In February 1862 an Act was passed by Congress authorizing the issue of \$150,000,000, in Treasury notes of not less than \$5 each, out of which, however, \$50,000,000 were in lieu of the notes already issued; and this issue was declared to be legal tender except in discharge of customs' duties, and of the payment of interest by the United States on the national debt. It will be easily understood that coin went out of circulation, and a premium on gold was established, which increased as the amount of the Treasury notes was increased by successive legislation, and as national bank-notes came to be issued in pursuance of the law we must proceed to describe. This is the Banking Law of the 25th February 1863, which, as amended by the Act of the 3d June 1864, now continues in force. By this law a Currency Bureau and Comptroller of Currency were appointed in the Treasury Department, with the power to authorize banking associations of not less than five persons subscribing, except in very small towns, a minimum capital of \$100,000, 50 per cent. to be paid up at once, and the remainder within six months. It was enacted that any such association, before commencing business, must transfer to the Treasurer of the United States any United States interest-bearing bonds not less than one-third of the capital stock, and should thereupon receive from the Comptroller of the Currency circulating notes of different denominations in blank, registered and countersigned, equal in amount to 90 per cent. of the current market value of the bonds so transferred, but not exceeding their par value. The whole amount of notes thus issued was not to exceed \$300,000,000, one-half to be apportioned among the States according to their representative population, and the other half to be apportioned with regard to the existing banking capital, resources, and business of the States.

The banks already existing in the several States were rapidly transformed into national banks under the operation of this law, and their previous notes withdrawn in exchange for the new national bank issue. The currency of the Union thus came to consist of the demand-notes of the Treasury, which rose in 1865 to about \$450,000,000, and of the notes of the national banks, which rapidly approached the limit of \$300,000,000,—the latter notes passing throughout the Union, whatever the bank through which they were issued, as freely as the former, since the ultimate payment of them was secured by the deposit under the law we have stated, of an adequate amount in United States' bonds at the Treasury. It is not our purpose to trace the subsequent financial history of the States, but the experience of 1873 must be referred to for the instruction it affords. As no sufficient steps were taken after the termination of the war to reduce the swollen value of the

currency, gold remained out of circulation, though with the growth of business the premium on it declined to an average rate of 12 per cent.; but no inconvenience was felt from the existence of a pure paper circulation, and the opinion, in fact, arose that the currency thus established was a sure preventive of recurrent panics and exaggerated rates of discount. But in September 1873 the financial house of Jay, Cooke, & Co., having locked up a large amount of capital in railway enterprises not immediately if ever likely to be productive, suspended payments; other financial houses were forced to take the same step, several banks closed their doors, and a severe panic set in. The holders of the notes in circulation of the banks that failed were protected by the deposit of bonds at the Treasury, and the notes were never discredited; but the financial distress throughout the Union was excessive, and continued for many months. It was practically demonstrated that the national bank law protected the holders of national bank-notes from loss, but afforded no immunity against the occurrence of financial crises.

Banking in Germany.

Banking in Germany, up to the close of the Franco-German War, presented no peculiar features requiring attention. The Bank of Hamburg was established in 1619, on the model of that of Amsterdam, as a purely deposit bank for the transfer of sums from the account of one individual to that of another; and its management appears to have been uniformly good. In the several German States banks were authorized under laws peculiar

to each; and most of them were allowed to issue notes according to regulations varying from State to State. It followed that the notes of each bank were confined to its own neighbourhood; but the establishment of German unity was followed by a demand for a general banking law, and the establishment of a note currency that might circulate throughout the empire. After some discussion the Act of the 30th January 1875 was passed to satisfy these demands. Under this law an Imperial Bank was established, with an uncovered issue of 250 millions of marks (= £12,500,000); and thirty-two banks were recognized as possessing rights of uncovered issue to the extent of 135 millions of marks (£6,750,000). The Imperial Bank is, however, allowed to increase its issue, subject to the condition that at least one-third is represented by cash in hand, and the remaining two-thirds by bills not having more than three months to run; while the other banks may also exceed their authorized issues subject to the payment of 5 per cent. interest on the excess above the authorized limit, plus the cash in hand, and weekly returns are required of the amount in circulation. No note is to be less than 100 marks (£5), and no new right of issue can be conceded except by a law of the empire. The State itself, however, under a law of April 1874, has the right to issue 120 millions of marks in State notes of small denominations. The working of this law has not yet been tested; but, if we may judge from our own experience, it will not produce any rapid withdrawal of local issues, and the unification of the note currency of the empire will not be accomplished. (L. H. C.)

BANKRUPTCY. When a person is unable to pay his debts in full, the law of civilized countries adopts some means of satisfying the creditors, as far as they can be satisfied, out of the debtor's estate, and relieving the debtor himself from pressure which, by his own efforts, he would not be likely to overcome. The debtor having been declared a bankrupt, his property vests in his creditors for the purpose of being rateably divided among them, and he thereupon starts a new man, entirely relieved from the obligations thus partially satisfied. Such, in general terms, is the process of bankruptcy as observed in modern societies. The law of bankruptcy is, in fact, a modern creation, slowly evolved out of the criminal code in answer to the necessities of a widely-spread industrial life. Early society is unanimous in treating inability to fulfil legal obligations as a most serious offence; and the harshness of ancient law towards debtors has been explained as a consequence of the fact that a contract was at first regarded as a sort of incomplete conveyance, and creditor and debtor as persons who respectively had and had not fulfilled their legal obligations. The early law of Rome, while prohibiting contracts of usury, still gives the legal creditors the savage remedy of dividing the carcass of their debtor or selling him and his family into slavery. Severe commercial distress endangering the stability of the state is of frequent occurrence in the history of Rome; but the law against debtors long retained its primitive severity. The Lex Poetelia (about 326 B.C.) enabled a debtor, who could swear to being worth as much as he owed, to save his freedom by resigning his property; and many years after the legislation of Julius Cæsar established the *cessio bonorum* as an available remedy for all honest insolvents. The slow development of the law, and the practical difficulties with which each new adjustment was met, are copiously illustrated by the history of bankruptcy legislation in England. The first English statute on bankruptcy (34 and 35 Hen. VIII. c. 4) was directed against *fraudulent*

debtors, and gave power to the lord chancellor and other high officers to seize their estates and divide them among the creditors. The 13 Eliz. c. 7 restricted bankruptcy to *traders*, and prescribed certain acts by committing which a trader became a bankrupt. Commissioners appointed by the lord chancellor are to seize the person of the bankrupt and divide his property among the creditors. The 4 Anne c. 17 and 10 Anne c. 15 took away the criminal character hitherto borne by the proceedings, and allowed a debtor, with the consent of a majority of his creditors, to obtain a certificate of having conformed to the requisitions of the bankrupt law, which, when confirmed by the chancellor, discharged his person and his after-acquired property from debts due by him at the time of his bankruptcy. The 6 Geo. IV. c. 16 allows a debtor to procure his own bankruptcy (an arrangement previously regarded as fraudulent), and introduces the principle of deeds of arrangement between debtor and creditors without a public bankruptcy. The 1 and 2 Will. IV. c. 56 established the Court of Bankruptcy, consisting of six commissioners, along with four judges as a Court of Review, and appointed official assignees to get in the bankrupt's estate on behalf of the creditors.

Various other statutes in the next twenty years made unimportant changes in the constitution of the court. In 1847 jurisdiction in bankruptcy was again restored to the Court of Chancery by the appeal being transferred to that court. The Bankrupt Law Consolidation Act, 1849, effected several important alterations in the system. Proceedings were to begin by a petition to the Court of Bankruptcy instead of a fiat out of Chancery. The commissioners were authorized to award certificates, classified according to the merit of the bankruptcy. In the first class the insolvency was declared to be due to misfortune; in the second, not entirely to misfortune; and in the third, not at all to misfortune. Certain specified offences deprived the bankrupt of all right to a certificate, and made him