

## FINANCE, TRADE, AND TRANSPORTATION <sup>1</sup>

### I. NATIONAL AND STATE BANKS

#### ORIGIN OF BANKING INSTITUTIONS

THE world has had its bankers and money-changers for thousands of years. Babylonian tablets have been found which record banking transactions which took place in the reign of Nebuchadnezzar. Modern banking institutions, however, had their origin in the twelfth century. The first institution of this character in Europe was the Bank of Venice, founded A. D. 1171. It was based upon a forced loan of the republic. Funds deposited in it could not be withdrawn, but were transferable on the books at the pleasure of the owners. The Bank of Genoa was

#### <sup>1</sup> SUGGESTIONS AS TO METHOD OF STUDY

1. Read the lessons as printed very carefully. The aim will be to give fundamental knowledge as to the organisation and conduct of modern business.

2. Books will not be necessary. The student, however, who wishes to make a more thorough study of the national banking system will find excellent chapters on the subject in "Carroll's Principles and Practice of Finance" (New York: Putnam's) and "White's Money and Banking" (Boston: Ginn & Co.).

3. Take up the papers of the course paragraph by paragraph and ask yourself the reason why each is introduced. Discuss with your friends the advantages or disadvantages of particular requirements.



founded in 1407, and for many years was one of the principal banks of Europe. It was the first to issue circulating notes; these were negotiable only by indorsement—



The Bank of England, showing the Threadneedle Street entrance.

that is to say, they were not made payable to bearer. This was a long step in advance of the earlier system of deposit transfers which was also employed by this bank. The Bank of Amsterdam, established in 1607, was the earliest considerable institution of the kind which looked to the promotion of commerce. The Bank of Hamburg, established in 1619, was a bank of deposit and circulation based upon fine silver bars. The deposits were confined to silver. The Bank of England is more than 200 years old and is to-day acknowledged to be the greatest financial institution in the world. Nearly all the paper money of England is issued by this bank. This currency is

based partly upon securities and partly upon deposits of coin. There are three or four banks in the United States more than one hundred years old. In 1781 Robert Morris, then superintendent of finance, submitted to Congress a plan for the establishment of the Bank of North America at Philadelphia. In 1784 the State of Massachusetts incorporated the Massachusetts Bank. The Bank of New York was chartered in 1791.

#### OUR NATIONAL BANKING SYSTEM

The national banking system of the United States was established by an act of Congress in 1863, revised in 1864, and amended by later legislation. The great advantage of the system, it is said, is the feature of uniformity, the fact that it brings the banking business of the whole United States under one authority and under the supervision of one set of administrative officers. The note-issuing department is subordinate in its public usefulness to the facilities afforded by banks and clearing-houses for the interchange of credits. The essential features of national banks are briefly set forth as follows:

1. There is a bureau of the Treasury Department having charge of all matters relating to national banks, the chief officer of which is the comptroller of the currency.
2. Any number of persons, not less than five, may form an association for banking purposes, to continue not more than twenty years, but renewable for twenty years with the approval of the comptroller.
3. The powers of the bank are limited to the discounting of promissory notes, drafts, bills of exchange, and other evidences of debt; receiving deposits, dealing in exchange, coin, and bullion, loaning money on personal security, and issuing circulating notes. It cannot hold



real estate except such as may be necessary for the transaction of its business, or such as may have been taken as security for debts previously contracted in good faith.

4. There can be no national banks anywhere of less capital than \$50,000, and these small ones are restricted to places of not more than 6000 inhabitants. In cities of more than 6000 and less than 50,000 inhabitants there can be no bank of less than \$100,000 capital, and in cities of 50,000 inhabitants or more none of less than \$200,000. One half of the capital must be paid in before the bank can begin business and the remainder must be paid in monthly instalments of at least ten per cent. each.

5. Shareholders are liable for the debts of the bank to an amount equal to the par value of their shares in addition to the amount invested therein.

6. Each bank having a capital exceeding \$150,000 must deposit in the treasury of the United States registered interest-bearing bonds to an amount not less than \$50,000. Those having a capital of \$150,000 or less must deposit bonds equal to one fourth of their capital stock. Each bank may issue circulating notes to the amount of ninety per cent. of the market value of the bonds deposited by it, but not exceeding ninety per cent. of the par value of the same, and not exceeding ninety per cent. of the paid-in capital of the bank; but no bank is compelled to issue circulating notes. No bank-notes shall be issued smaller than \$5. The notes are receivable at par for all dues to the United States except duties on imports, and are payable for all debts owing by the United States within the United States except interest on the public debt and in redemption of the national currency.

7. Every bank in certain designated cities, called reserve cities, must keep a reserve of lawful money equal to twenty five per cent. of its deposits. All other banks must keep a like reserve of fifteen per cent., but three fifths of the

said fifteen per cent. may consist of balances on deposit in banks approved by the comptroller in the reserve cities.

8. Each bank must keep on deposit in the treasury of the United States lawful money equal to five per cent. of its circulation as a fund for redeeming the same. This five per cent. may be counted as part of its lawful reserve. This does not relieve banks from the duty of redeeming their notes at their own counters on demand.

9. One tenth of the net profits must be carried to the surplus fund until it is equal to twenty per cent. of the capital.

10. A bank must not lend more than one tenth of its capital to one person, corporation or firm, directly or indirectly, nor lend money on the security of its own shares, nor be the purchaser or holder of its own shares unless taken as security for a debt previously contracted in good faith, and if so taken they must be sold within six months under penalty of being put in liquidation.

11. Each bank must make to the comptroller not less than five reports each year, showing its condition at times to be designated by him, and he may call for special reports from any particular bank whenever he chooses to do so.

12. Each bank must pay to the treasurer of the United States a tax equal to one per cent. per annum on the average amount of its notes in circulation. The shares are liable to taxation by the States in which they are situated at the same rate as other moneyed capital owned by the citizens of such States.

13. Any gain arising from lost and destroyed notes inures to the benefit of the United States.

14. The comptroller has the absolute appointment of all receivers and fixes their compensation. All moneys realised from the assets are paid into the treasury to the credit of the comptroller, and all dividends are paid out by him.



15. Over-certification of cheques is strictly prohibited, rendering officers or clerks liable to imprisonment.

16. National bank directors are by law individually liable for the full amount of losses resulting from violations of the national banking laws.

#### STATE BANKS

Upon the establishment of the national banking system the greater number of the banks incorporated under the laws of the several States were organised as national banks. With others, however, the rights of issue did not outweigh some inconveniences of the national system, and as a result there is now an important class of banks, and loan and trust companies, organised under State legislation and carrying on a deposit and loan business. The regulations under which they work are necessarily diverse, and the amount of public supervision over them varies in different states. The State banks in existence when the national banking system was organised were obliged to retire their note circulation, owing to the fact that the government imposed a tax of ten per cent. on their circulation. The object of the tax was to secure the retirement of the State bank-notes to make room for the circulation of the national banks. The internal mechanism of State banks differs but slightly from that of national banks.

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### II. SAVINGS BANKS AND TRUST COMPANIES

#### SAVINGS BANKS

NEARLY \$2,000,000,000 is deposited in the savings banks of the United States. This large sum represents the savings of about 5,000,000 people. The primary idea of a savings bank and of the post-office and other forms of saving institutions in foreign countries is to encourage thrift among the masses of the people.

The older savings banks, especially those in the eastern States, have no capital stock. That is to say, they are mutual in their form of organisation. Their capital is the accumulated deposits of a large number of people. The depositors are the owners. When taxes and other expenses are paid and a proper reserve set aside, the remaining profits go in the form of interest to the depositors. Many of the savings banks in the western States are capitalised as are other financial institutions, and on the Pacific coast they have capital stock or its equivalent in the form of a reserve fund in which the majority of the depositors are not interested otherwise than so far as it affords security for their deposits.

As these banks are the custodians of the surplus savings of large numbers of people the laws of the several States have hedged them about with many safeguards,