

rent. Take, for illustration, the disuse of fallows by rotation of crops. Formerly it was thought necessary to let even the best land lie out of cultivation one year in three or four. On the contrary, it is now perfectly established that, if crops be duly varied, land may be continuously cultivated without exhaustion. It is evident that this discovery is equivalent to increasing the capacity of any tract by one-half or one-third: so that, for a given amount of agricultural produce required for the sustentation of the community and for the raw materials of manufacture, such an improvement would allow vast bodies of the poorer grades of soil to be thrown out of cultivation, thus diminishing (paragraph 257) the aggregate amount to be received, as rents, by landlords, in that community. A similar effect, in a greater or less degree, would be produced by the introduction of new and more powerful fertilizers, or by sub-soil plowing and under-drainage.

521. Summing up.—We thus see that all real agricultural inventions and improvements tend, as all improvements and inventions in transportation tend, directly and exclusively, to diminish rents. So that of the three grand classes into which industrial improvements and inventions are divided, two act in a direction exactly opposite to that in which Mr. George's theory would require them to act. Of the third grand class of improvements and inventions, viz., those relating to manufactures, we have admitted that some do, by calling for larger amounts of raw material, enhance the demand for land; but we have shown, that in these very cases, the increase in the demand for labor is almost always equal to the increase in the demand for land, is often greater, is sometimes vastly greater. We have, also, shown that there are other, still more numerous and more important, improvements and inventions in manufactures which do not enhance the land in any degree, while they call for greater and still greater applications of labor to the same amounts of material.

Can any thing more be required to show how groundless and preposterous is the view of the hitherto unsuspected importance of rent as a factor in the distribution of wealth, which Mr. George has presented as a marvelous discovery in econ-

omies, and upon which he has built his pretentious superstructure: the necessary relation of Progress to Ever Increasing Poverty? That such an argument should for a moment have imposed upon anybody, is enough to give one a new conception of the intellectual capabilities of mankind.

XI.

THE BANKING FUNCTIONS.

522. "The trade or profession of banking," says Lord Liverpool, "has been exercised in all countries and all ages. It existed in the republic of Greece and in ancient Rome. There were, in all these States, men who received money as a deposit, repaid it upon the drafts of those who had intrusted them with it, and derived their profits from having this money in their custody."

1st. Financiering.—In modern times, the first banks appear in Italy. Mr. Bagehot states that the earliest of these "were finance companies. The Bank of St. George, at Genoa, and other banks founded in imitation of it, were at first only companies to make loans to, and to float loans for, the governments of the cities in which they were founded."

"Financiering," then, may be regarded as the first banking function developed, in modern times. In the reign of William and Mary certain capitalists made a loan of £1,200,000 to the English government, receiving, in consideration therefor, a charter constituting them the Governor and Company of the Bank of England. Robert Morris's Bank of North America had a very similar origin. Under the present National Banking system of the United States, the bank begins by lending all, or nearly all, its capital to the government. The great war loans of the United States, 1861-5, were, in the main, "floated" by the banks.

523. 2d. Book Credits of the Bank of Amsterdam.—The next banking function historically developed was that of giving the people good money in place of a medley of worn and clipped coins, of a great diversity of coinages, belonging

to many nations. It was to serve this office that the banks of Northern Europe were created.

"Before 1609," says Adam Smith, "the great quantity of clipped and worn foreign coin which the extensive trade of Amsterdam brought from all parts of Europe, reduced the value of its currency about 9 per cent. below that of good money, fresh from the mint. Such money no sooner appeared than it was melted down or carried away, as it always is in such circumstances.* The merchants, with plenty of currency, could not always find a sufficient quantity of good money to pay their bills of exchange; and the value of those bills, in spite of several regulations which were made to prevent it, became in a great measure uncertain.

"In order to remedy these inconveniences, a bank was established, in 1609, under the guarantee of the city. This bank received both foreign coin and the light and worn coin of the country, at its real intrinsic value in the good standard money of the country, deducting only so much as was necessary for defraying the expense of coinage and the other necessary expenses of management. For the value which remained after this small deduction was made, it gave a credit on its books. This credit was called bank-money, which, as it represented money exactly according to the standard of the mint, was always of the same real value, and intrinsically worth more than current money. It was at the same time enacted "that all bills drawn upon or negotiated at Amsterdam, of the value of 60 guilders or upwards, should be paid in bank money, which at once took away all uncertainty in the value of those bills."

It will be observed that Adam Smith calls these credits inscribed upon the books of the Bank of Amsterdam, "bank-money;" but this money, if it is to be called so, will be seen to differ widely from the bank money of to-day, already described: 1st. It did not circulate from hand to hand, as the ordinary medium of effecting exchanges; 2d. It was never in excess of the amount of metallic money actually in the vaults on deposit.

* See statement of Gresham's Law, par. 181.

524. 3d. Cancellation of Indebtedness.—The next banking function, which we are called upon to notice, is the Cancellation of Indebtedness.

An enormous volume of indebtedness at all times exists in any highly progressive country, which has to be paid and renewed from day to day. The labor and loss of time involved in collecting debts and paying moneys, with the probable delay and disappointment involved therein, would be almost intolerable unless some special agency were established for doing this work upon a large scale and with all the advantages which we have found to result from the application of the division of labor. This function the bank performs.

If, in any great city, many banks are required to carry on this function, these banks, in turn, establish a common agency for settling their mutual obligations, called a Clearing House.*

The transactions of such an institution in New York or London may amount to thirty or forty thousand millions of dollars a year. This vast body of indebtedness is adjusted through the labor of a hundredth part as many clerks and messengers, and the use of a hundredth part as much actual money as would have been required, had each person who had money owing to him been obliged to attend to the collection himself, or through his own clerks or messengers.

525. 4th. Exchange.—The next banking function is to remit money and conduct exchange.

What is termed "Exchange," is merely the principle of the cancellation of indebtedness between individuals of the same city, carried out to trading communities and nations. We shall speak, under a subsequent title, of the principles regulating Foreign Exchanges.

This function, again, the bank to a great extent performs, and in so doing renders the trading community an immense service. If every merchant who had to pay money in another city or country were obliged to find out, for himself, some

* The subject of the Clearing House and, indeed, all the agencies and instrumentalities of trade will be found treated most lucidly and justly in Prof. Jevons' work "Money and the Mechanism of Exchange."

person who had the right to receive money at that place, at that time, and perhaps in the same sum, an inconceivable amount of inconvenience and delay, of vexation and disappointment, often resulting in commercial discredit, would be experienced.

If we may accept Mr. Henry Thornton's account* of the rise of the country banks of England, it was through the gradual growth of exchange-operations between country shopkeepers and those of the cities, that these institutions came, almost unnoticed, into existence.

526.—5th.—Safe Deposit.—The fifth banking function is to serve as a place of safe deposit. Mr. Francis, in his History of the Bank of England, attributes the rise of the city banks primarily to the need of this service. In the unguarded and unlighted London which Macaulay so graphically describes in his memorable Third Chapter, robberies and burglaries were of frequent occurrence. No man's home was safe, if known to contain any considerable amount of treasure, unless barricaded and defended by armed servants. The goldsmiths, having in the way of their trade to keep large quantities of gold and silver, had strong houses strongly guarded. To them, men of smaller means, private gentlemen, or shopkeepers, intrusted what they dared not keep at home, paying, at first, for the privilege.

In the course of time, the goldsmiths found that this custody of funds afforded a legitimate opportunity for realizing a profit, through loaning some part of these deposits. Then the depositors were no longer required to pay for the safe keeping. In time, the bankers came, perhaps, to pay interest on the deposits, themselves, which they loaned out to others, at higher rates, while the depositors received certificates of the value of what they had left with the goldsmiths. The certificates soon began to circulate from hand to hand. "These," says Mr. Francis, "may be considered the first kind of bank notes issued in England." In this way the goldsmiths' street in London, Lombard Street, came to be the bankers' street, the greatest banking street of the world.

*In his famous work on Paper Credit, published in 1802.

The ordinary bank is still, to a great extent, a place of safe deposit for money, family jewels, deeds, and bonds, although special institutions for safe deposit are now found in many large cities.

527.—6th. Deposit and Discount.—The sixth and the chief of the legitimate functions of the modern bank is to serve as an intermediary in the loan of capital, in aid of commerce and manufactures and other private enterprises, not merely to loan its own capital, as in the case of the Bank of Genoa and others that have been spoken of, or to conduct loans for government, or for great corporations.

The technical terms, deposit and discount, serve to characterize this function. It is in this way that banks make their largest contribution to the advancement of commerce and industry. This office of banking is, however, as much overrated by some as it is underrated by others. Men who are not versed in economic principles, when they see the wonderful effects wrought by gathering into one great reservoir the wealth of ten thousand individuals, much of which would otherwise be hoarded or unwisely applied, and conducting it thence, as occasions require, in various directions, through channels judiciously devised to secure the highest and most effective irrigation of the field of industry, are apt to imagine that the bank in some way creates capital. This is a wholly mistaken notion. The bank adds to the wealth of the community only by economizing and directing capital to the best ends.

So important is this function that most European writers, when they speak of banking, have only in mind deposit and discount, all other functions being held to be minor and subordinate.

528.—7th. Issue of Paper Money.—To an American, however, the word, banking, is more likely to bring up the notion of paper money. The issue of such money is the seventh and the last of the banking functions which we have occasion to consider.

That the making of money is not necessarily connected with deposit and discount, is abundantly established by the consent of all writers of authority in this field, as well as by

the example of many of the greatest deposit banks of the world. "Issuing," says Mr. Nicholson, "is creating money; banking is managing money after it has been issued."

"A bank of issue," says Lord Overstone, "is intrusted with the creation of the circulating medium; a bank of deposit and discount is concerned only with the use, distribution or application of that circulating medium. The principles upon which these two branches of business ought to be conducted are perfectly distinct, and never can be reduced to one and the same rule."

The great London joint-stock banks, a single one of which holds deposits rising into tens of millions, and whose ordinary dividends are three times as great as those of the Bank of England, never issue a note.

In this country, however, the word bank, through much of our history, has to most people signified little more than a place where paper money was manufactured.

529. The Banking Agencies.—Such are the banking functions. The agencies by which the functions are performed may be grouped under four heads: (1), state banks; (2), joint-stock banks; (3), private banks; (4), bill-brokers and dealers in exchange. These agents enter in very different proportions to effect the banking work to be done in different countries. In this country, so large a part of the banking work was, from the beginning of the country till the outbreak of the war of secession, done by joint-stock banks, that it may be broadly said that this was the sole banking agency known to our people, although, in a few cities, private banking houses of high reputation were early started and well maintained, and the business of bill-broking was not unrecognized. Under another title, we shall give a brief sketch of the present "National Banking System" of the United States.

XII.

THE PRESENT BANKING SYSTEM OF THE UNITED STATES.

530.—The National Banking System of the U. S.*—No bank, in the modern sense of that term, was established in America during the colonial period. The word, bank, was indeed sometimes used, with reference, however, to a batch of paper money issued from a colonial treasury. During the revolution the eminent financier, Robert Morris, established a bank in aid of the continental finances. In 1790 there were three banks in the United States; the Bank of North America, in Philadelphia, established, as related, by Robert Morris, but then under a charter from the state of Pennsylvania; the Bank of New York, in the city of that name; and the Bank of Massachusetts, in Boston. In 1791 was created the first Bank of the United States, with a capital of ten millions of dollars, having a charter for twenty years, with power to issue notes payable on demand in specie. So completely without regulation and without inspection was the so-called paper money of the United States in that period, that it is impossible to recover the facts of banking capital, circulation, deposits or specie. Scarcely a statistical fragment survives. There is reason to suppose that the officers of many banks did not themselves know the liabilities of their own institutions. The paper money issued by such an institution, was, in every economic sense, inconvertible. The pretense of conversion could only be maintained by a stringent public opinion, hostile to the presentation of bank notes for redemption, by bank retaliations, and even, in frontier communities, by "lynch law."

531. On the refusal of Congress to re-charter the bank of the United States, a large number of the state banks sprang into existence, almost all of the usual American "joint-stock" type, on the principle of limited liability. In not a single state were the banks subject to regulation or even supervision,

* The first part of this article is condensed from the twelfth chapter of my work on Money, Trade and Industry.