

lending their money at home appears to be preferable for a Public Bank, to gambling in the funds, it seems also to be the duty of such an establishment to lend its money at home whenever it can do so with safety.

The failures which continually take place amongst the English, particularly the Country Banks, and the consequent discredit in which they are held, of course almost totally preclude them from trading in capital in the manner pursued by the Banks of Scotland. The London Bankers are the only Bankers, it is generally understood, who at all do so, and they are not considered good mortgagees. Their strictness in requiring powers of sale, &c. to be granted them, which their limited credit renders necessary, in order to be able to call in their money at the shortest notice, should the state of their credit at any time require it, places the mortgager in a state of disagreeable dependence. The business of an English country bank is, however, principally confined to lending out that capital which it raises by the circulation of its Notes, and the comparatively small sums deposited with it, mostly without interest, (its customers seldom depositing more money with it, than their current occasions require) and to buying and selling Bills upon London. The advances of capital which it makes are, of necessity, principally confined to the discount-

ing of such short dated Bills of Exchange as through its London agents can be turned at any time into cash; as it is always liable to be called upon to pay off its notes, and all the money in its hands, at the shortest notice, it should always be prepared to do so; and the most prudently managed and best English Banks are those which confine themselves most strictly to the limits which their uncertain credit prescribes to them.

Credit is, in fact, the proper capital of a Bank, without which it is impossible for it to be carried on with any great advantage to the country. For want of this the business of English Banks, extensive as it may appear, is quite inconsiderable compared with that of the Banks of Scotland, and far short of what it would be with a different system.

Thus, then, it appears to be the result of experience, that while our Banks are often destructive, at all times dangerous, and at the very best totally inadequate, from want of stability and credit, to perform their proper functions, the Scotch Banks never fail, nor is any danger ever apprehended from them; and that, in consequence, Banking is carried on in that

kingdom to an extent unknown, and, of course, with advantages totally unfelt in our own.

We have stated that the superiority in the success, as well as in the stability and credit of the Scotch Banks, arises from their being public, and not private concerns, which is also proved by our own experience. We have but one Public Bank, the Bank of England, and it has uniformly done well since its first establishment. The same may be also inferred of the Bank of Ireland, the only Public Bank in that country. Lately, when applying for a renewal of its charter, it appeared, that besides its annual dividends, it had made and saved half a million of money, a sum much greater than the Stock-holders had any conception of. This at once proves, that successful management is not at all peculiar to Scotland, or any nation, but is inherent in the system itself.

The cause of this difference proceeds from the charters of the Banks of England and Ireland, which prevent, in their respective countries, more than six persons from entering into a Banking concern, while in Scotland there is no such monopoly, and Banks can be established on the proper principles, and as many people become partners in them as choose.

From the limited number of partners in our Banks, their management has frequently fallen into hands totally incompetent to such a trust.

There is, perhaps, nothing in the theory of Banking very complicated. But to manage a Bank well, requires a degree of firmness, and judgment, which every individual does not possess. If a Banker be too safe and injudiciously cautious in his transactions, he is apt to ruin his business for want of liberality; if too confident, to ruin himself for want of prudence; while he must possess firmness sufficient to enable him to refuse the most pressing solicitation of even his friends, when necessary to do so. This knowledge, discrimination, and firmness, not only require natural talent in the person possessing them, but previous practice and experience in the business of the world. Whereas persons are often placed in the management of English Provincial Banks, by some connection or other chance, which usually determines the lot of individuals in the common affairs of life. Or, if they are chosen expressly for their presumed fitness for the trust, their fitness will then depend upon whether the partners who choose them, are themselves sufficiently competent to form such a choice; independent of which, however, the energy and vigilance of every individual is at times apt to slumber, and we occasionally find the ablest men get very far wrong.

Now, the true reason of the success of Public Banks may be ascribed to their never being

managed by any single person, but by a Court of Directors, periodically chosen by the holders of stock; and their fitness for the trust not depending upon the opinion of an individual or two, but of hundreds, founded upon the clear evidence which their successful management of their own affairs has afforded. No man is ever chosen as the director of a joint stock company, where the choice is unbiassed by influence, who has not given sufficient proof in the eyes of the world of his ability for the management, and has not justly inspired his fellow proprietors with that confidence which they repose in him.*

The principal causes which produce the ruin of private Banks may be stated to be,—first, a confusion in their accounts, arising from a bad or relaxed and careless management, so very frequently exhibited in common affairs; but which, in Banking, must ever be fatal; secondly, speculations with the capital in the Bank; and thirdly, and most frequently, accommodating great houses, either from motives of private friendship, or the temptation of extra Banking profits, until they are so involved that they must stand or fall with them. The two great failures which have happened in this part

* Since the publication of this Essay, I have understood that this is far from being always the case.

of the country were Surtees, Burdon, and Co. and the Durham Bank. The first was produced by entering into private speculations with the capital in its hands, and the last by accommodating a great mining concern. But with Public Banks these causes, by which failures are generally produced, cannot exist. In the first place, the vigilant check necessarily kept upon the accountant, and those who have the charge of the books, which must at all times show, without trouble to the Directors, the state of the company's affairs, prevents the possibility of their getting back or into confusion. In the next place, the Directors could not appropriate the money of the Bank to views of private speculation, if they were wishful to do so, as they are a check upon each other. If they were respectable men, they would not attempt it, and if they were not, they would not be there: besides, there is no instance recorded of such a thing. In the third place, they have too little personal interest in the Bank to be tempted by extra profit out of the path of safety, in accommodating great houses: or if any of them were influenced by private friendship to do so, it could never be the case with them all; and they would be also in that respect a check upon each other.

Independent of the general Court of Directors, there is also a Managing Director,

Cashier, Secretary, and Accountant, or sometimes Cashier, Secretary, and Accountant, or Cashier and Accountant alone, according to the business done, either the Cashier or Secretary in the latter cases acting as Managing Director, and taking all the practical management; and if the Directors are careful to choose men fit for these stations, and see that they do their duty, the concern will generally succeed.

The Directors having in general business of their own to attend to, cannot give their whole attention to the Bank affairs. Their part is more to deliberate, judge, and determine, than to contrive. Consequently the Managing Director, or he who is at the head of the executive department, sits with and joins the Directors in their deliberations, and proposes to them such views and opinions as his practical knowledge and undivided attention to the affairs of the Bank, suggest to him. These they take into consideration, and approve, alter, or otherwise direct, as they may think proper. The energetic and profitable management of such a concern, therefore, greatly depends upon the ability of its officers, who are expected to submit a variety of views and propositions to the Directors, of which there is no fear that they adopt any which are too speculative. The errors of Public Banks are generally on the side of safety, but the concern is apt to flag when the

practical management is not in the hands of men possessed in some degree of ready apprehension, practical energy, and talent for business; and I understand, it is consistent with experience, that when the officers of a Bank are not of this description, the business of the concern is apt to fall off, and to become less profitable.

The business, however, of such a Bank, though it may not be pushed, is seldom neglected. When the Directors can give no attention to the concern, they generally resign, or when it is their turn to go out, are not re-elected. On the other hand, they are not likely to get wrong in taking up sanguine views, by which individuals often mislead themselves. They are responsible in the estimation of the Stock-holders for all that is done, and individually have but little to gain by success; whereas, if their management produced any considerable loss to the concern, they would be turned out of office, and stand committed with the public in a manner that would render them ridiculous, and necessarily produce feelings the most disagreeable and painful.

As, therefore, it thus appears, that the causes which operate in producing the failure of Private Banks are totally prevented by the constitution of Public Companies, we cease to wonder at the uniform success by which the latter are

attended. But the risk incurred by Bankers is not, perhaps, so great as we are apt to imagine. With loans on property, or on the personal securities required to establish a Cash account, there is no risk at all. Property is not taken, if not sufficient to cover the loan upon it, and the sureties accepted when a cash account is opened, are each of them required to be sufficiently able to fulfil the obligation of the bond they enter into. Should any thing happen to either of them, another name must be immediately substituted. Independent therefore of the party with whom the account is opened, there are always two perfectly good and sufficient sureties, to make up any deficiency, even to the full amount of the debt, should it be called for.

The greatest risk incurred by a Bank, is in the Discounting of Bills of Exchange, though it is, at the same time, its most desirable business, from being the principal means by which it keeps its Notes in circulation. But with this class of business also, the risk, under proper management, is much less than is supposed. It is said, that the Bank of England, in ordinary times, does not calculate upon a greater loss than one pound in three hundred thousand. Leith is quite a speculating town, and its merchants are subject, in consequence, to considerable vicissitudes. Yet the Branch of

the Commercial Bank there, during the first four years of its establishment, did not lose one pound out of many millions of discounts, although, in consequence of having entirely new connexions to form, it rejected no business that it could with any degree of prudence accept. The experience of those also, who live in country towns, where the losses which the Banks sustain are generally known, will point out to them, if they have made the observation, that it is only very rarely that a well managed Bank suffers any loss at all.

The Scotch Banks, in fact, in the arrangements which they make with their agents established in distant towns, assume that there is no risk whatever, and lay it down as a rule, that if they incur any loss, they are to suffer it themselves. The Directors, in general, select for Agents, tried men of business, who have proved, by the manner of conducting their own affairs, their capability of successfully transacting whatever may be confided to them. Securities are required of them, in a town of any business, to the extent, I understand, of not less than ten thousand pounds, and they receive a fixed salary of (say) from two to four hundred per annum, according to the size of the place and business done in it. It is, I believe, generally calculated by the Agent, that if he can make out a case of very unforeseen loss, it will

be partly allowed him; but the assumed principle is, that there need be none at all. It is a most curious circumstance, however, and completely proves the insecurity of private management in Bank affairs, that the Banks lose more money through their agents than in any other way.

The distance of the town, where the Agent is established, from the Bank, renders it impossible that any proper judgment can be formed by the Directors, of the stability of the persons with whom the Agent does business. The great sum, however, required as a security, the business character he possesses, and the risk he himself runs, naturally remove all suspicion as to the prudence of his transactions. Should his affairs become involved, he is, perhaps, sufficiently clever to hide it for a considerable length of time. This he probably does with the hope of recovering himself, until the failure, perhaps of some house he has imprudently accommodated, or his deficiency is too great for further concealment, when his own ruin, the loss of the friends who are security for him, and the loss of the Bank besides, to perhaps three times the amount, prove his unfitness for the trust that has been reposed in him.

This does not unfrequently happen, and no greater proof of the insecurity of private management could well be afforded. If Agents,

without the temptation of profit, and under the control of their Banks, cannot keep right, how much more likely are Private Banks to get wrong, without any such control, and with all the usual temptations to influence them?

Although our Banking System has been so long in its present state, its effects seem not to have forced themselves on the consideration either of the government or the public, until lately, when the failures in Ireland, and the lamentable effects produced by them, attracted the notice of the whole kingdom, and called the attention of those interested in the welfare of Ireland, to the subject.

In a conversation which, in consequence, took place in the House of Lords, upon the state of commercial credit in Ireland, the Marquis of Lansdowne stated, that *the present* distress in Ireland was principally occasioned by the late failures amongst the Banks in that country, which failures were to be attributed to the law that limited the number of partners in Banking Firms, and he called upon Lord Liverpool, with reference to Ireland, to remedy the evil by an alteration in the law, in order that proper Banks might be established.

In answer to this, Lord Liverpool said, "that not only did he agree in the suggestion of the Noble Marquis, but it was his anxious wish that the number of partners should be extended not only in Ireland, but in England," and instanced the hardship of Liverpool, Bristol, &c. being prevented from establishing Banks that would be instrumental to their prosperity and strength.

Since that time a negociation has taken place between government and the Bank of Ireland, in which it has been stipulated, that the Bank shall give up the restrictive clause in its charter with respect to Country Banks, and it has done so without an objection. A bill has consequently passed through parliament, by which, in the country districts of Ireland, Public Banks may now be established.

After what has been said by Lord Liverpool, as well as what has been done for Ireland; there can be no doubt of the disposition of government on the subject. It is the declared wish of Lord Liverpool, who expressed the general sentiment of ministers, (as their subsequent conduct with respect to Ireland has proved) that the impediment to the establishment of proper Banks ought to be removed, and that this country should enjoy the advantages of a better system.

To again call the attention of government

to the subject, is all that is now, therefore, necessary; and it will be creditable to the spirit and intelligence of the Gentlemen, Merchants, and others of the town and neighbourhood of Newcastle upon Tyne, to be the first to set the example. The proper plan to pursue is, in the first place to form a company, and then appoint a deputation to wait upon ministers, and the Directors of the Bank of England, and negotiate with them respecting the alteration proposed, and at the same time, pursue such other steps, as may prove necessary to the ultimate attainment of the object desired.

That such an application must be made by a Company, to be made with proper effect, is evident. A Company will carry with it a weight which no individual can have, while it will prove how much alive the country is to the advantages of a better system, by its readiness to adopt it. It will also evince a proper confidence in the declaration of ministers, as made by Lord Liverpool, that they wished to see a better system of Banking introduced; and there can be no doubt that the ministry will have every disposition to give to their own declaration the earliest effect.

There is in fact but little doubt that government will use all its influence to get the charter altered, on an application to it for that purpose. There can exist no reason why it should

not. Ministers have declared the clause a great evil, and are bound by their sense of duty to endeavour to remove it. They have done so with respect to Ireland; and can have no motive or apology for not doing so with respect to us. Ministers, I suppose, will occasionally be wrong as well as any other set of men. Yet so far as we can see, they are generally conscientious. A sufficient ground may sometimes exist for their opinions and conduct being at variance; but there is evidently none in the present case, and their co-operation may therefore be relied upon.

The charter of the Bank of England does not, however, expire until 1833, and the obnoxious clause will require to be immediately expunged from it. But this can be done without injuring the Bank, and the wishes of ministers, with the directors of the Bank, must necessarily be imperative. Besides, we have nothing to fear from the directors themselves, who, in conducting the affairs of the Bank, have always acted upon disinterested and public spirited principles. Neither can it be supposed that any measure for the public welfare, which was conceded by the Bank of Ireland without an objection, would be resisted by the Bank of England. The consent of the directors to any alteration which benefits the public without materially injuring the Bank, may, therefore,

also be relied upon. Yet, as to anticipate the worst, is sometimes the best policy, (viewing it as a possible case that the directors may not be at once disposed to accede to the wishes of the nation,) we will examine whether, in that case, parliament ought not to alter the clause without their consent.

The Bank, though intimately connected with government in its transactions, is an independent establishment, governed by directors of its own choosing. It was commenced by individuals as a speculation, and was chartered by government on the grounds of its public utility. Upon the same principle it has been continued a Bank by its proprietors, and the charter renewed by government to the present day. It would be absurd to suppose that the Bank proprietors would have carried on the Bank merely to serve the public, had they not thereby served themselves, or that the public would have conferred upon them, A. B. and C. the holders of Bank Stock, any exclusive privilege from time to time, except upon the ground of public advantage.

That the Bank is held to be as much a public institution as a private speculation, is evinced by the interference of Parliament in its affairs. This interference is quite opposed to the common law of the land, yet it is perfectly justifiable with respect to the Bank