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Editor of the Journal of Commerce and Commercial Bulletin, *A History of Banking in all the Leading Nations, vol. 3 (France, Italy, Spain, Portugal, Canada)* [1896]

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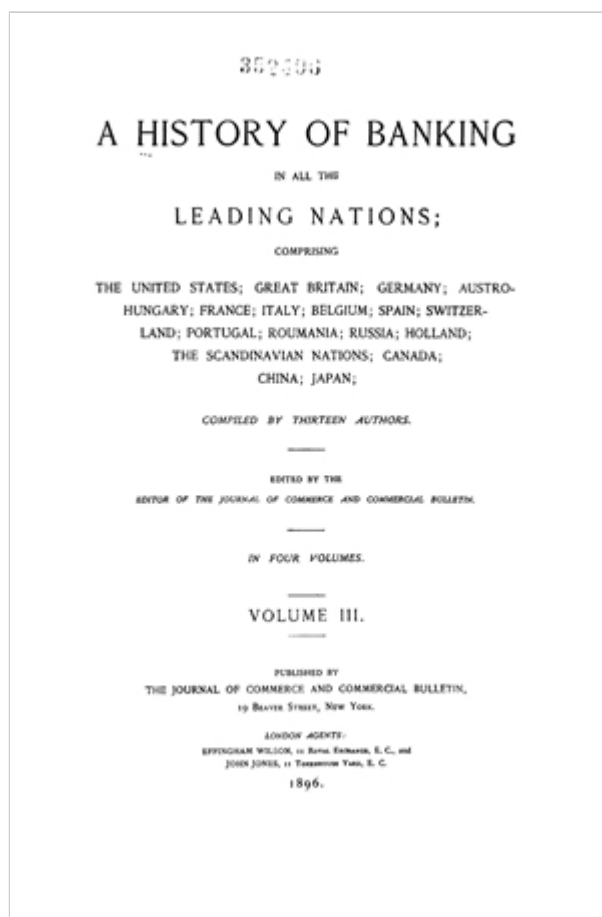
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## Edition Used:

*A History of Banking in all the Leading Nations; comprising the United States; Great Britain; Germany; Austro-Hungary; France; Italy; Belgium; Spain; Switzerland; Portugal; Roumania; Russia; Holland; The Scandinavian Nations; Canada; China; Japan; compiled by thirteen authors. Edited by the Editor of the Journal of Commerce and Commercial Bulletin. In Four Volumes. (New York: The Journal of Commerce and Commercial Bulletin, 1896). Vol. 3 (France, Italy, Spain, Portugal, Canada).*

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## About This Title:

A four volume set edited by the by the “Editor of the Journal of Commerce and Commercial Bulletin” in New York city. It consists of: Vol. 1: “The United States,” by W.G. Sumner. Vol. 2: “Great Britain,” by H.D. Macleod; “The Russian Empire,” by A.E. Horn; “Savings Banks in the United States,” by J.P. Townsend. Vol. 3: “The Latin Nations,” by P. Des Essars; “The Banks of Alsace-Lorraine after the Annexation,” by A. Raffalovich; “Canada,” by B.E. Walker. Vol. 4: “Germany and

Austria-Hungary,” by M. Wirth; “The Netherlands,” by R. van der Borgh; “The Scandinavian Nations,” by A. Jensen; “Japan,” by J. Soyeda; “China,” by T.R. Jernigan.

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TREATISES IN VOL. III.

A HISTORY OF BANKING IN THE LATIN NATIONS,

by

PIERRE DES ESSARS;

and of

THE BANKS OF ALSACE-LORRAINE

AFTER THE ANNEXATION,

by

ARTHUR RAFFALOVICH;

A HISTORY OF BANKING IN CANADA,

by

BYRON E. WALKER.

new york.

1806.

A History of Banking

IN

THE LATIN NATIONS;

NAMELY

FRANCE, ITALY, SPAIN, BELGIUM, SWITZERLAND, PORTUGAL, AND  
ROUMANIA.

BY

PIERRE DES ESSARS,

chief of the department of economics of the bank of france.

NEW YORK.

1896.

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## BANKING IN THE LATIN NATIONS.

### PART I.

### BANKING IN FRANCE.

#### CHAPTER I.

#### ITS STATUS BEFORE THE REVOLUTION.

#### ANCIENT BEGINNINGS.

THE business of banking and loaning money at interest has existed from the earliest forms of civilization, because it responds to an imperative need of society. It was conducted in Athens, probably in Carthage, and certainly in Rome; but, after the establishment of Christianity, it encountered serious obstacles.

Profits derived from loaning capital—which was regarded as including money, whereas money is only a representative of capital—were regarded as illegitimate; which is virtually the position assumed by modern socialists. “Money,” it was said, “is in its very nature sterile, and not reproductive.” Profits accruing from the sale of merchandise or the establishment of a productive industry were held to be just and proper; but it was not conceded that a loan of that capital, which could immediately be transformed into merchandise or instruments of production, entitled the lender to remuneration. This course of reasoning seemed to be supported by the Gospel injunction that we loan to the needy without hope of recompense. These prejudices, which have continued to our own day, cast a shade of suspicion upon all commerce in money and caused it to be carried on clandestinely and by men constituting a distinct caste, such as Jews and Lombards. Lenders at interest, or usurers, being always exposed to the hatred of their creditors and victims of the cupidity of governments, made it their constant care to keep their capital in the form most readily convertible into money and least likely to attract attention.

#### THE JEWS AS MONEY-LENDERS.

Thus it is that we find the Jews, in all ages, following the pursuits of money-changer, goldsmith, dealer in precious stones, to which they have added that of lender on pawn. Community of language and of origin and exposure to the same dangers impelled them to seek one another out, to establish the closest relations among themselves, though dwelling far apart, and to invent divers means of transmitting money from one to another, the earliest being the bill of exchange. We find an indubitable instance of the bill of exchange in 1246, that by means of which the Pope, Innocent IV., sent 25,000 marks of silver to the pretender, Henri Raspon, an amount which was paid to



him at Frankfort by a Venetian banking house. Even earlier than this, in 1202, the Crusaders had given to Henri Dandolo, Doge of Venice, bills payable to order as security for 85,000 marks, in silver, demanded of them by the Venetians in return for vessels furnished to carry them to Syria. It was to pay this immense debt that the Crusaders aided Dandolo to recapture the city of Zara in Dalmatia. In France, the Jews, though contemned and despised, lived in comparative security until the time of the Crusaders, trafficking in money with a fair degree of impunity. They were, indeed, persecuted from time to time, but the persecutions were never of long duration. Under Philip Augustus, their situation grew worse. In 1182, the King became convinced that the Jews were too numerous in Paris and throughout the kingdom, and that they were amassing great wealth. They were accused of having Christian servants, whom they seduced from the true faith, and of despoiling nobles and commoners of their goods under pretence of having loaned them large sums of money. To these accusations the populace added fabricated accounts of divers misdemeanors, and the King issued a decree banishing the Jews, allowing them to take their personal property with them, or to sell it, but confiscating their real estate. Philip the Fair, on the contrary, was very kindly disposed toward the Jews at the beginning of his reign. With that fiscal genius which he afterward put to such evil use, he appreciated the value of money-dealers; and while he extorted heavy taxes from them, he forbade that they be any longer subjected to imprisonment at the behest of the first monk who might demand it; this was in 1288. Rendered over-confident by the protection which Philip thus accorded them from interested motives, the Jews became less cautious than they had previously been. Their indiscretion was severely punished; for, in 1306, the King ordered the arrest of all Jews in his dominions, confiscated their goods, and ordered them to leave the kingdom under pain of death.

But the lender at interest is too important a wheel in the machinery of the commonwealth to be destroyed with impunity. The absence of the Jews very soon made itself felt, and there was such a general desire to have them back that, in 1315, Louis X. recalled them for twelve years, restored to them such of their houses and synagogues as had not been destroyed, and gave them permission to sue in the courts for those debts which the agents of Philip the Fair had not been able to discover, on condition that two-thirds of all amounts recovered should be paid over to the King.\* During the following reigns, persecutions against the Jews were renewed upon the most absurd pretexts. Every ridiculous charge brought against these unfortunates found ready credence not only among the common people, but among the more enlightened classes as well, all of whom being more or less indebted to the Jews, hoped by persecuting them to escape payment of their debts. The Jews were alternately banished and recalled. In 1361, the Duke of Normandy, destined to a glorious reign as Charles V., persuaded his father, John the Good, to allow the Jews to take up their residence, for a period of twenty years, in the provinces of Langue d'Oil, for the sake of the heavy taxes that might be wrung from them, and the quickening of monetary circulation and industrial activity. The Comte d'Etampes, a prince of the blood, was appointed guardian of the unreasonable and excessive privileges thus sold to the Jews, and to him was given exclusive jurisdiction of all their suits at law. They were allowed to charge interest at the rate of 6 deniers per livre per week, or 130 per cent. per annum; and the oath of any Jew touching the amounts due him was accepted as final unless the debtor could establish the contrary by affirmative evidence. No

class of Christians was so zealously protected against arbitrary exactions and prosecutions. Upon the death of Charles V. the persecutions were renewed. During the troubled reign of Charles VI., Jews and Lombards were robbed and butchered by the people of Paris at their will. But, in spite of tyranny and extortion, the Jews remained in France, exercising always secret but powerful influence in public and private affairs alike.

Their archives have never been published, and it is not easy to learn the exact nature and extent of the business to which they devoted themselves. Loaning on pawn was the occupation in which they most commonly engaged; but it is probable that their transactions took on a much wider range, including at least the transfer of funds throughout France and to foreign countries, and probably loans to the King. The persecutions to which money-dealers were subjected resulted, unfortunately, in the destruction of those documents which it would be indispensable to consult in order to arrive at the extent and importance of the commerce in money during the Middle Ages; we are confined, therefore, at least in dealing with the subject in France, almost wholly to conjecture. In Italy, on the contrary, the documentary evidence is full and complete; and that we shall freely use when we come to treat of banking in that country. The influence of the Jews and their competitors, the Lombards, was of necessity merely local. It was most potent, however, because by means of loans frequently and skillfully renewed they held within their power a large part of the population. But their business was carried on in secret. They employed a language and modes of procedure known only to themselves; and their transactions were not such as to familiarize the people with the true nature of credit and the services it is capable of rendering under wise and honest management.

## JACQUES COEUR.

Toward the end of the Middle Ages, there arose a man who transacted his business openly and who probably would have made clear the true nature and value of credit if he had confined himself to his rôle of merchant. Jacques Coeur, son of a furrier of Bourges, after spending part of his youth in the shop of his father, became assistant, about 1427, of the Mint-Master of Bourges. Implicated with the Master in a prosecution for issuing coin below the legal standard, Coeur made a thorough study of the nature of money—a subject which Nicolas Oresme, Bishop of Lisieux under Charles V., had already analyzed with great clearness. He studied with special care and imitated the business methods by which the Italian republics had enriched themselves. A bold and clear-sighted man, he established branch houses along all the shores of the Mediterranean; he obtained permission to trade with “infidels” without incurring the censure of the Church, and he became very rapidly one of the richest merchants and ship-owners in Europe. In 1435, Coeur returned to Bourges and secured the position of Mint-Master of that city and of Paris. He put an end to the debasement of the coinage, and all coins were kept at full weight and fineness throughout the reign of Charles VII. Having become a member of the Council of the King, he was appointed King’s Treasurer, meanwhile continuing his private business. His public office gave him a monopoly of money-changing; meanwhile, his commercial and banking transactions, carried on upon a scale hitherto unknown, brought him a very large fortune, which he devoted to the most worthy uses. It was he

who supplied Charles VII. with the resources needful for driving the English out of France and bringing to an end the Hundred Years' War. Jacques Coeur's title of "King's Treasurer" does not mean that he exercised the functions of a finance minister; his duties were those of steward of the royal palace. His fortune was such that he was enabled to make large loans to the King; but this was not, properly speaking, a banking operation. He was, first of all, a merchant, and his banking operations consisted simply in exchanging foreign moneys (which he could dispose of through his numerous branch establishments), and especially in purchasing copper and silver coins, which he exchanged for gold in Egypt. The immense fortune of Coeur and a desire to share his spoils created enemies against him. He was accused of poisoning Agnes Sorel, mistress of Charles VII., who had died in childbirth after appointing him to act as her executor. He was placed on trial, threatened with the rack, and finally condemned to death. Remembering his former services, Charles VII. refused to have the sentence executed, but commuted it to imprisonment for life. With the aid of one of his former clerks, and after a series of romantic adventures, he finally made his escape. He took refuge in Rome, where he was received with great cordiality by the Pope, Nicholas V., and the latter's successor, Calixtus III., made him commander of a squadron which he was fitting out against the Turks. Worn out by sorrows and hardships, Jacques Coeur died at Scio in November, 1456. Louis XI. ordered a re-examination of the case against him and cleared his memory of the stain upon it. History does not record the name of another merchant of like calibre. After his time, bankers confined themselves more and more to the business of loaning on collateral and exchanging money, and this latter transaction must have been a source of great profit. It may be cited in illustration of the profits made by money-changers, that, a few years ago, there was found and published the diary of one De Gouberville, a country gentleman who had lived in the neighborhood of Cherbourg. In this diary, which extends from 1553 to 1562, mention is made of thirty-five coins differing in origin, value, and name. One Spanish coin, the "ecu pistolet," often mentioned in the diary of De Gouberville, varied in value between February and December, 1555, from 43 to 49 sous. A German coin, the "angelot," was even more unstable, and the smaller coins were often counterfeit. Under date of July 16, 1556, De Gouberville writes: "I sent Lajoye to Cherbourg to exchange one crown. Jean Simon, son of Gabrielle, changed it for him, keeping one sou for the service, and he gave him six sous counterfeit money, wherefore I sent back the said Lajoye to return them to him." This passage brings out very clearly the need there was of money-changers and the extent of their profits. In the case we have cited the commission was twice as great as that which an ordinance of 1565 made lawful.

## REVENUE FARMERS AS BANKERS.

The Italian wars of Charles VIII., Louis XII., and Francis I. directed toward France the attention of Italian bankers. Having a knowledge of finance and credit far superior to that of the French ministers, they were well received, and little by little they came to fill a very important place in the economic organization of France. In addition to the domanial dues, the Royal Treasury, since the fourteenth century, had been in the habit of levying, for temporary needs, a variety of dues, sanctioned by the States-General, under the name of "aids." Continual wars, and more especially a very loose administration of the finances, had increased these aids and made them permanent. It

was at this juncture of affairs that the Italian financiers conceived the idea of farming out these “dues”; and, after the battle of Pavia and the capture of Francis I., when it became necessary to pay the ransom demanded by Charles V., the “Traitants,” as the farmers of the revenue were called, became persons of great importance. There are, unfortunately, very few original documents relative to French finance, all those in existence at the time of these usages having been destroyed when the offices of the Finance Minister were burned by the Paris Commune in 1871. We are compelled, therefore, to rely very largely upon information more or less fragmentary and second-hand. For this reason, it is impossible to follow step by step the improvement in the various methods of tax collection; but, leaving the details aside for the most part, we can at least trace the general outlines of these operations. During the reigns of the later Valois, rendered so sadly famous by religious wars, the financial affairs of the kingdom fell into the most grievous confusion. The remedy was applied by Sully, the firm and able minister of Henry IV. In a memoir drawn up at the beginning of his ministry, Sully estimated the total of the taxes levied upon the people in the King’s name at 47,000,000 livres; of which about 20,000,000 livres remained in the hands of the receivers and farmers of taxes. Out of the salt taxes and certain temporary dues which had been granted to him through the intervention of the revenue farmers, the Grand Duke of Tuscany was in receipt of an annual revenue of about 2,000,000 livres. The sub-contractors were the bane of the system, because they were compelled to make a profit out of the collection after paying large sums to their immediate grantors. Sully’s remedy was a very simple one; he compelled the sub-contractors to show their contracts and to turn over their collections directly to the Treasury; by this means the Government could learn the exact product of the taxes, and it had a sound basis upon which to treat. Sully brought together, in a single lease, all the taxes of the same general nature, adopted a new form of award, introduced competitive bidding, and thus obtained better prices for the concessions. After the death of Henry IV, and the removal of Sully from office, financial confusion reigned again; but, finally, under the ministry of Colbert, the tax leases took on the form which they preserved for a hundred years. The principal business of revenue farmers was the collection of the taxes; but they were also bankers in the sense that it was to them that priests, nobles, and commoners intrusted their money to gain them favors at Court, either because the sums were too small to be offered in the form of a direct loan or because the owners shrank from proffering a loan directly to the King.

## TREASURY BANKERS.

Side by side with the farmers of the revenue, or even among them, was always to be found a person who, under one title or another, and sometimes with no title at all, was in reality the King’s banker. Such had been Jacques Coeur under Charles VII., and such under Louis XIII. was Barthelemy d’Herwart. This Barthelemy d’Herwart, whose name is little known to-day, loaned very large sums to the Treasury, by way of furnishing supplies for the army, of which he was commissary. At the death of Bernhard of Saxe-Weimar (July 18, 1639), his army, left without means of subsistence, would probably have taken service under some foreign power had not d’Herwart retained it for France by supplying a considerable part of its needs. The famous Superintendent of Finance, Fouquet, was also a banker whose duty it was to settle with the farmers-general and to make advances to the King. Among the various

persons who acted as bankers of the Treasury, that is to say, who advanced the funds necessary for the public service while the taxes were being collected, there was one singular individual known as Samuel Bernard. Born in 1651, he was received as master in the guild of jewelers, gold-wire-drawers, and dealers in cloth of gold. Apparently, his fortune was chiefly made in various foreign ventures.\* It was to him that application was made whenever the State had need of funds. We find him in 1697 sending 200,000 crowns to Dantzic bankers in an attempt to ensure the throne of Poland to the Prince of Conti. Thirty-six years later, in February, 1733, he was once more busied with an election to the Polish throne, when he loaned 4,000,000 livres to Stanislas Leczinski, who was elected, but retained the dignity for only two years. Everyone is familiar with the anecdote that Saint-Simon tells of Bernard. When the Minister Chamillard solicited a loan from him in the name of the King, he received this reply: "When anyone has need of others, the least he can do is to make the request himself." Minister Desmarets remembered this reply, and in 1708 he persuaded Louis XIV. to receive Samuel Bernard at the Chateau of Marly and show him the honors in person; in return for this act of condescension, Bernard advanced all the money that was demanded of him. In the following year, during the month of April, 1709, Bernard, who then had large business interests in Lyons, met with severe reverses. He suspended payments with liabilities amounting to between 37,000,000 and 38,000,000 livres. Desmarets, who had a high appreciation of the banker's services, rendered him all the assistance in his power; the greater part of his debts were paid, and, strangely enough, the credit of Bernard was hardly dimmed, and his business affairs were soon in prosperous shape once more. Notwithstanding the aid he had frequently extended to the State, Samuel Bernard fell under the condemnation of the Chamber of Justice in 1716 and was fined 5,000,000 livres. Under the Regency and during the existence of Law's system, he was kept in the background, and though, up to the time of his death, which occurred in 1739, he was often appealed to for assistance, he never regained his former prominence.†

It may be asked, What was the exact nature of the banking operations of Samuel Bernard and other bankers of the time? So far as we can judge, they consisted largely of speculations in the paper issues of France and foreign countries, in supplying funds for business enterprises, in opening credit accounts, and in discounting paper; but the chief business appears to have been that of making loans directly to the Government. That also was the most dangerous and aleatory of their ventures, and the one which most frequently resulted in their ruin; for the King's minister never hesitated to break faith with financiers, assured as he was that his course would meet with the approval of the public. The people regarded the bankers as leeches living upon the blood of the State; the fact being, on the contrary, that they were always coming to its aid in the most disinterested manner and supplying it with means which it could not have secured from any other source. The farmers-general suffered most severely from popular ignorance and governmental dishonesty. On May 7, 1794, the Revolutionary Tribunal rendered the following judgment, which had previously been drawn up by the Committee of Public Safety:

"Inasmuch as it is incontestable that a plot has been formed against the French people tending to further the success of the enemies of France in every way, and especially by the practice of all manner of extortion and peculation; by mixing with the tobacco

water and other adulterants dangerous to the health of those who use it; by taking six or seven per cent. of interest both upon the security which the revenue collectors must furnish to the State, and also upon the money needed to carry on their business; by robbery; by plundering the public treasury in all possible ways in order to deprive the nation of large sums needful to wage war with the despots now in arms against the French Republic: all so offending are condemned to death and their goods shall become the property of the Republic.”

Not one of these charges had any foundation in fact, yet it was under such a judgment as this that twenty-eight farmers-general were executed on May 8, 1794, one of them the creator of modern chemistry, the illustrious Lavoisier. Though French bankers strove in every way, during the Revolution, to avoid publicity, and though commerce was dead, speculation was carried on upon a very extensive scale, the dealings being most active in assignats, public securities, and army supplies.

## GABRIEL JULIEN OUVRARD.

One of the most interesting characters of these times was the financier Gabriel Julien Ouvrard. Born in 1770, he received a good education and established at Nantes a business in colonial products. When the Revolution began and the liberty of the press was declared, he bought all the printing paper from the paper mills of Poitou and Angoumois, and sold it two months later to the editors at a profit of 300,000 livres, with which he enlarged his dealings in colonial products. In 1793, he was brought before the bar of Carrier, and in order to escape the fate reserved for all “suspects,” he enlisted in the army. He was aid-de-camp of several generals, and he exerted himself vigorously in behalf of the accused citizens of Nantes, many of whom he saved by securing a postponement of their appearance before the Revolutionary Tribunal until after the fall of Robespierre, when they were set at liberty. Upon his return to civil life, Ouvrard married the daughter of one of those he had befriended, and embarked in vast business enterprises. In 1797, he was appointed Commissary-General, in which capacity he procured supplies for the French and Spanish navies at a profit to himself of about 15,000,000 livres, of which he loaned 10,000,000 to the Directory. When Bonaparte had become First Consul he applied to Ouvrard for a loan of 12,000,000 francs, but was refused.

During the early days of the Empire, Ouvrard, in connection with one Desprez, a former bank messenger, and a grain merchant named Vanlerberghe, formed an association under the title of “The United Merchants’ Company,” for the purpose of supplying the needs of the army and navy. Spain, allied with France against England, had promised to Napoleon a sum of money, which she was unable to pay because the English cruisers prevented the arrival of the piastres from Mexico and Peru. Ouvrard proposed to Barbé-Marbois, the French Finance Minister, that he discount the Spanish debt and accept in payment of it supplies furnished by The United Merchants’ Company. His proposition was accepted. At the same time, he offered to furnish to Spain, then threatened with a famine, a full supply of grain, and to take in payment the piastres due from Mexico at the rate of 3.25 francs each, their value in Paris being at least 5 francs. This also was agreed to. As he had no hope of being able to elude the vigilance of the English cruisers, he completed the transaction in this manner:

England herself being in need of coin, he sold the piastres to the banking house of Hope, in Amsterdam, who, in turn, transferred them to Baring, in London; the latter had no difficulty in getting the money from Mexico, and nothing remained except to remit from London to the Continent the amount to be paid for them, which was easily accomplished. That transaction was skillfully planned and ought to have redounded to the profit of all concerned; but, unfortunately, The United Merchants' Company was not only heavily indebted to the Treasury, but it had other pressing obligations to meet before the arrival of the piastres. In this situation, Barbé-Marbois very unwisely turned over to the company certain Treasury claims, which the latter discounted at the Bank of France. These were not always honored at maturity, and by the close of 1805 a very serious crisis had arrived, and the Bank, having practically exhausted its resources, was on the point of closing its doors. Desprez had put in circulation certain paper known as "notes of M. Desprez," which were accepted as money by the Treasury and which depended for their value upon the rather doubtful solvency of The United Merchants' Company; it was this paper that caused the most serious difficulty to the Treasury and the Bank.

When Napoleon returned from the Campaign of 1805 and learned the true state of affairs, he was very angry with Barbé-Marbois and The United Merchants' Company, which owed the Treasury more than 140,000,000 francs, represented by the "notes of M. Desprez." He removed the minister and seized the assets of the company, amounting to about 80,000,000 francs in real estate and claims against the Treasury and against individuals. The remaining 60,000,000 francs he recovered in the form of debts due from Spain. The Emperor had a high appreciation of the services of Vanlerberghe, and retained him as commissary; but Desprez was forced into bankruptcy and died in poverty. As for Ouvrard, he also was declared a bankrupt, and in 1809 was arrested and imprisoned, but was afterward set at liberty on condition that he would not go beyond the boundaries of France. Having made a visit to Holland, he was again arrested and kept in prison until October, 1813. During the Restoration he once more entered into contracts on a large scale, but for certain irregularities he was imprisoned, for the third time, in 1825. He was released at the end of five years, but was never again a factor in the business world. He died in London in 1846, completely forgotten. Ouvrard was the last banker of the Treasury, and he marks the transition from the old state of things to the new. By this distinction he is entitled to a place in that series of financial notables the first member of which is Jacques Coeur and the last himself.

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## CHAPTER II.

### THE BANK AND “SYSTEM” OF LAW.

#### *France At The Close Of The Reign Of Louis XIV.*

BY his continual wars and the building of fortifications, Louis XIV. at his death left the finances of France in wretched disorder. “The manner in which fiscal affairs had been administered since the death of Colbert, in 1683.” writes Dutot, cashier of Law’s bank, “had perhaps wrought as much damage to the State as was caused by the enormous expenses of the last two wars. The sole object of the Administration, apparently, was to extort money from the people by any means; and no thought was taken of the harm that might result to real estate, to commerce, or to industry. This procedure produced results which had certainly not been foreseen. It gave an exaggerated value to the very money so sadly needed, and thus made it more difficult to procure; it deprived realty, commerce, and industry of those facilities by the aid of which they would always have been in position to furnish money to the State. In its paper issues, the State would have had a valuable resource and a salutary instrument of credit if it had not, soon after their emission, offered to pay interest upon them, thus depriving them of public confidence. The only use the Treasury had for these notes was to make payments with them; so far from being willing to accept them himself, the King expressly forbade their acceptance in payment of public dues. At the same time, he commanded that they be received as a legal tender between individuals, even in payment of letters of credit. But, in spite of these facts, the people had such confidence in the bills at first that the King was enabled to pay off part of the war debt with them, even while their interest-bearing quality and the fact that they were refused in public payments showed that it would be impossible to maintain their credit permanently. In the end, this credit disappeared entirely. Finally the bills were converted into rentes in this manner: on the occasion of the general recoinage of 1709, by virtue of which it was hoped to remedy the evils caused by the bills, rentes were issued and exchanged for the bills and gold and silver of the old coinage, the proportion being one-sixth bills and five-sixths specie.

“To complete the operation, the coinage was debased by a fictitious increase of twenty-three per cent. in its value. That difference at once aroused the enlightened cupidity of our neighbors, impelling them to gather up the old coins and carry them away in order to adjust their value to that of the debased new coins, and then return them to us. Thus France was placed at a great disadvantage relatively to the neighboring States, independently of the large sums the latter were enabled to gain at the expense of the King and the State. The Treasury was replenished by means of loans at a rate of interest beyond the means of the Government to pay. The greater the depreciation of the paper so issued, the more it was necessary to issue it in order to raise the amounts needed by the State; the Treasury continued in this way, ignoring the fact that every increase in the number of bills added to the distrust with which they were regarded and so decreased the demand for them; in this manner all the advantage



was thrown away that might have been secured by a careful management of the nation's credit. Among the bills so issued were *bills* from the tax departments and the Navy, supply bills, trust fund bills, and an enormous quantity of various other descriptions."

By 1715, the arrears aggregated 711,000,000 livres, and the deficit for that year was 78,000,000, so that the debt due upon demand was 789,000,000 livres, equivalent to 1,420,000,000 francs of these times. Not only were the resources of the Treasury exhausted, but the citizens were reduced to such a state of poverty that they were no longer able to pay their taxes. It was this unskillful management of the finances that suggested to Vauban the composition of his famous "Dime Royale," which brought him into disgrace with Louis XIV. In one of the first councils following the death of the Great Monarch the wretched state of the finances was revealed without reserve. Some of the councilors proposed that the State be simply declared bankrupt. The Regent strenuously dissented from that proposal, but only to advocate measures that were no better, if, indeed, they were not much worse. With a view to the reduction of the outstanding debt, it was determined that, inasmuch as the State bills had greatly depreciated, their nominal value should be reduced to their actual market price. An ordinance of December 7, 1715, directed all holders of State obligations to present them for "official inspection." The debts thus inspected were scaled down and replaced by State bills bearing four per cent. interest, and payable at various intervals. By this process, the debt of 652,000,000 livres was exchanged for 250,000,000 livres in State bills.

## DOINGS OF THE CHAMBER OF JUSTICE.

But the needs of the State were too great to be fully met by such an act of bankruptcy; for while this procedure lessened the demand liabilities, it brought nothing into the Treasury. As a further step in this direction, recourse was had to a form of proceeding which was none the less odious because it happened to have numerous precedents in its favor. Financiers, and especially revenue farmers, having become extremely obnoxious to the people, who imputed to them misfortunes for which the rapacity of the Treasury should have been held accountable, the Regency determined upon an indiscriminate spoliation of this class, or, as the saying was, upon making them "disgorge." To this end, they were forbidden to quit the country, under pain of death, and a Chamber of Justice was erected to take cognizance of their official extortions. The mode of procedure was most simple. All the accused were required to produce their books and accounts. for the past twenty-seven years, to prove affirmatively what they were worth at the beginning of that period, and to draw up a minute and detailed account of their possessions at the time of the investigation. Every false declaration was punishable by sentence to the galleys for life; a reward was offered to informers, and all persons were forbidden, under pain of death, to reproach those spies for their treachery. Whenever, by the use of these means, the Chamber of Justice was unable to prove any offence against the accused, it simply confiscated four-fifths of his earnings for the twenty-seven years, compelling him to acknowledge, at the same time, that he retained the remaining fifth at the bounty of the King. These intolerable measures, comparable only to the proscriptions of Marius and Sulla, brought in less than had been expected. About 6000 persons were brought to judgment, whose possessions, by

their own showing, aggregated some 1,200,000,000 livres; 4410 of these were condemned to pay a total of 219,000,000 livres; but many of them were able to find powerful protectors, and by 1717 the Treasury had recovered only 70,000,000 livres, and barely half of the fines imposed were ever collected at all.

The Regency then resorted once more to a debasement of the coinage, and the piece of 3 livres 10 sous, which weighed an ounce at the death of Louis XIV., was reduced to less than half an ounce. The people of France had reached the lowest depths of wretchedness; the conspiracy of Cellamare had just obscured the political sky and threatened to bring back the evil days of the Fronde, when a stranger appeared upon the scene and promised to make all bright again.

## JOHN LAW APPEARS.

“A Scotchman, I know not of what family,” writes the Duke of Saint-Simon in his memoirs, “a great gambler and schemer, who had gained much in the various countries he had visited, had come to Paris during the last days of the deceased King. His name was Law, but when he became better known, people grew so accustomed to call him Lass that his name of Law disappeared.\* He was mentioned to M. le Duc d’Orleans as a man familiar with banking and commercial matters, with the movements of the precious metals, and with moneys and finance. From this description the Regent was desirous of seeing him.” John Law’s manner of life had been a most erratic one. Son of an Edinburgh goldsmith, of the upper middle or lower titled class, he had received a very thorough education. He traveled extensively over Europe, where his constant success and large gains at gambling caused him to be regarded with suspicion, though no case of cheating was ever proved against him. Having fought a duel in London and killed his antagonist, he was condemned to death, but succeeded in escaping. He fled to Paris, but being driven out of that city, he retired first to Italy, but finally took up his abode in Amsterdam, where he applied himself seriously to a study of credit. About 1700, he returned to Scotland and published, under the title “Money and Trade Considered,” a scheme of finance, which he summarizes thus: “It is proposed that Parliament shall appoint forty commissioners, who shall be accountable for their management of affairs; and that these commissioners shall be empowered to issue notes to be a legal tender for all purposes. The Parliament shall choose one of these three methods of issue: The first method is to authorize the Commission to loan its bills, at ordinary interest, on mortgage security, the loan in no case to exceed half the value of the realty mortgaged; the second mode is to give out in notes the full value of the land, estimated upon the basis of twenty years’ revenue, or more or less according to the valuation that may be placed upon it; the Commission, or its authorized agents, being empowered to enter into possession of the land by wadsett redeemable within a certain period; the third plan is to issue notes to the full value of the land upon sale of it irredeemably to the Commission or its representatives. These notes will always be as valuable as specie, because they will represent a mortgage value exactly equivalent to the coin it could be exchanged for. If there should be any losses, a fourth of the Commission’s income would suffice, in all probability, to cover them. This paper money will not depreciate as coin has depreciated in the past, and may again in the future, and we shall always have as much specie as we can use, but never any more.”

The theories of Law which we have here set forth are extremely dangerous, for he does not point out any method by which the paper is to be redeemed; there could, in fact, be but one method, a sale of the lands, and we may instance the assignats issued during the French Revolution as proof of the fact that real estate cannot be made to serve as the basis of paper money. For this purpose there is no reliable security but coin. The Scottish Parliament very wisely repudiated Law's project, whereupon he set out once more upon his travels and was in France at the time of the unfortunate measures we have described.

## LAW'S BANK SCHEME.

Law disapproved of these measures, saying that they would produce none of the expected results; that they would make the evil worse instead of curing it, and that he would guarantee to ameliorate the commerce and finances of the country without injuring anyone. It was at this time that he was presented to the Regent, whom he won over completely. His plan consisted in the establishment of a bank of issue, to be managed by the State, for its own profit, and at its own risk. The Council of Finance opposed the plan. Law, not in the least discouraged, next worked out a new scheme looking to the establishment of an independent bank, its capital to be furnished by shareholders and its affairs to be managed by them under the supervision of a committee composed of some of the principal officers of the State. In spite of vigorous opposition, letters patent were issued on May 2, 1716, and registered by the Parliament on the 23d of the same month, authorizing a general bank, in the following terms.

“The benefits that public banks have conferred upon various European States, sustaining their credit, building up their commerce, and supporting their manufactures, have made it clear to us that our people might secure the like advantages from similar institutions. Sieur Law having proposed to us, some months since, the establishment of a bank with our money, to be administered in our name and under our authority, the project was examined in our Council of Finance, where several bankers, merchants, and deputies from our trading cities being convened and required to give their advice, they were unanimous in the opinion that nothing could be more advantageous to our kingdom, which, through its situation and fertility, and the industry of its inhabitants, stood in need of nothing more than a solid credit for acquiring the most extensive and flourishing commerce. They thought, however, that the present time was not favorable for the undertaking, and that it would be better that such an institution should be founded and managed by a corporation. These reasons, added to some special clauses of the project, determined us to refuse it. But the said Sieur Law has prayed us to accord him the privilege of erecting another kind of bank, to be established and supported by his own money and that of his associates; and through its means he proposes to increase the circulation of money; to put an end to usury; to supply to travelers a simple means of remittance between Paris and the provinces; to furnish to foreigners a safe method of preserving and handling such capital as they have among us, and to facilitate for our own people the sale of their products and the payment of their taxes. \* \* \* And, inasmuch as it seems to us that this institution, conducted according to his plans, can result in no harm, but is likely, on the other hand, so far as we can judge from the experience of neighboring States,

to prove a successful enterprise and to produce very beneficial effects, we have been pleased to grant to the said Sieur Law, whose experience, knowledge, and ability are well known to us, the privilege he asks.”

This preamble was followed by the organic laws of the bank, in ten articles, which may be thus summarized: Exclusive authority is given to Law and his associates to maintain a general bank in the kingdom for a period of twenty years, beginning with the registry of his letters patent. The bank is authorized to keep its books and issue its bills upon a specie basis, in terms of “*écus de banque*”; that is to say, coins of the weight and fineness constituting the standard on the day the bills are issued. Citizens of France and foreigners alike are privileged to contract in terms of “*écus de banque*,” in order to avoid all difficulties arising from changes in the standard of weight and fineness between the date of the contract and the day of payment. The bank is exempt from all taxes and assessments. Shares belonging to aliens are not liable to *droits d’aubaine*, nor to confiscation even in time of war. The bank is compelled to give its notes in exchange for specie to all who demand them. Counterfeiting the bills of the bank is punishable by death. The last article provided that the privileges conferred upon Law should not be construed to the prejudice of the other bankers of the kingdom, who should be allowed to continue their business as usual.

The regulations of the bank, approved by letters patent of May 20, 1716, fixed the capital at 1,200,000 “*écus de banque*” (equivalent to 6,000,000 livres in current money), divided into 1200 registered shares of 1000 “*écus*” each. It was to begin business as soon as the 1200 shares were taken and a stockholders’ meeting had been held for choosing officers. The stated meetings of stockholders were to be on June 20th and December 20th. Stockholders were entitled to one vote for every five shares in their possession, and a balance-sheet was to be published every six months. The bills of the bank were to be signed by the manager and one stockholder chosen at a stockholders’ meeting, and were to be registered by number, date, and amount in a book kept for the purpose. The bank opened accounts current and made payments by transfers upon its books for a commission of 5 sous upon the 1000 livres; it discounted commercial paper and bills of exchange. It was forbidden to engage in any commercial transaction on its own account, or as agent, or to issue any bills not due on demand. These rules were all very reasonable, and if stock-jobbing and the needs of the Government had not impelled Law to misuse the instrument he had created, France would have anticipated by eighty-four years the possession of an establishment that would have shielded her from many misfortunes. The capital was payable in four installments, one-fourth in specie and three-fourths in State bills; the fact that these bills were worth at the most not over one-third of their face value, together with a general desire to stand well with the Regent, caused the shares to be rapidly subscribed. The bank began business toward the end of May, 1716. Its capital was so small that no jealousy was excited in any quarter, while the fact that its bills were payable in coins of a determinate weight and fineness, and the convenience of making payments through the bank—a method not common at that time in France—soon brought it a clientage. Every business man had his account at the bank, and the demand for its bills in exchange for coin was so great that the bank was soon in a position to exact a premium for its paper. It was of great value to the community from the day of its inception. The heavy losses sustained by all men of means had left

the field free to usurers, and the best commercial paper could not be placed at less than thirty per cent. per annum. The bank announced its readiness to discount paper at six per cent., and in this way found an outlet for the deposits, which soon began to assume respectable proportions; it was not long before the rate of discount was reduced to four per cent. But Law was not long content with the modest rôle of a discounteer; he anticipated the needs of commerce, offered his assistance to various manufacturing enterprises, advocated the undertaking of needful public works, and exerted himself so actively in all directions that commerce, which had appeared to be on the verge of extinction, took on new life.

## LAW'S SUCCESS AROUSES COMPETITION.

Law was accomplishing even more than he had promised, and his success, while it confirmed his standing before the Regent, aroused the envy of certain other persons, the most powerful of whom was d'Argenson, head of the Council of Finance. He incited the brothers Paris to enter into competition with the famous Scotchman. The brothers Paris conceived the establishment of a company with a capital of 100,000,000 livres, divided into 100,000 shares of 1000 livres each, payable in State bills; it was to take over the lease of all the general taxes, its main object being, like that of Law's company, to increase the value of State paper. They agreed to pay annually to the State 48,000,000 livres, and hoped to realize 100,000,000 from the revenue collections. Their security to the State was to consist of the 100,000,000 livres of paper making up their capital stock. A six years' lease of the taxes was made to the company in the name of Aymard Lambert, valet of one of the brothers Paris. This scheme was known as the "Anti-System."

## THE ROYAL BANK SUPERSEDES THE GENERAL BANK.

Law had at this time a large number of projects on foot. He had won a signal victory over Parliament, which had strenuously opposed his proposition that the bills of his bank be received as money at all public treasuries. He next set to work to clear the field of the "Anti-System." On December 4, 1718, a proclamation of the King converted the General Bank into the Royal Bank. This proclamation declares that the services rendered by the General Bank in quickening the circulation of money and reducing interest rates had led the King to make a re-examination of Law's original proposition, which was (as we have noted above) the establishment of a bank to be conducted in the name and by the authority of the King; that in order to effect the change, all the shares of the General Bank had been bought up and the King had thus become sole proprietor of the institution, which had just become the Royal Bank. The bank retained its 6,000,000 livres of original capital, but it was no longer proposed to redeem its bills in coins of the weight and fineness prevailing on the day of their issue; holders of the bills could at their option demand payment in "ecus de banque" or in livres tournois. This arrangement was not altogether clear and it raised a question as to the future success of the bank. One privilege which was granted to the Royal Bank and which, unfortunately, is now secured to the Bank of France, proved to be an injury rather than a benefit—the complete exemption from garnishment of all funds held by it in accounts current, except when the depositor became a bankrupt.

The transformation of the General Bank into the Royal Bank was an unfortunate change, because the former had a real capital, while the latter furnished no guaranty to those dealing with it except the responsibility of a government not over-scrupulous. Besides, the new institution was to be governed upon the principle of a State bank, and such establishments, with few exceptions, have always been a failure.

## LAW'S COMPAGNIE D'OCCIDENT.

Meanwhile, Law had determined to establish under the title of the "Compagnie d'Occident" a vast enterprise having in view the colonization of Louisiana—not merely the State which now bears that name, but the whole immense valley of the Mississippi. Colonization, however, was a mere pretext, the real object being a transmutation of the State debt. To the Compagnie d'Occident was granted, for a period of twenty-five years, beginning with January 1, 1718, the right to manage for its own profit all the French colonies in North America, together with a monopoly of all their commerce, and sovereign power over them, the sole condition being that the company should render faith and homage to the King of France. The capital was fixed at 100,000,000 livres, divided into shares of 500 livres each, payable in State bills, then at a discount of seventy per cent. Law, therefore, had no effective capital for his Compagnie d'Occident; but he was little disturbed by this fact, claiming that he would have ample funds if the State paid regularly its four per cent. interest as it had agreed.

The capital, however, was readily subscribed, because it was payable in depreciated paper, but the "Anti-System" did its utmost to injure the shares of the Compagnie d'Occident, and forced them down fifty per cent. Law determined to support them by buying at par all the shares on the market, paying thirty or forty livres on account, and stipulating for delivery of the shares in six months. This bold device was successful, and the stock was soon selling at par.

## LAW'S COMPAGNIE DES INDES.

This was a mere prelude to vaster schemes. There was in existence, at the time, a Guinea company controlling the trade of the eastern coast of Africa (the remnants of an India company established by Colbert), and the rudiments of a company having a monopoly of the Chinese trade. Law combined all these to form his famous "Compagnie des Indes," deriving his authority from a Royal edict registered on June 17, 1719, of which the following are the most important provisions:

"Since our accession to the throne, we have been sedulous to devise some means of repairing the damage which long wars had brought upon the State, and to procure for our subjects the prosperity and happiness they deserve. It gives us pleasure to see that the circulation of money has become very active and that commerce is reviving, but the end we have in view includes far greater gains. The Compagnie d'Occident, though but recently organized, has already established so high a credit that we have been led to examine the standing of the older companies, and we have been pained to discover that, in spite of the assistance they have received from the liberality of the late King, our honored sovereign and great-grandfather, they have never become self-sustaining. The Compagnie des Indes Orientales, established by virtue of the edict of

August, 1664, instead of devoting to the extension of commerce the fifty years' exclusive privilege conferred upon it, and the frequent donations of money and vessels received from the late King, has contracted large debts at home and in India, has totally abandoned its shipping business, and has determined to transfer its monopoly to individuals, the consideration being ten per cent. of the proceeds of sales in France, five per cent. of all seizures, and the retention by the company of the fifty livres per ton on exports and seventy-five livres per ton on imports which had been granted to it as a gratuity. We are convinced that this failure has been due rather to mismanagement than to the unremunerative nature of the business, and that the company might have made its commerce highly remunerative, both to its shareholders and to the kingdom. The enterprise was established in the first place upon insufficient capital, and a portion even of this the directors paid out in unearned dividends and bonuses.

“The company borrowed money at excessive rates of interest, even as high as ten per cent., and that, too, when there was no profit in it, but simply to replenish its original capital; at other times it borrowed on bottomry bonds at five per cent. per month, so that all the profits of its commerce, and more, were swallowed up in the burdens thus placed upon it. Yet, notwithstanding this unskillful management, the late King, in furtherance of the protection he had already granted to the company, and in the hope that it would at least be able to pay its debts, by his proclamation of September 29, 1714, continued its privileges for a period of ten years, dating from April 1, 1715. But the company has fallen so far short of meeting his reasonable expectations that the inhabitants of India have frequently complained to us of its failure to pay them either interest or principal, and of the fact that during the last sixteen years it has not sent a single vessel to Surat. This branch of our commerce, then, which has been moribund for a number of years, must perish altogether if some adequate provision be not made for it. The individuals who have bought the company's rights cannot pay it the ten per cent. agreed upon and still compete with foreigners engaged in that branch of commerce; besides, a fear of being held for the company's debts restrains them from sending their vessels to Surat, the principal city of Mongolia, and the port from which are shipped raw cotton and cotton thread, and the drugs and spices of India and Arabia. The result is that our subjects are compelled to purchase abroad practically all of the Indian products they need, either for their own consumption or for carrying on their commerce with the Guinea coasts and Senegal; that these products cost at least three times as much as they ought, and that we are in all ways deprived of the advantages which would result from a domestic trade in them.

“With regard to the China company, a close corporation which was established by decree of our Council of November 28, 1712, and by letters patent issued in consequence on February 19, 1713, and which has hitherto held part of the concession originally granted the Compagnie des Indes, we are informed that it has made no use of the exclusive privilege conferred upon it, and that its special branch of commerce is in a worse state of confusion and neglect, if possible, than that of the Compagnie des Indes. We should be wanting alike in our duty to ourselves and to our subjects if we were to allow such a state of disorder longer to continue in one of the most important branches of the national commerce; and we hold it due to the well-being of our State that we re-establish and expand the French-India trade and preserve the good name of

the State by paying to those peoples the debts contracted by the company. Toward this end, we have decided to annul the privileges conferred upon the India and China companies and to transfer them to the Compagnie d'Occident. The fact that this company has been in existence for some time and is already under our protection, the excellence of its management, the high credit it has established, the fact that the consolidation of these various companies will put it in possession of ample means, all of these considerations lead us to believe that we could not place the commerce of India and China in better hands. Moreover, as the Western and Senegal companies have already been combined, this consolidation will bring under a single company a commerce extending to the four quarters of the globe. The company will have under its control all the instruments necessary for the various branches of this commerce. It will bring into the kingdom an abundance of necessary, useful, and convenient articles, the surplus it will export to foreign countries; it will foster our shipping interests and will develop a body of seamen, pilots, and officers. The whole management being moved by the same spirit, there will result that union of force and economy of outlay on which success in any commercial undertaking depends."

Thirteen articles annexed to this proclamation constitute the charter of the Compagnie des Indes. It had the sole privilege of trading, to the exclusion of all other French individuals or companies, from the Cape of Good Hope throughout all the seas of Eastern India, the islands of Madagascar, Bourbon, and France, the coasts of Sofala, the Red Sea, Persia, Mongolia, Siam, China, and Japan; from the straits of Magellan and Le Maire throughout all the southern seas. At a valuation to be determined by appraisement within a week after the registering of the edict, the new company came into full proprietorship of all the lands, islands, forts, dwelling-houses, store-houses, goods and chattels, real estate, claims, sources of revenue, ships, barks, munitions of war, provisions, negroes, cattle, articles of merchandise, and all other property and rights which the Compagnie des Indes Orientales and the Compagnie de la Chine had acquired, conquered, or purchased, whether in France or in the Indies and China. The new company was to assume all the valid debts of the old companies and to pay to them such balance as should appear upon the liquidation. It succeeded to all the gratuities of the companies it replaced; it had the privilege of importing all kinds of merchandise, even including such as were otherwise prohibited, on condition that it should place them in a bonded warehouse and re-export them. The privileges granted to the Compagnie des Indes amounted, in fact, to a monopoly of the whole foreign commerce of France.

The Compagnie d'Occident had sold all of its shares for State bills, having no actual and realizable value, and the utmost that could be hoped for from them was the regular payment of the four per cent. interest they bore.

It was imperative that the Compagnie des Indes should have more valuable resources; accordingly, Article IV of the edict incorporating that company fixed its capital at 25,000,000 livres, divided into shares of 500 livres each, to be had only in exchange for actual cash, and only on payment to the cashier of the Compagnie d'Occident of 550 livres for each share. The new shares were to be numbered consecutively after those of the Compagnie d'Occident already in existence, and were to confer upon their holders the same rights and privileges. The old shareholders were given a



preference in the subscription for the new shares in the proportion of one of the latter for four of the former. The new shares were to be paid for in five per cent. installments, payable monthly for twenty months. The Parliament distrusted these schemes, which it did not understand, and it refused to register the edict; but its resistance was overcome and everything was arranged as Law had conceived and planned. The preference reserved to the old shares, called by the public “Mothers,” caused them to appreciate rapidly until they had mounted to 130 per cent. The new shares, known as “Daughters,” acquired a proportional premium, and not only was the subscription fully covered, but the shares became the subjects of the wildest speculation, which forced their price ever higher and higher. The company thus formed professedly as a simple trading and carrying corporation, soon deviated widely from its avowed purposes. On July 25, 1719, it purchased for 50,000,000 livres the management of the Mint and the issue of coin for a period of nine years. By a decree of the Council of State rendered on August 27, 1719, the farm of the revenues, which had been granted to Aymard Lambert, ostensible agent of the brothers Paris, was taken from them and given to the Compagnie des Indes until the year 1770. The latter also agreed to loan to the King 1200 million livres (an amount soon afterward raised to 1500 millions) to be used in paying the State debt. It obtained a lease of the salt taxes of Alsace and Franche Comté, and the tobacco monopoly; it undertook to pay the debts of the State for a commission of three per cent. and to collect all taxes paid directly to the Treasury, recompensing the receiving officers for their loss.

The profits expected to accrue from the management of the Mint carried the shares to 1000 livres, a premium of 100 per cent. In order to pay the 50,000,000 livres due for the Mint concession, Law put out another issue of shares known upon the market as “Granddaughters.” They were issued to those who were already stockholders in the proportion of one new to five old shares; they were sold at a premium of 100 per cent.—that is to say, for 1000 livres each—payable in bills of the bank. The shares were very soon quoted at 200 per cent. above par, and the State obligations, which Law was about to meet, rose to par. To raise the 1500 million livres promised to the Government, Law made a new issue of shares at a premium of 1000 per cent., so that the 150,000,000 of nominal capital produced 1,500,000,000 of funds; a supplementary issue of 24,000 shares, of 500 livres each, made on October 4, 1719, brought in 120,000,000 livres more. Taking account of all these issues, M. André Cochut\* presents the following table:

*Number and Value of the Shares Issued by the Compagnie des Indes.*

VARIOUS ISSUES.	No. of Shares Issued.	Nominal Value.  LIVRES.	Total Nominal Value of Each Issue  LIVRES.	Subscription Price.  LIVRES.	Amount Produced by Each Issue.  LIVRES.
Original Fund (Compagnie d'Occident.)	200,000	500	100,000,000	500	100,000,000
First Subscription ("Daughters.")	50,000	500	25,000,000	550	27,500,000
Second Subscription ("Granddaughters")	50,000	500	25,000,000	1,000	50,000,000
Third Subscription (Loan to the State.)	300,000	500	150,000,000	5,000	1,500,000,000
Issue of Oct. 4, 1719.	24,000	500	12,000,000	5,000	120,000,000
Total	624,000		312,000,000		1,797,500,000

M. André Cochut thus estimates the probable profits upon this enormous capital:

	LIVRES.
Interest, three per cent., due from the State, to be taken out of the general revenue leases }	48,600,000
Profits of the company on said leases	8,000,000
Tobacco monopoly	6,000,000
Profits from collections made directly by the company, Alsace salt taxes, etc. }	1,400,000
Profits from the Mints	10,000,000
Income from commercial transactions	8,000,000
Total of the probable net receipts	82,000,000

This amount divided among the 624,000 shares would have given, losses aside, a dividend of 130 livres per share, or 26 per cent. on the nominal capital; but the average price of the shares had been 2720 livres, reducing the dividend rate to 4.75 per cent., and as the actual holders of the stock had taken it at a price of at least 5000 livres per share, their income upon the actual investment could not be greater than 2.6 per cent. The public appeared to regard the Scotchman as one endowed with magic power, and it did not stop to make this simple calculation. The crowd packed itself against the wickets in the rue Vivienne where the Compagnie des Indes had its offices, and fought for shares. After the stock was issued, the excitement was transferred to the rue Quincampoix, which became the scene of the most extraordinary transactions. Not only was the street crowded with Parisians, but multitudes came from the provinces as well, and finally the very stage-coach tickets became objects of speculation.

As the shares were sold for bills of the Royal Bank, the latter soon rose to a premium of ten per cent., and no one was any longer willing to accept gold or silver. Never before had such a wave of folly swept over France. Everybody was getting rich by speculation. Domestic servants and poor women gained enormous fortunes in a single day; and courtiers, deeply involved by the expenses of their residence at the Court of Louis XIV., won large sums and paid off their debts. Money gained by such easy means produced at least one beneficial result. Commerce and industry, and especially those industries engaged in the production of luxuries, increased with great rapidity; and, singularly enough, speculation in stocks effected a fusion among certain social classes that had previously dwelt apart; there were numerous marriages between poor girls of noble birth and low-born men suddenly enriched.

Before describing the disasters that finally overtook him, justice demands that we render homage to the generous intentions of Law. Inspired by the “Dime Royale” of Vauban, he conceived the idea of abolishing the expense and vexatiousness of the *maltôte* and establishing a degree of personal liberty which should encourage commerce by lightening the burdens of the people. He wished to substitute a single tax for the complicated system then in force. This was an economic fallacy, but it was one by which even a highly trained intellect might have been deceived. He caused the Compagnie des Indes to return the sums that had been paid for tax exemption. Paying an indemnity to the incumbents, he abolished a multitude of useless offices which had been created in time of need and sold for ready money, and which were a burden upon commerce. He secured a reduction of many taxes and the complete abolition of duties upon a large number of articles. We should add that he supplied necessary funds at low rates of interest to reputable manufacturers and merchants; that he obtained the release of many prisoners for debt; that he secured a reformation of many of the most crying abuses of the Chamber of Justice, and that he set aside a twenty-eighth part of the postal revenues toward the salaries of the professors at the University of Paris.

## THE CULMINATION AND DECLINE OF LAW’S SCHEMES.

The enthusiasm continued from June, 1719, to February, 1720. By this latter date, the rise had carried the market value of the capital of the Compagnie des Indes to between 11,000,000,000 and 12,000,000,000 of livres. The profits of all the trade of France would hardly have sufficed to return a reasonable income on so large a capital. Cautious holders saw that it was time to realize their profits, and sales began. The Royal Bank was playing a very modest part in relation to the business of the Compagnie des Indes; its duty was simply to furnish the bills required by stock-dealers, and it had no serious guaranty back of the paper it issued. The depreciation of the shares of the company aroused the fears of bill-holders, and they demanded a redemption of their notes. Law’s economic ability being inferior to his genius as a financier, he suggested to the Regent the most unwise measures for compelling people to prefer the paper of the bank to coin. The only result of these measures was to drive specie into hiding, and the ruin of Law’s enterprises, or of the “System,” as they were collectively called, was assured. The Regent, however, upheld his protégé and made him Comptroller-General of the Finances. From that moment, Law’s whole existence

was one continual battle against the depreciation of the shares in his companies. One of the objects of the *Compagnie des Indes* was the colonization of the Mississippi Valley. As his first colonists, Law sent out prostitutes and thieves from the Paris prisons, having first married them together. Then he seized upon the vagabonds of the kingdom and sent them to Louisiana, fondly supposing that a desirable colonial population could be made up of such elements, reinforced as they were afterward with invalids and professional beggars. Notwithstanding the friendless condition of the classes thus transported, the barbarity with which they were treated was universally condemned, and open riots followed later, when the company's recruiters undertook to carry off artisans and even young boys and girls of the middle classes. As nearly all of the women sent out to Louisiana soon died, some of the men married native women and established families in the colony. While neither Law nor the Government ever made known the truth as to the result of the colonization scheme they had attempted to carry out in this remarkable fashion, the facts were finally exposed, and that was the end of the undertaking.

Beginning with the month of March, the bills of the Royal Bank, though they were regularly redeemed, lost thirty, forty, and fifty per cent. of their value, and in some cases were even refused altogether. Law debased the currency, forbade any individual to have in his possession more than 500 livres of gold or silver, either coin or bullion, and finally, on March 11th, an order was issued abolishing the use of coin altogether on and after May 1, 1720.

## THE KING COMES TO LAW'S RESCUE.

Recourse was had once more to paid informers, to secret accusations, to domiciliary visits, in short, to all the worst practices of the so-called Chamber of Justice. The bank secured some help, but its credit was entirely gone. Dealing in stocks was held answerable for all these evils, and was forbidden; but the prohibition could not be made effective, because there was no way for preventing secret dealings. Finally, on May 21st, an edict was issued in these terms:

"The King, in his Council of State, having caused an examination to be made into the position to which his kingdom was reduced before the establishment of the bank, in order to compare it with the present situation, his Majesty has become convinced that the high rates of money have caused more damage to his realm than all the outlays the late King was compelled to make in order to carry on his various wars; avarice having impelled the lender to demand a greater interest per month than he could legally have charged for a year. This usury had impoverished the kingdom to such an extent that even his Majesty's revenues could not be collected except by multiplying the penalties against delinquent tax-payers; prices of products barely sufficed to pay the costs of production and the taxes, leaving no surplus for the land-owner. This general state of poverty had compelled part of the nobility to sell their lands at a sacrifice, in order to maintain themselves in his Majesty's service; and others of the nobility saw their property taken from them by force of law. The bounty of the King became their sole resource, and his Majesty was not in a position to extend such bounty, or even to pay the salaries of his officers and the pensions that had been granted as a reward for distinguished services. Manufactures, commerce, and navigation had almost perished.

The merchant was reduced to bankruptcy and the laborer was compelled to abandon the land of his birth and seek service among strangers. Such was the condition to which King, nobility, merchant, and people had been reduced, while the money-lender alone was prosperous; and the whole kingdom would probably have fallen into a state of general disorder had not his Majesty applied prompt remedies to these evils.

“By the establishment of the bank and the Compagnie des Indes the King restored things to their normal state; in the increased value of its lands the nobility found means of paying its debts; manufactures, commerce, and navigation took on new life; the lands are cultivated and the laborer is busy. But in spite of the very evident amelioration which these establishments have brought about, some persons have been so evil-disposed as to attempt their destruction, thus compelling his Majesty to issue his edict of March 5th last intending by a debasement of the coinage to uphold the credit of establishments so useful and so necessary. By this edict, his Majesty reduced the different classes of paper of the Compagnie des Indes to one class and ordered that the shares should be convertible into bills of the bank, and bills into shares, at the valuation which then appeared most just according to their relative value in coin. This debasement of the currency and the great favor in which the stock was held furnished debtors with ample means for the payment of their debts. It remained for his Majesty to provide for the investment of those sums which are to be repaid to minors, hospitals, commonalties, and other privileged creditors, and at the same time to re-establish the value of the currency, fixing it at such a rate as should be most conducive to foreign commerce and the sale of our products. All these objects his Majesty has provided for by various edicts, and especially by his proclamation of March 11th last, ordaining a reduction in the value of the coinage.

“But, inasmuch as these reductions will necessarily be followed by a decrease in the value not only of all products and personal property, but also in that of lands and all property savoring of the realty, his Majesty has believed that the widest interests of his subjects demanded a reduction also in the price or money value of the shares of the Compagnie des Indes and the bills of the bank, the objects of this reduction being that these shares and bills may stand in their proper relation to specie and other things of value in the kingdom; that the disproportionate value of specie may not become a menace to the public credit; that privileged creditors may be enabled to employ profitably the payments to be made to them, and finally, that our subjects may not be placed at a disadvantage in foreign commerce. And his Majesty has determined upon this reduction the more willingly because it will redound to the advantage even of those who hold shares of the Compagnie des Indes or bills of the bank; holders of these shares will receive dividends at a higher rate and the shares themselves will be convertible into a greater amount of money or of uncoined silver after the reduction than at present.

“Wherefore, the report of Sieur Law having been heard, his Majesty has ordained,” etc.

We have thought it well to reproduce this preamble in spite of its length, because it shows to how great an extent Law was disturbed by the depreciation of the shares of the Compagnie des Indes and the discredit into which the paper of the bank had fallen.

## MEASURES TO STAY THE COLLAPSE.

The measures decreed by that edict consisted in a reduction of the value of shares of the Compagnie des Indes to 8000 livres on the day of its publication, 7500 on July 1st, and so on down to 5000 livres on December 1st, and in an adjustment of the value of the bank bills, in the same manner. The bills, however, were to be received at their face value until the end of the year in payment of taxes and in the purchase of life annuities. Bills of exchange and other commercial debts were to be paid in bank bills at their actual value on the due dates.

Immediately upon the promulgation of this unfortunate decree, prices of all commodities began to rise so rapidly as to create serious alarm. The uppermost thought in every man's mind was to save some remnants of his fortune. Public clamor against the decree of the 21st was so great that it was revoked on the 27th, and Law was compelled to resign his office of Superintendent of Finance. Still the Regent did not desert him. He furnished a bodyguard to protect him against the rage of the populace and continued to follow his advice. Meanwhile, the people besieged the offices of the Royal Bank, demanding cash for their bills. The bank resorted to the most barefaced subterfuges to escape prompt payment. It redeemed large bills with small; and, in redeeming the small bills with specie, it counted out the money very slowly, and paid in coins of a less denomination than ten livres. The rue Vivienne was constantly filled with a struggling mass of men, and every day some were killed and others wounded. Finally, the public patience was exhausted and stones were thrown at the windows of the bank; then the soldiers fired upon the crowd and several were killed; the people placed the corpses upon litters and paraded the streets of Paris, crying aloud for vengeance. The crowd met Law in his carriage, recognized him, heaped insults upon him, and tore his carriage to pieces.

Provisions continued to grow dearer as the bills of the bank depreciated, and when the exasperation of the public had reached its height, new financial measures, such as canceling of bank bills, creation of life annuities, and the like, followed one another with great rapidity. Finally, on October 10, 1720, a decree was issued giving to holders of the yet outstanding bills an option to invest them in two per cent. perpetual rentes, in four per cent. life annuities, or in shares of a new India company. According to data furnished by this decree, the bank had issued between January 5, 1719, and May 1, 1720—

### LIVRES.

In bills of 10,000 livres	1,134,000,000
In bills of 1,000 livres	1,223,200,000
In bills of 100 livres	299,200,000
In bills of 10 livres	40,000,000
Total	2,696,400,000

According to the same authority, the face value of the bills destroyed had aggregated 707,327,460 livres, but the itemized statement does not agree with this total; assuming, however, that the total was correct, the bills remaining in circulation

amounted to 1,989,072,540 livres, to which should be added a subsequent issue of 50,000,000 livres. The Bank of France had been in existence seventy years before it had in circulation bills to this amount. When it had been decided that the bills of the Royal Bank were soon to go out of circulation, merchants refused to accept them except at a discount of seventy-five or eighty per cent.; the Government interfered and many persons were condemned as forestallers; but violent measures are no cure for public destitution.

## LAW'S FLIGHT AND END.

Law, being held accountable for all these misfortunes, found his liberty, and even his life, in danger, and determined to flee the country. He took refuge in Brussels, where he was well received; thence he went into Italy, taking up his abode in Venice, and seeking his livelihood at the gaming-table. He died, poor, in 1729, leaving only a few pictures and a ring worth 10,000 crowns, which he had been in the habit of pawning whenever luck at play went against him. Looking at him from this distance of time, we can see that Law had no systematic theory of finance. He was a man fertile in expedients, who often advocated wise methods, but always spoiled them in the execution. There can be no question of his honesty and good faith; the best evidence of these is the condition of comparative poverty in which he lived and died after leaving France. But his influence was to the last degree disastrous, and was thoroughly demoralizing to all classes of society. A certain Count Hoorn, of illustrious birth, robbed and murdered an unfortunate courtier named Lacroix, and expiated his crime upon the wheel; murders became far more numerous in Paris; people had acquired a habit of winning money without work; desires born of stock-jobbing did not die with it, and many turned to theft and to murder as a source of income. The very name of bank became so unpopular that seventy-nine years later it required all the authority of General Bonaparte, then First Consul, to make the name acceptable as the title of a credit establishment.

## LIQUIDATION OF THE "SYSTEM."

The people of Paris, always inclined to raillery, had a song which sums up with reasonable accuracy the history of Law's enterprises, and may be thus roughly rendered:

Beelzebub begat Law,  
Law begat the Mississippi scheme;  
The Mississippi scheme begat the "System";  
The "System" begat paper;  
Paper begat the bank;  
The bank begat the bill;  
The bill begat the share;  
The share begat agiotage;  
Agiotage begat the share-registry;  
The registry begat the settlement;  
Settlement begat the balance-sheet;

The balance-sheet begat zero;  
And zero has no procreative power.

The liquidation of such a conglomeration of affairs presented considerable difficulties. The "System" was condemned in its entirety; the tax farmers resumed the collection of the revenues; the tolls and town dues which Law had abolished were reimposed, notwithstanding that these reforms, as well as his abolition of useless offices, had proved very beneficial to the commerce of the country.

## THE "BROTHERS PARIS" GATHER UP THE WRECK.

The brothers Paris, though without official authority, were the prime movers in all matters connected with the settlement, and all their suggestions were made in the most malignant spirit. Though the Compagnie des Indes had simply obeyed the orders of the Government, its shareholders were made liable for all its undertakings and even for the bills it had issued. Thus the whole population of France was involved, except those who were absolutely destitute, because every family held some of the company's shares, acquired either in the way of speculation or in exchange for the Government's own bills. The brothers Paris superintended a general revision of the State's obligations, and all of them except the rentes were scaled down in proportions varying between one-sixth and nineteen-twentieths of their face value. The revision was rapidly carried on and was completed in June, 1722, but the liquidation was not finished until September, 1728. The funds to which the process of revision was applied amounted to 3,122,236,436 livres, and this was reduced to about 1,700,000,000 livres. This sum, converted into perpetual two per cent. rentes and four per cent. life annuities, made an interest charge of about 31,000,000 livres on the former, and about 16,000,000 on the latter; in all, a charge of 47,000,000 livres on the revenues. Fifty-six thousand shares of the Compagnie des Indes were left intact, and by a decree of March 22, 1723, the company was reorganized as a private corporation, with a monopoly of various commercial enterprises. After undergoing several other reorganizations, in the course of the eighteenth century, it was finally abolished altogether in 1793. Before that time several of its ships, insured in English companies, had been wrecked, but the insurance, amounting to about 400,000 francs, was not paid until after the fall of Napoleon. When payment was made, the money, at the request of certain persons interested in the old Compagnie des Indes, was turned over to the Bank of France. There it remained for a number of years, together with the books and papers of the company. Finally, the Bank made an effort to get rid of the money and the archives. The Tribunal of the Seine appointed a liquidator; he succeeded in finding some families having interests in the old Compagnie des Indes, but some money yet remained, the title to which was not established, and this was turned over to the deposit and consignment office to await an owner. As to the Royal Bank, it disappeared and left no trace.

A considerable burden had already been laid upon those who were called the newly enriched. They were once more heavily assessed, the demand this time being in the form of a per capita levy; and this they avoided, as far as possible, by marrying impecunious daughters of the nobility, and securing from the King, by virtue of this alliance, entire or partial immunity from the new assessment. The general poverty was



more severe at this time than it had been at the death of Louis XIV., and the period has left in the memory of the French people a lasting impression of dread.

## AN IMPARTIAL ESTIMATE OF LAW.

Yet, again it may be repeated, all was not bad in the work of Law. One historian of his “System,” M. André Cochut, whom we have already had occasion to quote, sums up his estimate of the man and his schemes in these words: “Was the transit of the Scotch adventurer a benefit or an injury to France? To this question we can return no positive and unqualified answer. A movement so complex, an upheaval so thorough, and phenomena so extraordinary, produce upon us the most contradictory impressions. Our opinions vary with our point of view. If some individuals were crushed beneath the wreck, it is incontestable that the thorough agitation of productive wealth tended toward the enrichment of the people. Nearly all debtors, and especially mortgage-burdened owners of the soil, were enabled to pay off their debts. Many ancient estates were preserved from impending ruin and many new buildings were erected. Farming lands received permanent improvements; industry, unduly stimulated, built new factories; and a precedent in maritime ventures was established by the *Compagnie des Indes*. How is it that results so beneficial came out of such a woful calamity? The explanation is that Law’s conception, in spite of inherent faults, which rendered its success impossible, in spite of his own blind rashness and serious shortcomings, which made his fall so sudden and so violent, stamped its author, nevertheless, as a man of remarkable inventive genius, and as having a distinct perception of the three most prolific, and previously most neglected, of all the elements of national grandeur—maritime commerce, credit, and the spirit of association.”

In all candor, history must award to the men of those times their due share of blame for the calamitous failure of Law’s schemes. His main purposes, temperately pursued, would have greatly promoted the wealth and power of France. But their remarkably prompt success was responded to by a craze of speculation, in which Law seems to have taken little part, but which whelmed in ruin enterprises largely legitimate and highly profitable. For that, Law’s contemporaries, certainly as much as himself, if not more, must be held responsible. This is not the first instance in which the bold and beneficent plans of men of genius have been defeated through the excesses of speculations for which the schemes were not properly responsible.

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## CHAPTER III.

### THE DISCOUNT BANK—LA CAISSE D'ESCOMPTE.

THE failure of Law's "System" left such a lasting impression upon the public mind that the creation of any new bank of issue was impossible in France for many years. These establishments, having no other earnest of success save the confidence of the people from whom they borrow by means of the bills they issue, cannot thrive in a country where the very name of bank arouses the most intense aversion. Yet the Bank of England, the Scottish banks, the Bank of Amsterdam, and a host of others make manifest the benefits a country may derive from an establishment which confines itself strictly to the banking business and is properly conducted.

"A man of genius," says Mirabeau, "struck with the astonishing absurdity that Paris alone among the great cities of Europe had no discount bank, proposed to the Government in 1766 that he be allowed to establish such an institution, and he had no difficulty in proving that its necessary results would be an enlargement of commerce, an increase of industry, a quickening and expansion of monetary circulation. He was kept a suppliant for ten full years, and then his project was adopted in a mutilated shape; his plans were contracted to the narrowest limits, and the thing finally set in motion was a very small model of a very large machine. Even then, it was necessary to brave the clamors and persecutions of capitalists, who imagined they saw in the widely diffused relief promised by a discount bank a ruinous competition with that sold by themselves."

The Discount Bank (La Caisse d'Escompte), to which reference is here made, was established on January 1, 1767. Its capital was fixed at 60,000,000 livres, divided into 60,000 shares of 1000 livres each, of which only 40,000 were offered to the public, the other 20,000 being reserved to the King. It was to discount commercial paper and State securities at four per cent. in time of peace, and in time of war at five per cent.; with a supplementary commission of two per cent.; it was to have also a monopoly of the coinage. This enterprise never developed into full activity; but, after a precarious existence of two years, it was abolished on March 21, 1769, by order of the Council. A second bank of the same kind was proposed during the Ministry of the Abbé Terray, but the attempt was abandoned.

### AUTHORIZATION OF A BANK OF ISSUE—THE DISCOUNT BANK UNDER TURGOT'S MINISTRY.

In 1776, under the Ministry of Turgot and inspired by that illustrious economist, a Scotchman named Clonard, and Penchaud, a Genevan, drew up a plan of a bank of issue, which was incorporated under the name of the Discount Bank by a decree of the Council of March 24, 1776. The business of the bank consisted in discounting, at a rate which could in no case exceed four per cent. per annum, bills of exchange and such other commercial paper as the directors should choose to accept; in dealing in

gold and silver; in gratuitously receiving and paying out public funds and deposits of individuals. The corporation was forbidden to borrow at interest or to contract any debt not payable on demand; it was expressly forbidden to engage in any commercial enterprise or maritime undertaking, or to enter into any contract of insurance. Its capital of 15,000,000 livres was divided into 5000 shares of 3000 livres each. Five million livres were to serve for its current needs and 10,000,000 to be turned over to the Treasury on June 1, 1776, to constitute a guaranty for all the undertakings of the bank. "His Majesty," to quote from the regulations as set forth in the charter, "will be urged to accept the 10,000,000 livres as a loan and to give in exchange therefor receipts issued by the Warden of the Royal Treasury to the amount of 13,000,000 livres, payable in thirteen years, to cover principal and interest of the aforesaid sum of 10,000,000 livres; which Treasury receipts shall be redeemed in twenty-six equal installments of 500,000 livres each. And as security for these payments his Majesty will be requested to set apart the income from the postal leases and to direct the Warden of the Royal Treasury to deliver to the cashier of the Discount Bank in payment of the 500,000 livres of Treasury receipts to be redeemed each half-year, a draft on the holder of the said postal leases. The 13,000,000 livres forming the total of the Treasury receipts above mentioned, or such part of them as may remain after the payment of installments from time to time, shall be specifically pledged as security for all the operations of the bank, and that portion of the receipts not redeemed shall not be sold, alienated, assigned, or pledged."

That part of the plan which proposed thus to tie up two-thirds of the capital was never carried into effect. A decree of the Council under date of September 22, 1776, announced that the shareholders had decided that it was better to have a capital of only 12,000,000 livres, all of it to be devoted to the business of discounting paper and dealing in gold and silver, and that in accordance with this decision the King had agreed to forego the loan of 10,000,000 livres and had authorized the issue of a capital of 12,000,000 livres, in 4000 shares of 3000 livres each. This change was a very important one, because it left the Discount Bank in full control of its capital, which in case of need could be used to repair the losses of its discount business; whereas in possession of the King, it would have been of no use to the bank either for the transaction of its business or as an offset against losses.

## REGULATIONS OF THE BANK.

The by-laws of the bank, approved by a decision of the Council of State promulgated on March 7, 1779, fix the number of directors at thirteen, two of whom are to go out of office at the end of each year and to be ineligible during the two following years; each of them must be the owner of at least twenty-five shares, inalienable during his term of office; and the directors serve without pay. The bank was not expressly authorized to issue bills payable to bearer on demand, but this power followed as a necessary implication from that section of the law which forbade it to contract any debts not payable on demand. Aside from this, the bank enjoyed no special privilege or monopoly, and the circulation of its bills was a purely optional matter; anyone could accept or refuse them at pleasure.

## THE BANK IN DIFFICULTIES.

This establishment, answering to a real need of the community, led a quiet existence for some years, gradually expanding and enjoying a fair degree of prosperity; but in 1783 it encountered serious difficulties. At this time, d'Ormesson, Comptroller-General of Finance, borrowed of it 6,000,000 livres, increasing its circulation by that amount. The fact of the loan was at first kept secret, but when it was inadvertently made known the public took alarm, demanded the redemption of their bills, and withdrew their deposits, so that the bank was soon unable to fulfill its engagements. The Government interfered by a decree of the Council of State under date of September 27, 1783, in these words:

“Inasmuch as it has been represented to the King in his Council, on the part of the directors of the Discount Bank,—That the scarcity of specie occasioned by the war, which has prevented the usual yearly imports of gold and silver—exports of specie continuing meanwhile—has compelled all our commerce, but especially that of the city of Paris, where this scarcity is felt with unusual severity, to take advantage of the resources which the Government vouchsafed to it by authorizing the establishment of the Discount Bank.

“That their eagerness to come to the aid of commerce has impelled them to discount all bills of exchange and good commercial paper presented to them, and that being authorized to exchange for these securities either coin or bills of the bank payable to bearer, the public confidence in the bank has given them power to increase the number of its bills in proportion to the needs of commerce, but that, owing to a failure of the resources upon which merchants had relied to put coin in circulation again, the Bank of Discount was liable to be temporarily hampered in its efforts to furnish discount facilities by reason of its inability to supply coin or even to redeem its bills in specie if they should be presented in too great quantities, unless his Majesty should make some provision in the premises.

“That to enable them to await the resources which a return of peace will make available, and to continue meanwhile the service that has been so beneficial to commerce, there is no surer means than that they be authorized until January 1st next, a date at which it is certain that the circulation of specie will be fully restored, to redeem with such bills of exchange and other good commercial paper bearing individual signatures as the bank now has in its possession, those bills of the bank whose holders are not willing to leave them in circulation, the directors offering to pay out such commercial paper with allowance for the discount, if the King, in view of this offer, will forbid until said January 1st, all suits against any person based upon the non-redemption of the bank's bills, and will command that they be accepted as money in all transactions, public and private, in the city of Paris only. \* \* \*

“Wishing to grant which prayer, the King has authorized, and hereby does authorize, the cashier of the Discount Bank to pay to those holders of the bills of said bank who are not willing to leave them in circulation, the amount of said bills in bills of exchange and good commercial paper bearing individual signatures, making due allowance for the discount. His Majesty commands that said bills of the bank payable

to bearer continue to circulate and to be received and paid out as cash, as they have been in the past, in all transactions, public and private, in Paris only. His Majesty forbids all holders to institute any suit prior to January 1st next, to compel payment of said bills in coin.”

Shortly after this, De Calonne, who had succeeded to the Ministry, borrowed 24,000,000 livres in the form of a lottery loan and repaid to the bank the 6,000,000 livres due from the State; at the same time, an official report was issued showing that the bills in circulation aggregated 42,000,000 livres, and that the assets of the bank exceeded its liabilities by 14,140,473 livres.

## RECOVERY OF CONFIDENCE AND INCREASE OF CAPITAL.

Acceptance of the bills had previously been made optional again by a decree of December 10, 1783, and confidence soon returned. In view of these facts, the regulations of the bank were amended, and the capital was increased to 15,000,000 livres by the creation of 1000 new shares of 3000 livres each, sold upon their issuance at a premium of 500 livres. In addition to the amount thus secured, the bank had a reserve of 2,500,000 livres, consisting of undistributed profits. The by-laws were altered and the proportion of hard cash on hand to circulation was fixed at twenty-five per cent. as a minimum. Paper accepted for discount was made payable within ninety days, at most, and discount rates are fixed at four per cent. for paper due within thirty days, and at 4½ per cent. for paper running from thirty-one to ninety days. All paper offered for discount was required to bear two good signatures. Two permanent directors were to be chosen by the stockholders to act as managers. Certain precautions provided by the by-laws show that the conditions of a rational distribution of credit facilities were not thoroughly understood by the founders of the institution; but they had at least a very clear conception of the necessity of maintaining a just proportion between resources and liabilities. Thus the amount of credit to be extended in the way of discounts was fixed weekly by the Administrative Council, and once fixed could not be exceeded; but whenever it came to the knowledge of the managers that the cash on hand was less than one-third of the circulation, they were required to curtail their discount operations, and to discontinue them altogether when the cash was reduced to one-fourth of the circulation. Permanent loans and all investments in any permanent form were absolutely forbidden. The capital being the normal security for the bank's undertakings, it was forbidden to loan upon its own shares, because such loans would in effect amount to a diminution of the capital. Most of these regulations were wise and salutary. The bills of the bank were in denominations of 1000, 600, 300, and 200 livres.

The public very easily forgot the difficulties that had beset the Discount Bank; and, unfortunately, the Government forgot them also. The institution was wisely managed and its shares advanced rapidly in price. In 1784, certain speculators persuaded the public that increased dividends were to be paid, and sold a large number of shares at a premium. At the stockholders' meeting of January 16, 1785, those who had bought at a premium proposed the declaration of a dividend, based, not upon the profits actually

realized and collected, but upon those which were prospective and uncertain, and their proposition was carried. But the more prudent shareholders obtained from the Council of State an order under date of January 16, 1785, commanding that the dividend for the last six months of 1784 should consist only of the profits actually collected up to December 31st, and that from the total of profits carried on the books upon that day there should be deducted as not earned and not available for dividends those arising from the discount of all paper held by the bank at that time; these profits would not be due or payable till after December 31st, and they were to be reckoned as part of the income of the following half-year. In this difference with the stockholders the Government was clearly right; but those who had purchased shares at a premium took advantage of its ignorance to secure the adoption of an unjust measure, and a decree was issued on January 24, 1785, declaring null and void all sales made at a premium; thus, at the expense of the sellers, releasing the buyers from a losing speculation.

## THE PROSPERITY OF THE BANK CAUSES ITS RUIN.

In spite of this incident, the affairs of the bank continued to prosper, and this prosperity proved its ruin. Its success was in such violent contrast with the wretched failure of the Government finances as to suggest to the Minister of Finance the advisability of seeking aid from a bank which was growing rich in the midst of the general decay. At a special meeting of the stockholders, held on February 5, 1787, a plan was outlined for furnishing greater facilities to trade and greater security to the public by making the bank useful to all classes of citizens, by providing for a circulation of its bills in the provinces, by dispersing its shares more widely, and by perfecting the details of its management. The basis of the plan was an increase of the capital to 100,000,000 livres, of which the State should hold 80,000,000 as security for the bank's circulation. The stockholders fell into the trap, and drew up a petition to the King requesting such a change in the regulations of the bank as would produce the results outlined above. A decree of the Council, dated February 18, 1787, enacted into law the stockholders' proposals. The Discount Bank was authorized to issue 20,000 new shares, of which 10,000 were offered to the old shareholders, in the proportion of two of the new shares to one of the old ones, at 3400 livres each; the remaining 10,000 shares were sold in the open market at 3600 livres each. The salutary rule limiting discounts to paper not having over 90 days to run was changed so as to allow discounts of paper due at any time within 180 days; the rates were 4 per cent. up to 60 days, 4½ per cent. for 61 to 120 days, and 5 per cent. for 121 to 180 days. The question of setting aside a reserve fund was left to the discretion of the directors, whose number was increased to eighteen. The privilege of issuing bills payable on demand was granted for fifty years. The bank was to pay 70,000,000 livres to the Treasury and receive interest upon it at the rate of five per cent.; the interest being made a charge upon the total revenues of the State, and specifically upon those arising from farms of the general revenues.

Under pretext of furnishing to the public a sufficient guaranty for the circulating notes, amounting to 98,000,000 livres, these provisions placed substantially the whole capital of the Discount Bank in the hands of the Government, thus offering as security to its note-holders and depositors nothing but a credit already seriously impaired. Naturally, the first effect of the scheme was to involve the bank from the beginning in

the ruin of the public finances. In the month of August, 1787, there broke forth suddenly a panic, caused mainly by the distrust engendered by this arrangement. Holders of the bills demanded their redemption, and 33,000,000 livres were paid out. Then, unfortunately, the Government felt called upon to interfere, and it drew up a decree making the notes a legal tender. The administrative council of the bank, which had not even been consulted, vigorously opposed the issuance of this decree; it was in position to pay all the outstanding bills from the proceeds of its loans as they fell due, and it demanded a return of the 70,000,000 livres deposited with the State, to meet current demands. The Government so far yielded to the just demands of the bank as to forego the promulgation of the decree suspending specie payments. It also turned over to the bank from its various collection bureaus all the money it could spare, but it did not return the 70,000,000 livres, because the whole of that sum had been used up long before.

Inasmuch as the note redemptions had never ceased, the bank soon regained the confidence of the public, but it did not retain it long. We have now reached the period at which, to use Taine's phrase, "spontaneous anarchy broke forth." The desperate condition of public finance bred new distrust of the bank's solvency; another panic began among its bill-holders in August, 1788, and its cash reserve was reduced from 50,000,000 livres to 25,000,000. The Government had recourse once more, and again without consulting the managers of the bank, to the legal-tender expedient. A decree of the Council, bearing date of August 18th, was posted at the entrances of the building authorizing redemption of the bills in discounted commercial paper. The Discount Bank then had 19,000,000 livres in specie, which was sufficient for its needs, but the twofold object of the Government in making its notes a legal tender was to prevent its demanding a repayment of its 70,000,000 livres and to deprive it of any excuse for curtailing its discount operations. The situation of the Treasury constantly grew worse. Necker, recalled to the Ministry, frankly made known the situation of affairs to the directors of the Discount Bank, and declared to them that the public service would be brought to a standstill unless he could raise a loan of 15,000,000 livres. The exigency left no room for discussion, and the loan was made in bills guaranteed by Treasury bonds and the personal pledge of the King. This loan was frequently renewed. At the stockholders' meeting of January 8, 1789, it was decided that the bank should make a further advance to the King of 25,000,000 livres. One of the first matters to which the National Assembly turned its attention was the condition of the Discount Bank. Mirabeau made a violent attack upon it in a pamphlet distributed among his colleagues in the Assembly on September 21, 1789. The bank found an advocate in Lavoisier, who contented himself with simply setting forth the actual condition of its assets and liabilities.

## NECKER PROPOSES TO MAKE THE DISCOUNT BANK A NATIONAL BANK.

On November 16th following, Necker proposed to transform it into a national bank and to fix the limit of its issues at 240,000,000 livres. He thus supported his proposal:

“This institution has rendered services of the highest value to commerce, and the assistance which the public finances have derived from it for a long time has been very great and very sorely needed. No harm would have befallen the Discount Bank if the State had been in position to reimburse it at the stipulated dates, but a serious distrust of the Treasury having taken the place of the resources which a new state of things emboldened us to hope for, it has become impossible, without an increase of revenue, for us to fulfill our engagements with the Discount Bank, engagements which form part of the extraordinary demands of the present year. The situation of the Discount Bank is critical, not merely by reason of the loans it has made to the Government; in common with the Royal Treasury, and all branches of trade, and the whole of France, it feels the very serious inconveniences resulting from the unwonted scarcity of coin. \* \* \* Let us take, now, a brief survey of the appalling difficulties we have to overcome. We must raise a loan of 170,000,000 livres, partly to meet the pressing necessities of the present year and partly to maintain the public service during the coming year, and we must raise this amount at a time of unqualified distrust. Then, we must uphold the structure of the Discount Bank, a structure now shattered and likely to fall. We must, if possible, furnish it with some new means of support; or, if we are ready to abandon that institution in spite of the intimate relations existing between it and the State’s interests, financial and other, in spite of our gratitude for the services it has rendered, then we have an even more difficult task before us—that, namely, of doing exact justice to the holders of its shares and bills.

“We must also provide for paying the rentes issued against the Hôtel de Ville, and devise within a limited period some plan for paying the arrears up to the beginning of the last half-year, at least, and for making future payments with the greatest promptness. Another object we must keep steadily in view is that of providing some means of escape from the disastrous effects of the present unusual scarcity of coin. I have given some thought to the very simple plan advocated by many persons for extricating ourselves from all our difficulties, that of issuing in the form of paper money, redeemable or not redeemable, such number of State bills as may be required, not merely for the needs of this year and next, but also for the payment of all arrears of interest or rentes, all balances owing by the various departments, and all those overdue claims upon which we have agreed to pay interest at the rate of five per cent. It is proposed that with these bills we shall redeem all those issued by the Discount Bank and pay off the debt of the State to the shareholders of that institution. In short, by a very extensive series of operations carried out along these lines we are to solve all our financial difficulties in a moment.”

Necker’s plan was to convert the Discount Bank into a national bank; to confer upon that institution a monopoly for a longer or shorter period; to place it under the management of men chosen by the shareholders and subject to the supervision of commissioners appointed by the National Assembly; and to authorize it to issue 240,000,000 livres in bills guaranteed by the State. The capital was to be increased by 50,000,000 livres and would then amount to 150,000,000; a loan of 170,000,000 livres was to be made to the State at four per cent. interest. This scheme was opposed by Mirabeau, and defended by Dupont de Nemours. In order that it might be in a position to decide between these opposite opinions, the National Assembly called for a report upon the matter, and this was made by the Duc du Châtelet on December 4th.



The report sets forth the facts to which we have already called attention and declares that having once begun to advance money to the State, the bank could not refuse to make further loans except at the risk of causing a panic, which would ruin the State and destroy the value of the guaranty on which the bank relied. There was the less ground upon which to criticise its conduct, because it had not neglected the interests of commerce, even when it was doing most to aid the State. The report then shows the condition of the bank's affairs as of November 22, 1789; which, briefly, was as follows:

ASSETS.	LIVRES.
Debts due from the State	88,799,000
Cash and commercial paper	53,220,083
Loans on pledge	8,300,000
Loans to shareholders, who had individually advanced 25,000,000 livres to the Government	4,000,000
Mint receipts	1,875,888
Total assets	156,194,971
LIABILITIES.	LIVRES.
Notes in circulation	112,882,880
Accounts current	8,999,708
Balance of various accounts	3,134,672
Total liabilities	125,017,260

Thus it appears that the assets exceeded the liabilities by 31,177,711 livres. Its available capital was intact, but the 70,000,000 livres turned over to the State as security were in a very precarious situation.

The Duc du Châtelet adds to his report the following statements:

“From the years 1783 and 1787, years from which its present constitution dates, down to August 18, 1788, the Discount Bank always paid at sight on demand. On August 14, 1788, it held nearly 20,000,000 livres in coin against a circulation of 76,500,000 livres. On August 18, 1788, the day on which was issued the decree suspending specie payments, its specie lacked only 100,000 crowns of being equal to one-fourth of its outstanding bills. On September 1st, its situation was this: in spite of the decree of suspension, it had redeemed in the last ten days bills amounting to 9,890,000 livres; yet its cash reserve had decreased only 975,000 livres, and was 1,000,000 livres more than one-fourth of the outstanding bills.

“At the beginning of September, the bank, yielding to the importunities of the Minister and the King, made advances to the Government; in doing so, it departed both from the letter of its regulations and from the spirit of its institution by accepting long-term obligations, and loaning to the State, on the faith of these, the money of creditors to whom the bank was already bound, and this, too, in spite of the fact that redemption of its bills was going on slowly, at the rate of about 8 or 10 millions per month.

“Up to the month of July of that year, its specie was always above the limit at which its rules require it to suspend discount operations. After that date it felt itself obliged, while curtailing its discounts more and more, to continue them to a certain extent in order to ward off the shock to which commerce and the money market would have been exposed by a total suspension of discounts. To this extent it has deviated from its statutory obligations.

“You are now in a position to pass judgment upon the establishment, its conduct, and its present situation. It is for you to determine whether this judgment should be based upon a strict interpretation of the laws governing the bank, some of which it has manifestly disobeyed, or upon a due consideration of the stress of circumstances under which it acted, and the conspicuous benefits its loans have conferred, and are conferring still, upon the commonweal.”

Upon the reception of this report, Talleyrand, Bishop of Autun, delivered a remarkable address in which the proper business of a bank of issue and the limitations with which it should be surrounded are set forth with the greatest clearness. The theories advanced by Talleyrand are so sound that they have now become universally accepted, but at that time they were practically unknown, and comparatively few persons were capable even of understanding them. Talleyrand proposed that the project of a national bank be abandoned, and that the Discount Bank be allowed to continue in business and be gradually brought back to the principles upon which it was founded. Its loans to the State were to be returned at the rate of ten per cent. per annum.

## PLAN ADOPTED BY THE NATIONAL ASSEMBLY.

After a violent discussion, the National Assembly adopted a plan the basis of which was that the Discount Bank should advance 80,000,000 livres of its bills to the Government and that the Government should sell church lands to the extent of 400,000,000 livres in order to provide for all its debts to the bank. From the moment this decision became effective the doom of the Discount Bank was sealed. Decrees of December 19 and 21, 1789, provided for the issuance of “assignats” (a form of paper money issued against the lands of the clergy), and made them legal tender. The amount which the bank had advanced to the Treasury in the form of its own notes was repaid in these assignats, but this did not prevent the State from afterward borrowing of it 70,000,000 in three loans. The institution barely managed to keep itself alive in the midst of a general stagnation of business and the increasing anarchy in political affairs.

## THE COMMITTEE OF PUBLIC SAFETY EXTINGUISHES THE BANK.

On June 13, 1793, when the French people had become a prey to unreasoning madness, a decree of the Committee of Public Safety directed a member of the Convention, clothed for this purpose with the most absolute powers, to seek out such frauds as might have been committed by the Discount Bank in its dealings with the

public treasury. This, says Laffon Ladébat, was the odious prelude to its extinction; the custom then was first to brand with disgrace the thing to be destroyed. Finally, on August 4, 1793, the Convention voted the suppression of the Discount Bank, and ordered it to pay on demand the 19,000,000 livres held by it in accounts current; to pay, in several installments, 905 livres tournois in assignats upon each of its 29,000 shares, and the balance, if any, in State rentes. Thus the Discount Bank was destined to extinction amidst the throes of a popular uprising, as many another useful institution has perished; for demagogism has an instinctive hatred of all credit institutions, understanding none of them, and seeing in them all nothing but instruments of speculation and fraud. And yet the Discount Bank, while it was guilty of weakness in its dealings with the State, was never false to its true mission, and was managed with scrupulous honesty. The following is a statement of the accounts of the Discount Bank at the close of each year, in millions and hundreds of thousands of livres:

YEARS.	Annual Discounts.	Circulation.	Accounts Current.	Cash on Hand.	Dividends Per Cent.
1777	20.0	0.3	0.5	0.5	5?
1778	58.0	3.8	3.4	2.4	5?
1779	81.1	5.3	4.3	1.6	5?
1780	94.0	13.4	2.8	5.3	6?
1781	151.5	20.6	4.5	6.9	7?
1782	204.1	27.0	6.3	10.6	8
1783	259.9	21.1	8.3	22.2	4?
1784	242.1	69.4	6.5	37.6	9?
1785	341.2	73.3	7.2	28.2	13?
1786	394.6	99.2	11.1	41.3	15?
1787	493.6	88.9	7.2	47.1	12?
1788	483.9	72.8	6.0	31.3	7½
1789	503.3	128.1	8.7	5.2	5⅜
1790	248.3	102.3	3.8	6.1	4¾
1791	238.3	23.7	7.5	19.2	5?
1792	328.7	8.8	18.3	38.8	6
1793	58.5	2.0	19.5	24.9	2¼

## LA CAISSE DES COMPTES COURANTS.

When the revolutionary madness had abated, a need of credit institutions made itself felt once more. On the 11th Messidor, Year IV (June 29, 1796), Augustin Monneron, a merchant who had grown rich in the colonial trade, founded a share bank under the name of the “Caisse des Comptes Courants” (Bank of Accounts Current), to discount commercial paper, receive deposits, and issue bills. This bank suffered a very serious loss through the defalcation of Monneron. As soon as the theft became known, the company declared its dissolution, and then reorganized on the same day. Its existence was always precarious; it discounted hardly any paper except that of its shareholders; and it would have no interest for us except for the fact that it has been called, but

erroneously, the original of the Bank of France. The truth is, that the Bank of France could very well have begun its business in competition with the Caisse des Comptes Courants, but a fear of unsettling the money markets by dividing up their resources moved the managers of the Bank to direct their best efforts toward a consolidation of the two institutions, whose rivalry might have been a source of danger. The advantages of consolidation were realized by the shareholders of the Caisse des Comptes Courants, and they voted for it. At the time of the consolidation, the Caisse des Comptes Courants had, either outstanding or held in reserve, bills aggregating 20,780,327.20 francs, the bills being expressed in terms of livres tournois. These constituted the circulation of the Bank until it could make arrangements to put out an issue of its own. The Bank established its offices in the building of the Caisse des Comptes Courants, and took over all of its employees.

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## CHAPTER IV.

### ASSIGNATS—THE BASIS OF THEIR ISSUE.

WHILE assignats have no immediate connection with questions of banking, they have played such a conspicuous part in the national economy of France, and their history is so full of instruction for any government that may be tempted to tamper with its monetary affairs, that it is impossible to omit all mention of them from a work intended to throw light upon problems of banking and credit.

In 1789, the clergy of France were in possession of immense estates granted to them as gratuities by princes, or demised to them by the faithful. The properties were devoted to the maintenance of religion and to institutions of charity and instruction. The National Assembly, on motion of Talleyrand, then Bishop of Autun, decided that it was the business of the State to attend to all those public duties to which the possessions of the clergy were devoted, and to employ the priests on salary, and that thereafter all ecclesiastical property should be placed at the disposal of the nation. It was, however, a very difficult matter to determine the best manner of realizing upon such an enormous mass of property. Evidently, to put it all on sale at once would be to destroy its market value. The venerable President of the Assembly, Bailly, destined to so sad an end, proposed, in behalf of the city of Paris, that the property be turned over to the municipalities, which should purchase it as a whole and then sell it from time to time in small lots. The municipalities would undertake to pay at fixed dates, and the creditors of the State could be paid with the communal bonds. This was the first suggestion of assignats. The National Assembly, very deeply impressed with the scarcity of money, ordered the sale of 400,000,000 francs' worth of ecclesiastical and crown property, and in September (17-21), 1789, determined upon the formation of a special Treasury Department, under the auspices of which assignats were issued, bearing interest at five per cent.

The assignats were accepted in preference to other forms of money in the sale of the properties, and they were to be redeemed with the product of the sales and other extraordinary income at the rate of 120,000,000 francs in 1791, 100,000,000 francs in 1792, 80,000,000 francs in 1793 and 1794, and the remainder in 1795. On April 15, 1790, the interest rate was reduced to three per cent.; the assignats were made a legal tender between individuals, and all public departments were directed to accept them as the equivalent of specie. Interest was reckoned by the day, and, at the end of the year, the holder of the assignat could collect the whole of the interest at the special Treasury Department. As security for their payment, the assignats were made a lien upon all national property and the income derived from it. Up to this point, the assignat appears as a species of mortgage obligation such as are common in all countries, but very soon it became a regular form of paper money, the interest being suppressed and the paper made non-convertible.

## OVER-ISSUES—THEN DEPRECIATION.

The first issue had been well received by the public; a second soon followed, and it, in turn, was succeeded by so many others that in a report to the Convention, made on February 3, 1793, Cambon places the total issue at 3,067,000,000 francs, of which 682,000,000 francs had been canceled, leaving 2,385,000,000 francs then outstanding.

Perverted from their original nature of mortgage bonds, and issued with extravagant frequency, the notes depreciated day by day. The Revolution, accustomed to violent methods, thought to sustain its paper money by forcible means. On April 11, 1793, in spite of the opposition of the Girondins, the Convention provided a penalty of six years' imprisonment for all sellers of coin—for all persons, that is to say—who should exchange a given amount of gold or silver for a nominally greater amount of assignats. They were liable to the same penalty who should sell their goods at one price in assignats and at another in coin. "These measures," says Thiers (*"Histoire de la Révolution"*), "did not prevent the difference between the values of the two forms of money from increasing with great rapidity. In June, 1793, a specie franc was worth three francs in assignats, and in August one silver franc was worth six francs in assignats." In such a state of affairs, merchants refused to sell their goods at former prices; they locked them up and refused them to buyers. Of course, this depreciation of the assignats would have been a matter of no consequence if everybody, taking them at their current value, had accepted them and paid them out at the same rate; but capitalists living upon their income, and State creditors in receipt either of yearly interest or the salary of an office, were compelled to accept the paper at its nominal value. All debtors made haste to settle the claims against them, and creditors, forced to receive a fictitious form of money, got only a fourth, or a fifth, or a sixth part of what was due them. Finally, the working-people, unable to combine and force up their wages as assignats went down, found that they were not getting money enough to buy the actual necessities of life. Capitalists were discontented and moody, and the common people, ignorant of the fact that all their troubles arose from a defective monetary system, rose against the merchants, calling them engrossers and demanding that they be sent to the guillotine.

### "THE MAXIMUM."

The Convention, finding itself overwhelmed with petitions, adopted the ridiculous measure known as the "Maximum." On May 3, 1793, it issued a decree requiring every merchant or producer of grain or flour to declare how much he had on hand. All were forbidden to sell except in the public markets, and the administrative officers were authorized to see that the required amount was offered in each market. In order to fix the maximum price of grain, the directories of the various districts were required to send to the departmental directories the prices of grain from January 1 to May 17, 1793, and the average of the prices between these dates was to be the maximum at which sales could be made; this was to be decreased by one-tenth each month from June 1st to September 1st. As the maximum was not the same in different markets, and as those in which it was highest would naturally attract grain from the others, the Convention, on September 4, 1793, adopted for the whole of France a

single maximum of fourteen livres per quintal of wheat. The adoption of a wheat maximum involved the necessity of fixing a maximum for all other articles of merchandise, and for wages. In spite of the fearful penalties denounced against all who should trade in disregard of the Maximum, the law seems never to have been fully executed. But its effects were none the less disastrous. Farmers sold their products stealthily to those who were willing to pay in specie; the amount of grain, flour, and provisions brought to market decreased day by day; shopkeepers were bankrupted and went out of business; manufacturing establishments closed down, and Cambon said—with some degree of exaggeration, however—"I regard the 'Maximum' law as the sole source of our misfortunes."

By the beginning of 1794, the issues of assignats had aggregated nearly 8,000,000,000 francs, of which 2,464,000,000 francs had come back into the Treasury and been destroyed; nevertheless, the Convention voted an issue of another 1,000,000,000 francs, in denominations varying between 10 sous and 100 francs, making a net total of 5,536,000,000 francs. After the repeal of the law of maximum, and the cessation of the despotic measures to which it had given rise, prices, left to seek their proper level, rose to the most extraordinary quotations; the depreciation of paper money showed itself in a tremendous rise in exchange, and assignats became the subjects of the wildest speculation, which caused their value to fluctuate widely from moment to moment.

## ATTEMPTS TO RESTORE THE VALUE OF THE NOTES.

The Convention determined to increase the value of the paper money; there was no way to accomplish this except by reducing the quantity, and a number of schemes for making this reduction, each more visionary than the others, had been examined, when a member of the Convention, Bourdon (de l'Oise), though he was a man wholly ignorant of financial affairs, and notable chiefly for his drunkenness, hit upon a very feasible plan of escape from the trouble. He proposed to sell the national property; but instead of offering it at auction, which would have depreciated the paper money still more—for everyone would think himself fortunate to be able to exchange any quantity of worthless assignats for real estate having an actual value—he proposed that the lands be deeded to anyone who should offer for them in assignats three times as much as they were worth in 1790. This plan would inevitably have increased the value of the assignats, for as long as they were exchangeable on demand for a definite quantity of real estate they could not fall to zero. Under this plan, the national lands would have been sold at a very low price; but the Government had been paid in advance, since it had settled all the debts of the State with the paper money. If Bourdon's plan had been carried out in its entirety, all the assignats would have returned to the Treasury, and the national lands, delivered up to industrial uses, would have become productive. The scheme was tried upon a small scale, and the eagerness with which the public put in their bids showed how successful the project was likely to be; but, unfortunately, there were a large number of Deputies who could see nothing in it but a loss, and they declared that the property of the Republic was being squandered. A combination was formed among various members of the Convention and the law was repealed. After having caught a glimpse of a method by which the

troubles might have been ended, they abandoned it and fell back again into the appalling misery from which they might so easily have escaped.

However, if no effort was to be made to raise the value of the assignats, it was impossible to maintain the ruinous fiction of nominal value, which was bankrupting all who accepted payment in paper. A scale was finally established in accordance with which the assignat was to be reduced to its actual value. Beginning with the time when there were only 2,000,000,000 francs in circulation, it was decided that the paper should lose one-fourth of its value for each 500,000,000 francs added thereto. The Government did not venture to make this reduction applicable in all transactions, but it was applied in all tax collections; thus there was a return to the financial methods of King John the Good, who debased the coinage but required that all royal revenues be paid in coins of full weight and fineness.

## ISSUES UNDER THE DIRECTORY.

The financial disorders were growing more serious. The Directory, successor of the Convention, was guilty of even greater abuses in its dealings with paper money. Between the 5th Brumaire and the 30th Pluviose, Year IV, there were issued more than 20,000,000,000 francs of new assignats. In Nivose, 1795, the issue reached 30,000,000,000 francs, and by February 19, 1796, it had risen to the ridiculous figure of 45,500,000,000 francs, not including the counterfeit assignats made by England on the Island of Jersey and introduced into France through La Vendée and Brittany. Out of this total issue, about 20,000,000,000 francs were in the hands of the public. A law of Nivose, Year IV, set a limit to the emission by providing that the plates should be destroyed whenever the circulation should amount to 40,000,000,000 francs.

## THE ASSIGNATS CONVERTED INTO MANDATS.

As a result of various payments to the Treasury, the assignats were reduced to 36,000,000,000 francs, and later to 24,000,000,000 francs, and this latter amount was made convertible into 800,000,000 francs of land warrants (*mandats territorians*). These land warrants, the total issue of which amounted to 2,400,000,000 francs, were a new kind of paper money, constituting a mortgage and preferred claim against all the lands of the Republic, except national forests of greater extent than 300 arpents (about 275 acres), and buildings and other structures devoted to public use. The mandats were no better esteemed by the public than the assignats had been, and were at a discount of eighty-two per cent. on the day of their issue. Nevertheless, they were better than assignats, because the holder could acquire national property in exchange for them without bidding against other holders. Their issuance, accordingly, was a return to the plan formerly proposed by Bourdon. But the public took no note of the difference; and the new paper depreciated to such an extent that the Directory, to avoid the necessity of practically giving away the national lands, was compelled to order that the warrants be accepted in payments at their value on the day of the contract. By 1796 the warrants had lost ninety-nine per cent. of their value; they were withdrawn from circulation on March 21, 1797, and finally annulled a few months later.



State creditors had been receiving their dues in assignats and other warrants, and their income had now been reduced to zero; but they could still delude themselves with the belief that their capital was intact. In the year VI, the Directory shattered even this source of consolation. Under pretence of adjusting the debt to the State's resources, they reduced the rentes inscribed in the great book of the public debt by two-thirds, and named the remainder the "Consolidated Third."

Thus, the issue of State paper money ended in bankruptcy after bringing untold evils upon the State. The memory of the assignats is not yet effaced from the minds of the French people, and "assignats" is the name they give to all irredeemable paper.

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## CHAPTER V.

### THE BANK OF FRANCE.

#### SECTION I.

##### ORIGIN OF THE BANK.

FRANCE has had a peculiar experience with banks of issue. On the one hand she has suffered from all that is worst, and on the other has enjoyed all that is very advantageous, in such institutions. The first French bank of issue was a creation of Law's, and was established to dispose of all the financial embarrassments transmitted by Louis XIV. to his successor. It would undoubtedly have achieved its purpose had its founder possessed a better understanding of the nature of credit and its limitations. The lack of such understanding, and the lack, likewise, of that delicacy of management which is an indispensable requirement when matters of public confidence are at stake, caused Law's bank—known as the Royal Bank—to go to pieces in circumstances of terrible catastrophe; and in consequence the very name bank came into such disrepute among Frenchmen that it needed the lapse of almost a century and the exercise of all the authority of the First Consul before another institution of like privileges, and styled the Bank of France, could be erected.

The absence of a central credit establishment had made itself severely felt during the closing years of the monarchy. The archives of the Ministry of the States-General show that, in 1788, much clamor had arisen for the introduction of banks on the plan of the Bank of England. But the Revolution supervened, concerns of greater moment absorbed attention, and neither the Constituent Assembly nor the Convention had leisure to take up the details of bank organization. Indeed, by an act of 1793, proposed by Cambon, a bank of issue, known as the "Discount Bank" (Caisse d'Escompte), which had been in existence since 1776, was extinguished. After the evil days of the Revolution, Government banking devices again received consideration.

##### PLANS FOR THE CREATION OF A GREAT BANK IN 1796.

After the report had been read, Citizen Laffon Ladébat submitted the following letter, which had just been received from the Minister of Finance:

"Paris, 17th Pluviose, Year IV of the Republic, One and Indivisible

*"The Minister of Finance to the Citizen Laffon Ladébat, Representative of the People:*

"Citizen—

I have read to the Executive Directory your letter of the day before yesterday.

“The Directory has with interest learned of your efforts to promote the organization of the bank. It recognizes how serviceable the proposed institution would be to the interests of the Republic in general and to the public credit in particular. Surely no one’s unmindful of the critical position to which commercial houses formerly holding the highest rank are now reduced, or of the untoward influence of our embarrassed circumstances, rendering the most delicate trade operations uncertain and profitless. No important enterprise can be attempted, even if entered upon courageously, without exposure to numberless vexations and perils. These are truths that cannot escape the observation of anyone with eyes to see. There is but one means of relief from such extraordinary troubles for a nation rich in territory, manufactures, industry, and personal property of every kind. We need harmonious co-operation by all citizens of note for the renewal of trade on a scale of some magnitude. It is essential that they give their credit and their strength a threefold power by aggregating them in an imposing association with a great volume of investments and shares. Your previous letters have informed me that the foundations for such an association have been laid. I desire to encourage you to give it all the scope possible.

“You have very properly suggested that a means for assuring the immediate brilliant success of the institution and placing its transactions on a solid basis, would be the assignment to its care of national property whose value would serve to lend it a great credit. I attach to this letter a statement of the properties that the Government has at its disposal, and that can be negotiated through the bank. This statement, which includes none of the taxes of the Republic and only 30,000,000 livres of forced loan assessments, shows a total of 883,000,000 livres (fiancs). You will not omit to notice, moreover, that it comprises none of the national property whose sale is suspended until the 1st Prairial, and whose value, based on information received from all the departments, was estimated at 2,600,000,000 in my last report to the Executive Directory. The list does not even take into account the Belgian properties. These two observations will suffice to demonstrate to your association what enormous values the Republic has in its possession.

“It would be desirable to have the bank perform a regular service for the Government, reaching monthly 25,000,000 livres in coin or in circulating media equivalent to coin. The bank would be authorized to effect all sales for a commission to be agreed upon, and would reimburse itself out of the products of sales in a measure corresponding to the amounts realized. It is my expectation that the building in the Rue Neuve des Capucines will be vacated in the next ten days. It will be necessary for the management of the bank to consider what arrangement should be effected between itself and the Government for that building. Finally, Citizen, a day may be appointed upon which we can go together to inspect the system of manufacture of the assignats at the printing establishment, with a view to the practical purposes of the bank.

“From the foregoing, Citizen, you will perceive that the Government has a genuine desire to have the bank occupy a broad sphere, since all that I communicate to you is on behalf of the Directory. You should adopt and publish by-laws for the establishment. You are authorized to utilize the particulars of the Directory’s sanction for strengthening the confidence of your shareholders and increasing their number. I

trust your answer will inform me of the steps taken at to-night's meeting. I shall communicate it promptly to the Directory.

## “Welfare And Fraternity,

“Faypoult.”

After this had been read, the president put to vote the following resolutions prepared by the committee:

“The undersigned citizens, animated by a desire to re-establish public credit and to revive industry and trade, have resolved:

“1. To form an association under the name of a bank, each engaging himself for the number of shares that he subscribes for personally.

“2. That the bank's shares shall be of 600 francs actual value, payable as follows: 200 francs when the establishment is opened for cash business, 200 francs in six months, 200 francs in a year.

“The 200 francs of the first installment may be paid in French money or foreign money reduced to the French standard, gold or silver, or in paper on foreign countries, or current scrip. The 400 francs on time shall be secured by written obligations signed by the holders of shares, to bear interest at five per cent. a year. The bank will allow a bonus of one per cent. to subscribers who wish to make immediate payment of their time obligations.

“3. That the shareholders of the Caisse d'Escompte whose names are on the liquidation registers and who are still interested therein shall be admitted to this association on the basis of five shares for each share of the Caisse d'Escompte whose value shall be transferred to the bank, with six months' running interest to be taken into account. In consideration of this advantage, the shareholders of the Caisse d'Escompte shall pay to the bank, upon its opening, 200 livres for each share of the Caisse d'Escompte.

“4. That the division of profits shall take place as follows: The subscribers to the bank will receive a two-per-cent half-yearly interest, and the old shareholders of the Caisse d'Escompte will receive the six months' interest paid by the National Treasury for account of their investments. The balance of the bank's profits will form a dividend in which both classes will be entitled to share.

“5. That the bank shall issue sight notes and notes to bearer or on terms such as may be necessary for its service; but these notes shall never be in excess of the realizable values corresponding to them when due.

“6. That the council shall be composed of ten administrators and a director-general. The present meeting postpones nominations until the meeting to be held on the 19th of this month.

“7. That the subscribers empower the council to enter into an arrangement with the Government prescribing that in no event shall the obligations of the bank exceed half the actual values that may be committed to it.

“8. That the council be empowered to organize all the departments of the establishment and determine the form and mode of issue or registration of shares, the issuance of circulating notes, the opening of current accounts, and the details of cash service, discounts, bank credits on deposit (both general and special), and bookkeeping for each branch. The council is authorized to make all the rules relative to these different departments of the management, and to put them into effect. These rules shall be printed and sent to every shareholder having a deliberative vote.

“9. That the ownership of twenty shares shall entitle the holder to a vote in the general meetings of the bank.

“10. That the council shall call a general meeting every month, at which it shall render a report on the condition of the establishment. It may call other meetings when it deems them necessary.

“11. That, upon demand of fifty shareholders entitled to deliberative votes, the council shall call a general meeting, to be held within ten days.

“12. That each day a daily balance-sheet of the establishment shall be made up.

“The undersigned subscribers have adopted the above resolutions and the plan which has been read to them.”

The meeting ordered that the plan and the resolutions should be printed, and that at the next meeting all the citizens assembled at the present meeting should be entitled to cast deliberative votes.

*“Third Meeting, 19th Pluviose, Year IV (February 8, 1796.)—In conformity with resolutions adopted at the last meeting, the shareholders of the bank assembled. Citizen Le Conteulx de Canteleu presided.*

“The minutes were read, and then a ballot was taken for the nomination of the council of administration. It showed the election of the following-named citizens: Falchiron, 64 votes; Le Couteulx Couteleu, 57; Augustin Monneron, 53; Perregaux, 49; Parat de Chalandry, 45; Marigneu père, 45; Le Boun, 40; Foacier, 39. Each received an absolute majority, 77 votes being cast. Citizen Laffon Labédat received 75 votes for director-general. Citizen Le Boun refused to serve as one of the administrators. The meeting then proceeded to select three more administrators to complete the council of ten, and to designate others who should replace any administrators already chosen who might decline. The second ballot resulted in the choice, as administrators, of: Maciet, 42 votes; Perier, 39; Johannot, 32. Those having the next largest votes were: Citizen Jean Baptiste Dangirard, 17 votes; Cannet, 16. In cases of resignation or non-acceptance these latter are to become administrators.

“Done and adopted at Paris, the 19th Pluviose, Year IV (February 8, 1796).”

Here follow thirty-six signatures.

## BONAPARTE'S INITIATION OF A PLAN.

Soon after Bonaparte's *coup d'état* of the 18th Brumaire, whereby he became First Consul, he devoted painstaking thought to the financial condition of France, and personally studied the mechanism of banking. He fortified himself with the counsels of the men who had contributed to the projects of 1796. His special adviser was M. Mollien, whom he afterward appointed Minister of the Public Treasury (*Ministre du Trésor Public*), and whom he retained in that office throughout the entire duration of the Empire. The practical result of these preparations was the compilation of the original constitution of the Bank of France, a most remarkable work. Its preface, edited by Bonaparte's own hand, is as follows:

"The undersigned, having in consideration that, as an unavoidable consequence of the French Revolution and of a long and expensive war, the nation has suffered from the disorganization and scattering of capital which had sustained its commerce, from the derangement of public credit and from the reduction of the circulating media;

"That, under like circumstances, other nations have not only mitigated similar evils but secured for themselves great financial resources through the instrumentality of banking establishments;

"That the French nation, having familiarized itself with the most arduous requirements for the conquest of liberty, should not longer be hampered by conditions whereof the control lies in its own power;

"And that, finally, it is to be expected that private and public interests will unite, with promptitude and power, to assure the success of the proposed institution;—

"Do resolve upon and adopt the following articles as statutes for a bank."

These resolutions are the perfection of simplicity. They confer upon the bank in process of formation the title of "Bank of France." In view of the melancholy reminiscences of the Royal Bank, this was indeed a courageous disregard of violent prejudices; but it was consistent with the practical designs of the whole undertaking, for the name expressed precisely what was contemplated, as no artful substitute could have done.

The scope of operations of the proposed bank was indicated as follows:

1. "To discount bills of exchange and drafts to order, bearing the signatures of at least three French citizens or foreign merchants of acknowledged reputation and solvency.
2. "To undertake collections for the account of private citizens and public establishments, and to make advances in cases of such collections as may appear to be secure.

3. "To receive, on account, cash deposits and collections in behalf of private citizens and public establishments, and to honor checks and drafts drawn upon the bank against the amounts standing to the credit of account-holders.
4. "To issue notes payable to bearer at sight, and notes to order payable within a certain number of days after sight. These notes, as issued by the bank, shall be so proportioned to the reserve cash in the vaults of the bank, and with such regard for the maturing of negotiable paper held by the bank, that the bank can at no time be exposed to danger of delaying payment of its obligations when presented.
5. "To open a Department for Investments and Savings, wherein all sums offered in excess of fifty francs should be received for repayment at stated periods."

All transactions other than in gold or silver were prohibited. With the exception of the provision concerning investments and savings, the original regulations are still in existence, and govern the operations of the Bank at this day. Adopted at a time when personal property, as distinguished from real estate, did not receive formal legal recognition, and when it was impossible to forecast the change in this respect that has since come to pass, the foregoing rules have shown themselves to be marvelously well adapted to new economic conditions; and only a few comparatively unimportant regulations have had to be added to them. The section concerning the issuance of notes (No. 4) merits particular notice. In most legislative acts, restraints more or less ingenious had been prescribed to limit the emission of paper currency. In the organization of the Bank of France, such restraints were left to the intelligence of the management; but an explicit rule was laid down for their governance. The Bank was always to be in condition to honor its obligations, and was always to have at command the means to do so—*i. e.*, the combined amount of its coin reserve and of its negotiable paper as it matured. Experience has demonstrated the prudence of these provisions; and, leaving out of consideration great political crises for which it was not responsible, the Bank of France has invariably been able to redeem its notes on demand and settle its current obligations.

The administrative machinery arranged by the original regulations was very simple. A committee composed of two hundred principal shareholders who had held their shares for at least six months was to select fifteen administrators, called "Regents," for a term of five years, and three inspectors, or comptrollers, called "Censors," for a term of three years. Each year one-fifth part of the regents was to be renewed, and one-third part of the censors. Both regents and censors were eligible for re-election. At first, the regents chose from their own body a "central committee," which was intrusted with the general management of the Bank's affairs. This practice underwent modification later.

The capital of the new bank was fixed at 30,000,000 francs, divided into 30,000 shares, with a face value of 1000 francs each. Shares were offered for subscription at the beginning of the year 1800, but they were not sought with much eagerness by the public. Bonaparte, in order to set an example, individually took 100 shares, and caused the members of his family and the personages attached to him to subscribe for stock. Nor did he stop there. The receivers-general of the public taxes were required

to convert one-half the amount of their official surety into shares of the Bank of France, and to pay the other half into the Bank on deposit. "This was probably the first time," says Mollien, "that it occurred to a government whose treasury was exhausted to give money to a discount bank for the exploitation of its lucrative concession, instead of requiring the shareholders to pay a consideration for their privilege." The word "privilege," employed by Mollien, does not appear in the original regulations, but certainly is implied by their spirit; and before long it was apparent that the monopoly of issuing notes would become both a privilege and a duty of the Bank of France.

## ADVANCES TOWARD NOTE MONOPOLY.

One of the first acts of the Bank was the absorption of an institution known as the "Caisse des Comptes Courants" (Bank of Open Accounts), which issued notes payable to bearer and made loans—principally to depositors. But some other note-emitting banks of slight importance were permitted to continue. The Bank of France was favored by circumstances at the beginning of its career. It profited by the hopes of peace inspired by the treaty of Amiens, and seemed to be in a position to tranquilly expand its business. But symptoms of a coming rupture between France and England were presently manifest. The renewal of hostilities would necessarily be unfortunate for the commerce of France. At the same time, the expedition was undertaken for the recovery of San Domingo. The bankers, and through them ultimately the Bank of France, had supplied the funds for the very important armaments which were destined for that colony, and which, if war should be resumed, would become prey to the English navy. The First Consul, thoroughly acquainted with the condition of affairs, expressed his disquietude to Mollien. "He asked me," says Mollien, "whether the drafts drawn on the Bank would be paid in the event that the vessels sent out should be shipwrecked, and whether, on the other hand, if they should be protested, some calamity would not thereby befall the Bank. He also spoke apprehensively about the two side establishments, the Caisse d'Escompte de Commerce (Commercial Discount Bank) and the Comptoir Commercial (Bureau of Trade), which operated a joint discount office in Paris, and inquired whether, in case they should experience a shakeup, the Bank of France would not be in danger of overthrow from the countershock. This led him to ask, further, whether, according to normal principles of banking, the rivalry of several discount establishments in the capital might not involve peril for the banks individually as well as for the Government. 'Moreover,' pursued the First Consul, 'I do not like this competition of the three banks in the making of paper money. If, for example, these three institutions, whose paper is accepted by all merchants and likewise in the Government offices should suddenly suspend payments, great embarrassment might result in every department of the public service, widespread confusion throughout the country, and, which would be the prime misfortune, a scandalous state of things in the foreign trade. Have you not told me that, in order to preserve credit, it is a general prerequisite that artificial money, like that of the Bank of France, shall issue from only one source? I adopt that idea. A single bank can be more easily watched than several concerns—both by the Government and the public. With a view to emergencies, I cannot see any virtue in competition of this kind.' "



The regent of the Bank, upon being consulted, manifested willingness to accept the monopoly offered them by the Government, at least for the city of Paris. The views of the First Consul were duly formulated by Prétet, Councillor of State, and submitted to the legislative body, which approved the Government project for a monopoly to the Bank of France. By a law promulgated the 24th Germinal of the year XI (April 14, 1803), the independent establishments in the capital that had bank notes in circulation were required to withdraw them and forbidden to put forth new ones; although, outside of Paris, banks of issue were permitted to operate independently of the Bank of France. The Government, in increasing the importance of the Bank of France, deemed it wise to give the Bank a broader basis, and prescribed that the capital should be raised from 30,000,000 francs to 45,000,000 francs. The shareholders were allowed a dividend of but six per cent. The surplus profits were to be devoted to the reserve and to purchasing five per cent. consols, the interest of which was to go to the shareholders *pro rata*. The other sections of the act confirmed the original regulations, but instituted two important innovations. First, a “discount council” was created, to be composed of twelve merchants selected by the censors; their function being to pass upon the commercial paper presented for discount. Second, it was specified that seven of the fifteen regents and all of the three censors should be chosen from among merchants and manufacturers, thus doing away with the undesirable circumstance of exclusive control by the professional financial class. In order to attract funds on open account, it was stipulated that no stoppage of payment should be allowed on deposits. This rather bizarre proviso, which is still in force, has at times been a cause of embarrassment alike to the Bank and the public. The period of the concession was made fifteen years, to expire September 24, 1818.

## THE CRISIS OF 1805—LAW OF APRIL 22, 1806.

The Bank had already, in 1802, undergone a serious crisis. In 1805, it was to have a tempestuous experience of a far different kind. The preparations made at Boulogne by Bonaparte, who had then become Emperor, for the expedition against England, had absorbed very large sums. Meantime, the rate of interest was not uniform throughout France. Considerable and absolutely certain profits were realizable by making discounts in Paris at six per cent. and placing the proceeds of capital in the provinces at a much higher percentage. This gave rise to discomfort for the Bank, which was expected to bestow aid in all cases of need. The Bank might have mastered the difficulties of the situation with comparative ease had not its management been at loggerheads with the Minister of the Public Treasury, at that time the Count of Barbé-Marbois. The receivers-general of the public taxes were accustomed to give bills at the beginning of the year, falling due month by month, representing the estimated aggregates of the taxes they were to collect. These bills, secured by the sureties of the receivers-general, were turned into the Treasury, and from there were sent to the Bank for discount. But instead of reimbursing the Bank for the matured bills, which would have renewed the coin and bank notes taken away from its vaults, Barbé-Marbois replaced them with other bills maturing later; so that the Bank kept on paying out money without receiving any back. Consequently, on September 24, 1805, it found itself in debt to the amount of 61,000,000 francs in notes and 7,000,000 francs for open accounts—both items of liabilities payable on sight, with only 782,000 francs in specie to discharge these obligations. The conditions were so grave that the Bank, for

the moment, considered whether it ought not to discontinue its service. Throngs of note-holders crowded at the wickets, and the irritation and defiance displayed by the mob were heightened by the clumsy measures of the management. The Bank had no more coin, but it had a solid basis of commercial paper and Government bonds, besides good credit. It utilized this credit to buy up specie wherever it could be procured, noteworthy in Spain, and received some from the Treasury. By a policy of discrimination, exchanging notes only for those who stood in real need of coin, it succeeded in re-establishing business, and was able to resume open payments on January 26, 1806.

In this crisis, the two parties concerned were both in the wrong; on the one hand the Bank, which had not understood how to properly regulate its discounting business and its circulation; and on the other the State, which had compelled the Bank to abuse its privilege of issuing currency whilst repudiating its own share of the responsibility, and ascribing to the detective organization of the Bank errors that lay at the Government's own door. It was the Emperor's opinion that the evil had come about largely because the Government lacked sufficient control over the Bank. He decided to reinforce that control, and to place at the head of the institution a manager vested with power to make its administrative machine run smoothly and without structural weakness. April 22, 1806, an act was passed installing in charge of the Bank a representative of the State with the title of Governor, who was to have two colleagues styled Under-Governors. These three new officials took the place of the original Central Committee, and were clothed with very comprehensive authority. The governor was given full executive power, with the right of veto against the Regents' Council, no decision of which could be valid without his signature; he was to have the sole right to appoint and dismiss the employees of the Bank, and he was to represent the Bank in all its concerns and in its relations with the State. Another clause provided that three of the regents should be selected from among the receivers-general, as State functionaries. The Bank bowed to the will of the Emperor, but for a long time regarded the office of governor with distaste, and repeatedly attempted, though always unsuccessfully, to have it abolished.

This Act of April 22, 1806, also augmented the capital of the Bank from forty-five to ninety millions; gave larger recompense to shareholders by providing that in addition to the six per cent. legal dividend, they should receive two-thirds of the surplus annual profits (the other third going into the reserve); and, finally, the law extended the grant to September 24, 1843. All the clauses of the original regulations and of the Act of the 24th Germinal, Year XI, which did not conflict with these new arrangements, were retained without alteration.

## PROVINCIAL BRANCHES CREATED.

After this troublous period, whose causes and results we have briefly considered, followed a time of calm, during which the Bank fixed definitely its status in the country. It established three branches—in Lille, Rouen, and Lyons—and rendered numerous services to the Treasury by making large advances on the obligations of the receivers-general. In 1810, notwithstanding the highly satisfactory political situation of France, and the pledge of peace seemingly vouchsafed by the marriage of

Napoleon to an archduchess of Austria, the aspects of commerce were far from brilliant. The Continental blockade was so burdensome to trade that Napoleon had to institute expedients for relief by a system of licenses, and by going to the aid of certain embarrassed houses with the funds of the extraordinary Government demesnes. Such improvised methods, besides being inefficient, could not last long. By the end of 1810, France was in the throes of the crisis. The Bank had discounted 840,000,000 francs of paper, 800,000,000 of which was commercial paper. At the same time, the bank-note circulation had increased and the collections had decreased. The Bank, unwilling to raise the discount rate, refused all paper having longer than seventy days to run. Soon afterward, confidence returned, and as demands decreased the Bank rescinded the restrictions. During this stress the Emperor had been impressed by the services which the Bank was able to render. He resolved to require its management to cultivate their concession on a larger scale, and requested them to establish offices generally in the large business and manufacturing towns, his ultimate design being to bring about through such a system a reduction of the discount rate, which he desired should be uniformly adjusted at four per cent. The Bank showed a disposition to accept and even to claim the privilege of starting branches in localities which promised advantageous results, but exhibited a lively repugnance against operations in cities where conditions were likely to prove unfavorable. It took refuge behind the Act of the 24th Germinal of the year XI, providing for the creation of independent local banks. This reluctance of the Bank was well justified. At that early period, it lacked both experience and means to direct a considerable number of branches, having conducted only the three already mentioned; and these three, moreover, had been run at a loss. Tired of controversy, Napoleon authorized the foundation of several local banks, which played a modest though useful and honorable part.

## ATTEMPTED REFORMS.

The last years of the Empire, signalized by terrible military disasters, rolled by amid public ruin. The Bank once more found it impossible to redeem its currency when presented, but its credit had enlarged and, relatively, its troubles hardly attracted notice, public attention being engrossed by the colossal political events.

After the fall of Napoleon the management of the Bank sought to have amendments made in certain legal provisions which they regarded as unjust and oppressive. Its grievances were threefold; touching, first, the exacting Government supervision; second, the excessive capital and reserve; and third, the compulsory maintenance of branch offices. Demands were made for the abolishment of the office of governor, for authority to reduce the capital to 67,900,000 francs (to which amount it had already been tentatively brought by buying up 22,100 shares), for permission to distribute amongst the shareholders a part of the reserve, and lastly for discontinuance of the branch offices at Lille, Rouen, and Lyons. The Government declined to do away with the governor's office, but tolerated the reduction of the capital, approved the desired distribution of a portion of the reserve, and consented to the terminating of the branches.

## SERVICES OF THE BANK TO THE STATE.

Although the Bank of France, as a creation of the Empire, naturally invited some suspicion from the Government of the Restoration, Louis XVIII. made several calls upon it and obtained important services. Liquidation of the obligations of the Imperial régime had occasioned a heavy public debt. As questions were raised concerning the solvency of the French Government, and the probable regularity of interest payments, the Minister of Finance, Count Corvetto, assigned to the Bank responsibility for the bonded indebtedness. He abandoned to it the revenues from the registry tax, the stamp duty, the “door tax,” the lottery, and the public domains, to enable it to make the interest payments; and also granted to it a bond issue of four millions income, of which the Bank might sell part or the whole, should the other resources prove inadequate. The Bank, on its part, was to pay the interest coupons on presentation, and make advances if necessary. This arrangement reassured the bondholders as to the security of their income, and contributed in a powerful manner to restore public credit. The Bank continued to discharge this function for the State from 1817 to 1827. During the early career of the Restoration, the Bank had to pass through a dangerous crisis (1818), produced by excessive speculations in the numerous Government loans. But it weathered the storm with ease, and was scarcely affected by the crisis of 1825.

## REVOLUTION OF 1830—THE DISCOUNT BUREAU.

The year 1830 opened under favorable auspices. Then came the revolution that was to put an end to the Bourbon rule. This was followed by profound business complications. In view of the absolute impossibility of collecting on bills of exchange, maturities had to be extended for ten days in Paris. The Bank displayed complete devotion to the public welfare in this critical position. It extended every facility and convenience to debtors in distress, and took the first steps toward a formal programme for the relief of trade. The Government, as a means of manifesting its solicitude in a practical way, set apart 30,000,000 francs for the purpose of advances to houses in difficulties. Some loans were made direct. To the Bank, however, belongs the credit of inaugurating a device immeasurably more efficacious than this State aid. It has been pointed out that the Bank of France, according to its regulations, was debarred from discounting any paper except that maturing within three months and bearing at least three signatures. During the emergency of 1830, there was in circulation much commercial paper at longer dates and bearing only two signatures, which, consequently, could not legally pass through the Bank. The management conceived the idea of establishing, under the name of a Discount Bureau, a temporary concern which, utilizing funds to be paid in by the State out of the thirty millions voted for the relief of commerce, should discount paper that could not be accepted by the Bank of France. The Bureau was to retain all such paper until it came within the three months limit, and then indorse it so as to supply the required third signature, whereupon the Bank would accept it. Thanks to this plan, in a period of less than one year, 450 firms, giving employment to more than 80,000 workmen, were helped decisively and placed in a condition to continue in business. The Bureau was instituted only as a provisional affair, and finished its career on the 30th of September, 1832.

## ESTABLISHMENT OF BRANCH BANKS.

The valuable services performed by the Bank in this memorable crisis earned for it a true popularity. Having now acquired experience in using its credit, the Bank began to recognize the advantage of enlarging its sphere, so as to become in reality the Bank of France instead of a mere bank of Paris. There were in existence several Department banks of issue, whose notes had little circulation outside their immediate territory, but which enjoyed an honorable reputation and did serviceable work, restricted, but real. Their example was encouraging to the Bank of France in its new project; so, in 1836, permission was applied for and obtained to start a branch at Reims. As the venture proved satisfactory, other branches were introduced in rapid succession. At the beginning of 1840, five were in operation. Thus was inaugurated the first step toward the absolute bank-note monopoly which prevails to-day.

## EXTENSION OF THE BANK'S PRIVILEGE.

The law of April 22, 1806, had indicated September 24, 1843, as the date of expiration of the concession. Since the end of 1839, the Government had been petitioned for a renewal of the charter. The great majority manifested a favorable disposition respecting the proposal to give the institution a monopoly of note-issuing. The famous Rossi was commissioned to prepare the report on the subject to the Chamber of Peers; and he demonstrated the advantages of the contemplated monopoly in an essay whose cogency of argument has never been surpassed. He said:

“We take it for granted, gentlemen, that in view of the history of financial crises which have at various times convulsed the two worlds and which we have endeavored to bring back to your recollection, it would be almost superfluous to here enter upon a detailed consideration of the evil consequences of competition in the uttering of paper currency. Competition, the rivalry of the banks, appears conspicuously as one of the fundamental instrumentalities of those crises. Among the attendant evils of such competition, as shown by all experience, are the disposition to grant credit inconsiderately, eagerness to lower the discount rate as a makeshift for attracting borrowers, tendency to accept the most foolhardy engagements as perfectly sound, and readiness to encourage the most hazardous enterprises in order to invite fresh customers, augment the business, multiply the notes, and inflate the profits of the bank. Things must be called by their right names. Whenever currency has been forced into circulation, currency which, instead of being guaranteed by equivalents of earned profits, has been secured only by what we have self-deceivingly accepted as equivalents of values—then public confidence has been abused and fictitious money has been fabricated, reproducing, upon an enormous scale (to speak moderately), all the ills and alarming symptoms that are developed on a small scale by counterfeit coinage. With slight exceptions, competition is a prodigiously useful, and, indeed, an indispensable factor of all production properly so styled—production whereof the legitimate end is to procure for mankind a larger quantity of products, or better products, or better utility for the same products. But a bank, correctly speaking, is no producer. A bank is only a guarantor, a faithful, solvent debtor, always ready to pay. It seconds national production, but only in an indirect manner, by aiding in the

distribution and the diverse applications of productive capital. If this proposition is admitted, what reasonable benefit is to be looked for from the competition of several banks? Is it pretended that the means of credit will be improved through new banks? But a well-organized bank is able to expand the established limits of its business and thereby to satisfy within its own scope all the genuine requirements of trade. Is it desirable to have a second or third bank, which will probably be more substantial than the first and merit greater confidence? In that case the first is only a shaky, dangerous concern, which ought to be suppressed forthwith. As regards credit and confidence, whatever is not perfect is vitiated; whatever does not afford complete security is perilous. These considerations, gentlemen, will, we trust, persuade you to believe with us that free competition in the matter of banking is a risk which the laws of a civilized people should not tolerate. It would be quite as fitting to allow the first comers to open in the centre of our cities poison-shops or gunpowder factories. A condition of unrestrained competition in banking is not the vigor, not the prime of credit; it is its infancy, or, if you prefer, its decrepitude.”

On June 30, 1840, an act sanctioned by Thiers, as President of the Ministerial Council, was adopted, granting to the Bank the privilege of continuing to issue its notes until December 31, 1867, but with the condition that either the grantor or the grantee could withdraw from the agreement in 1855. The capital was officially fixed at 67,900,000 francs, and could not be increased or decreased except by legislative consent. Subordinate offices were not to be established or abolished without special decree by the Executive. All former legal provisions and regulations were retained in their integrity.

## THE CRISIS OF 1847.

After these changes, nothing of special interest transpired in the course of the Bank until 1846, when there was a failure of crops in France and the neighboring countries. Grain had to be imported from Russia at a high price, and gold payment was demanded for it. The Bank of France had been supplying large sums for railroad construction, and its cash was at a low ebb, while its note circulation had expanded. To procure coin, it borrowed from Baring Brothers, of London, 25,000,000 francs, by lombarding its bonds, and bought with this amount bullion and coin at the Bank of England. Even these resources soon began to disappear, when, just at the opportune time, a most fortunate proposal was received. The Russian Government had accumulated a very considerable metallic reserve to guarantee its paper money. As this reserve yielded no interest, and in practice was not needed for the redemption of the credit-rouble, it was deemed desirable to put part of the fund into the form of an investment bearing interest. Consequently, by a ukase of March 21 and April 12, 1847, it was decreed that 30,000,000 roubles should be applied to the purchase of foreign government bonds of the highest order. Russia, necessarily, could not make a negotiation of such magnitude on the open market without occasioning an artificial advance in prices, and, consequently, she made overtures to the Bank of France, offering to buy the consols in its vaults to the amount of fifty millions. The Bank saw in this proffer a means of establishing an exchange on Russia that was non-existent, and accepted eagerly. Thanks to this lucky circumstance, the trouble, which had looked very ominous for a time, was dissipated without much difficulty.

## THE REVOLUTION OF 1848, AND MORE BANK MONOPOLY.

The Bank had hardly got well out of these embarrassments when it was confronted by a new crisis, both political and financial. The Revolution of 1848, which burst forth in a manner wholly unforeseen, excited profound alarm. Holders of the Bank's bills were seized with fear, and hastened to present them for payment. Simultaneously, demands for discounts became more and more pressing. It was manifest that the Bank could not endure this double strain, and would be obliged to come to a standstill unless the Government should make its notes legal tender. Accordingly, by a Provisional Government decree of March 24, 1848, the Bank of France and the Departmental banks were released from obligation to pay coin for their notes, and individuals and public officials were required to receive them as legal money. The currency of the Bank was not to exceed 350,000,000 francs, and that of the Departmental banks, 102,000,000 francs. The forced circulation thus accorded to the notes of the various banks of issue gave rise to grave complications. The Government was condemned on the score that it would be impossible to compel the acceptance of the paper of local banks outside their own sections of the country, and consequently that uniformity in the paper currency of the nation had become a necessity. An agreement was entered into on the part of the Government, the Bank of France, and the local banks, whereby the local banks were to consolidate with the Bank of France. The Bank of France took over the assets and liabilities of nine institutions, which were transformed into subordinate offices and designated as branches, on the plan of the branch establishments already existing. It gave to the share-owners of the local banks shares of its own stock equal in number to those that they surrendered. The capital of the Bank thus grew in consequence to 91,250,000 francs, divided into 91,250 shares of 1000 francs each. Since May 2, 1848, there has been only this one bank of issue in France, holding a complete monopoly. In the prevailing commercial distress the Government remembered the experience of 1830, and proceeded to open branch guaranty establishments in the cities where the Bank had branches, in order that paper might become discountable by providing the third signature. Several of those concerns, although designed only for temporary purposes, remain in existence to this day. Despite the troubles of the period and unjustified attacks, the Bank did valuable work, on a large scale, alike for the Government and for trade. It was instrumental in bringing out of their hiding-places large quantities of coin which had been secreted during the Revolution, and on August 6, 1850, it resumed the cashing of its notes over the counter.

## SECTION II.

### THE BANK UNDER THE SECOND EMPIRE.

#### CRISIS OF 1857—RENEWAL OF THE BANK'S CONCESSION.

THE Second Empire succeeded the Republic. In consideration of the help that had been obtained from the Bank, the Imperial Government waived the right conferred by the Act of June 30, 1840, to terminate the concession in 1855, and went so far as to pay off the State's indebtedness to the Bank. The first years of the Empire were marked by vast development in the way of public enterprises. Immense sums were raised for the construction of railway, then in its infancy, for Government loans, and for the prosecution of the Crimean War, and the Bank supplied a goodly share of the money thus absorbed. The dwindling of its cash soon caused disquietude. Repeating its former mistakes, the Bank bought a great deal of gold and silver at high premiums. The coin thus expensively acquired was frequently withdrawn to-morrow by the seller of to-day, and so merely passed rapidly through the Bank. The Bank did not yet comprehend, or rather had not the courage to employ the only effective agency for the defence of its reserve—namely, an increase of the discount rate. Consequently it carried alone the burden of embarrassments that were not of its making. It resolved to ask the Government, by way of compensation, for a renewal of the concession ten years in advance of the date of its expiration. The request was well received by the Government, which characteristically found in this application a convenient opportunity to contract for a loan. The extension proposal was submitted to the Legislature and agreed to without serious discussion. It became law on June 9, 1857. This measure conferred real boons on the Bank. First, it was given an assured existence of thirty years, in addition to the ten years it still had to run. Second, it was granted the right to charge in excess of the six per cent. rate in its operations, if the circumstances should make such a course necessary. The Bank's failure previously to apply that remedy had left it no other alternative in critical circumstances than the refusal of loans with somewhat remote periods of maturity, which was an intolerable inconvenience to the mercantile public. On the other hand, these advantages were purchased rather dearly. The Bank's capital was doubled, amounting to 182,500,000 francs (at which figure it stands to-day). The price for new shares (preference subscription rights being reserved to existing shareholders) was made 1100 francs—1000 francs principal and 100 francs premium, the premium to go into the reserve. The subscription yielded 101,375,000 francs, of which 100,000,000 francs were handed over to the State for three per cent. consols, disposed of to the Bank at seventy-five, although consols of the same issue then sold in the open market at seventy-one. All profits accruing from increases of the discount rate above six per cent. were to be deducted from the surplusage intended for division amongst shareholders, and to be added to the reserve fund. The Government claimed the right to require the Bank to establish at least one branch for each Department, dating from June 30, 1867. Finally, the Treasury obtained a loan of sixty millions on terms which will be recited in another chapter. By the workings of the new rule concerning the discount rate, the Bank was able to furnish great assistance to business establishments



during the terrible cataclysm of 1857, and exercised a powerful influence for the abatement of that panic.

## THE BANK HELPS RAILROAD BUILDING.

In 1858 the Bank afforded valuable service to the country, adding much to the general resources and prosperity, although the facts are little known.

The railways had made heavy drains upon the hoardings of the people for original construction purposes and for the completion of their system. The public was not very well instructed about the merits of the three per cent. bonds, and subscribed for them but meagerly and at low prices. To prevent sacrifices of value on bonds which the railway companies were obliged, by the immediate need of money for continuing work, to offer at any price, the Bank guaranteed the current expenses of the companies, and undertook to negotiate the bonds on its own responsibility. By its co-operation in the matter, the Bank of France (whose prudence was understood by everybody) was instrumental in inspiring confidence among capitalists and inducing them to take the railway bonds with greater alacrity. From 1858 to 1861, the Bank sold 3,419,919 lots at figures estimated to aggregate 1,028,900,000 francs above what the railway companies could have obtained independently.

## THE BANK'S TRIALS IN 1860-1864.

The Bank again had to pass through times of trial in 1860 and 1864. The annoyances of the latter year were brought about by the American Civil War and the disorganization of the cotton market. On the authority of the Act of 1857, the Bank did not hesitate to give the discount rate a wide range, according to circumstances. This caused great discontent among borrowers. The press started a controversy on the subject, alleging that the Bank, if not chargeable with deliberately bringing about financial crises for its own profit, at least made itself a party to them by its incapacity. A singular theory, which still is advanced from time to time, found considerable advocacy. It was argued that the Bank could, if willing to do so, give credit gratuitously, or almost so; that improvising its own money by manufacturing notes which have no intrinsic value, it could grant credit at one-half, one-quarter, or one-eighth per cent., or even less, and still do a magnificent business. The discussion went so far that the management of the Bank demanded a Government inquiry in relation to the credit question. The opinions of all classes were consulted in this investigation. The representatives of the Bank found no trouble in demonstrating that it had nothing to do with the causes of such disasters; that they always resulted from perfectly well indicated economic conditions; that it was not the province of a credit institution to seek to prevent them—which was beyond every power—but to help abate them and ameliorate their severe consequences as much as possible, and that the theory of gratuitous, or almost gratuitous, credit was Utopian. Another thing conclusively shown was, that the bank did not exercise, and could not safely exercise, any option of issuing paper currency except with strict regard to its coin funds; and that any attempt to arbitrarily put forth notes inconvertible into metal would plunge the nation into the pit of paper money whose depreciation knows no limit. These arguments made an

impression upon the enlightened portion of the public; and the inquiry not only ended in full justice to the Bank but also proved permanently useful in spreading throughout France sound principles respecting credit. The entire movement thus counteracted was really, in its fundamentals, an assault on the Bank of France.

In 1860, when Savoy was annexed to the French Empire, there existed an institution styled the Bank of Savoy, which had the right to issue notes payable to bearer in all the cities of the State of Sardinia. The agreement of August 23, 1860, between France and Italy, included the following stipulation: "The bank established at Annecy shall continue to enjoy in Savoy those rights and privileges which have been conceded to it, on condition that it fulfills all the obligations that have been imposed upon it." On the basis of this understanding, the Bank of Savoy, on September 6, 1860, addressed to the Emperor a petition asking for formal sanction of the rights acquired under Sardinian rule, and adding that the position of the bank had become strengthened in view of the superior importance of France as compared with Piedmont. The matter remained in abeyance. In reality, the Bank of Savoy desired consolidation with the Bank of France, on terms similar to those which had been conceded to the Departmental banks, and it hoped to bring the Bank of France to a favorable attitude by the threat of opposition. The undertaking failed, and in 1863 the Bank of Savoy resolved to increase its capital from four to forty millions. Immediately the Government Commissioner protested against the vote of the Assembly. Solution of the difficulty became urgent, and, finally, the Bank of France decided to buy up the institution for four millions. In place of the Bank of Savoy, two branches of the Bank of France were created—at Annecy and Chambéry. The last years of the Empire were particularly calm from the economic point of view, and the history of the Bank offers nothing specially noteworthy in that period. Its sphere was constantly enlarging, and now a solidity and a might were to be revealed of which the Bank itself was not conscious.

## THE BANK AND THE FRANCO-GERMAN WAR.

The Franco-Prussian War broke out with suddenness on July 15, 1870. From the beginning of hostilities, coin was in great demand, partly for the requirements of the army and partly for Treasury replenishment. The discount rate, which stood at two and a half, rose in rapid stages to six per cent. Rumors were bruited about that the money-changers and bankers were shipping gold to Prussia. The populace was incensed by these reports, and compelled the Government to put a stop, by police measures, to all exportations of the precious metals. The financial journalists demanded a forced bank-note currency, to prevent the outflow of gold. These extravagances operated to check the circulation of money of every kind and to precipitate the calamity. Unfortunately, the forced currency of the journalists became reality. As a consequence of the German army's invasion of French territory, collections on commercial paper in the occupied districts became impossible. By an Act of August 11, 1870, the time in which unpaid notes were to go to protest was extended thirty days. As this measure was not capable of merely partial application, its provisions were extended to cover the whole of France. As the Bank could no longer rely upon collections on commercial paper held to secure the redemption of its currency, it came under the régime of forced currency, which it had not asked for, but

which was indispensable alike for commerce and the State. The law of August 12, 1870, discharged the Bank from the obligation to redeem its notes, and ordered that they should be accepted by citizens and in the public offices as legal tender. The maximum paper issued was fixed at 1,800,000,000 francs. Two days later this limit was raised to 2,400,000,000 francs. The German army pursued its victorious march on Paris, which was to sustain a siege. A portion of the Government of the National Defence left the capital, in order to place itself in position for keeping in communication with the country at large. The Bank deputed one of its under-governors, M. Cuvier, to manage the branches and to conduct the necessary intercourse with the Government. This latter function, it was apparent, would become extremely delicate and onerous. Before the closing up of Paris, the Bank had granted to the Treasury, independently of the permanent loan of sixty millions, a first loan of fifty millions, a second of seventy-five millions, and a third of forty millions for the savings-bank service.

The delegation of the Government of the National Defence, harassed by the most critical circumstances, needed financial help. It applied to M. Cuvier, who responded with memorable firmness: "I do not misconceive your terrible situation. I know that you require money. But consider that to-day the Bank is the only and the last resource; if you exhaust it there will be nothing left. Notwithstanding our misfortunes, the signature of the Bank of France is still honored abroad. Make use of it. Undoubtedly you will have to pay exorbitantly, but that is preferable to the ruin of the Bank." These counsels, so full of good sense, were listened to by Gambetta with scant patience; but they appealed to the other members of the Government. The result was that a loan known as the Morgan loan was contracted in London (October 24, 1870), for 250,000,000 francs, which yielded a net amount of 204,000,000 francs. The Morgan loan was soon consumed, and the calls upon the Bank became increasingly urgent. They were accompanied, moreover, with the most violent threats. The Bank defended every foot of ground, granting only the most unavoidable demands. Yet, when the armistice was concluded, the State owed the Bank four hundred and seventy-five millions. Then it was realized how characterized by foresight and profound patriotism M. Cuvier's resistance had been. All the resources of France had been paralyzed. Taxes were forthcoming from only half the country. The public needs were distressing. Yet the Bank had satisfied all, placing at the disposal of the nation fifteen hundred and thirty millions, without failing for one moment in its special duty to succor and sustain trade. It emerged, with credit intact, from the most formidable test that any institution of its kind had ever been forced to endure. The resolution displayed by M. Cuvier in his dealings with the Government of the National Defence was well matched by the vigor with which his colleague, the Marquis de Ploëuc, maintained his position against the Commune in Paris.

## THE BANK AND THE COMMUNE.

On March 18, 1871, the Bank was left isolated and without any means of protection amidst the most desperate insurrection of history. It had in its vaults in bonds and cash, more than three milliards (3,000,000,000) belonging to the public. Everything was to be feared from an unrestrainable mob, given over to the worst passions. The Marquis de Ploëuc took a bold stand in this emergency. The attachés of the Bank,

who had been organized in accordance with military discipline during the siege of Paris, kept guard night and day, with absolute devotion, over the institution and the wealth confided to its honor. It is just to mention that relations of some satisfactoriness between the Bank and the Commune were singularly facilitated by the course of one Citizen Beslay, whom the Commune had placed at the Bank as its representative. This Beslay, an erratic and visionary individual, but an honest man, foresaw the fearful consequences of a pillage of the Bank, and opposed himself energetically to all the attempts that the Commune made to introduce its men into the establishment. The Communistic Government, which was without resources, extracted from the Bank several millions, and used the money to provide for its pressing wants. It comprehended that if the Bank should be emptied there would be no funds obtainable to feed the insurrectionary hordes, which would thereupon hold its leaders responsible for their distress. Accordingly, the Bank was spared. The withdrawals made by the Commune aggregate, in round numbers, only seventeen millions.

The period whose history we have briefly traced was the culminating stage of the career of the Bank of France. Never before, in any country, had there been afforded a like example of an institution exercising such power, inspiring such implicit confidence, contributing so decisively to the recovery of a people that seemed crushed, performing more than its duty with impressive grandeur and simplicity. "The Bank," said M. Thiers, in a memorable speech, "has saved the country because it is not a State bank." This remark was eminently true. In that supreme struggle a State bank would not have been able to resist the exactions of the Government, and its credit would have become confused with the credit of the State. When the Bank of France issued notes secured by Treasury obligations, it added its own guaranty to that of the State, and the paper circulated consequently at par. If the Bank and the Government had been one and the same, the Bank's signature would have been no reinforcement of the State's, and the paper intended to have been taken on trust would have been valued at just what the State's credit was worth. The experience gained by the Bank of France in 1870 and 1871 is conclusive demonstration of the absolute necessity of assigning the responsibility for issuing paper money to independent institutions, subject to such conditions of supervision and regulation as should incontestably be administered by the Government. This experience has not been without important practical results. On the occasion of the latest renewal of the concession of the German Imperial Bank, it was especially invoked by the German Government. The French may rightly take pride in that signal display of appreciation by their former foes for their chief financial institution.

## CALM AND RECUPERATION—THEN SPECULATION AND CRISIS.

After the Bank had recovered from the awful shock, it entered upon another era of calm, during which it reorganized its cash reserve and made preparations to put an end to the forced currency—preparations that were brought to final success on January 1, 1878. Meantime, the Bank completed its network of branches by

introducing sub-offices in all Departments not already provided. This tranquil era lasted until 1882.

In consequence of the great accumulations of capital during that period of relative quiet, speculation became rife. It was at first particularly directed toward the values of insurance companies; but in that narrow market exhaustion was soon reached and another field had to be sought. Innumerable credit societies were founded. The most conspicuous was the Union Générale, which made ultra-religious pretensions and found most willing clients among the Catholics. Managed with extreme boldness, it established branches everywhere, and quickly became the central attraction of the market. All values rose with astounding rapidity, and France was brought back to the memories of Law's bank. The first symptoms of the collapse manifested themselves toward the end of 1881. In the beginning of January, 1882, the unchanged market showed signs of reaction, and the highly feverish conditions became plainly apparent. Nevertheless, the public retained its illusions until February. On the first day of that month the directors of the Union Générale were arrested, and on the next the institution failed. Panic took the place of confidence, everything depreciated, the majority of the banks were shaken, and the animation of the previous years was replaced by absolute torpor. The Bank of France, faithful to its traditions, came to the rescue of the cities where ruin was imminent. In Paris, it advanced eighty millions, and in Lyons one hundred millions, enabling the business public to meet their obligations.

## THE BANK AND THE COPPER "CORNER."

It was not until the spring of 1889 that the next notable episode occurred in the history of the Bank. In 1888 a financier had conceived the project of "cornering" the copper market. He had concluded contracts with the principal mines of the world, by which they had engaged to limit their production in consideration of his agreement to buy their total output. This speculation was similar to the one undertaken in relation to cotton, 1836-39, by Biddle, Director of the Bank of the United States, which brought about the destruction of that institution. An old and honorable Paris banking house, the Comptoir d'Escompte, supplied the funds necessary for the operations by discounting copper warrants. The prices of the metal rose swiftly, but the mines that were not interested in the contract, and those that had suspended work on account of unremunerativeness, took advantage of the new state of affairs and threw large quantities of copper on the market. This led to a decline in prices. The Comptoir d'Escompte, deeply involved in the enterprise because of the warrants that it held and the direct advances made, found itself seriously menaced. Its chief, M. Denfort Rocherau, appalled by his responsibilities, killed himself. At once panic seized the numerous depositors of the Comptoir d'Escompte, and they rushed to withdraw their deposits. The assets of the bank were of a solid kind, but they could not be converted into cash, and no one knew their amount. Refusal of payments to depositors would have caused the greatest misfortunes and paralyzed the business of Paris. The Minister of Finance recognized the danger, and called on the Bank of France for aid; whereupon the Bank consented to make an advance of two hundred millions upon the guaranty of the principal banking and credit establishments of Paris. The conditions of this arrangement provided for repayment of deposits and for taking the assets and

realizing on them to the best advantage. A precipitate liquidation would have seriously compromised matters. Finally, the Comptoir d'Escompte was put in position to pay all its creditors, and even to return to its shareholders part of their capital.

For the valuable and discreet services thus volunteered and executed by the Bank, due gratitude was publicly manifested. The various Chambers of Commerce voted thanks to the Bank; and the Government, in 1889, seconding the expressions of public appreciation, announced that it would proceed to consider the subject of extending the Bank's concession, which was to expire on the 31st of December, 1897. After a rather protracted delay, a bill was brought in by the Government continuing the privileges of the Bank to December 31, 1920. For this solitary advantage, the Bank was to pay to the State a rental, or "gratification," of 1,700,000 francs per annum, which was to be increased in 1898 to 2,500,000 francs; was to place at the Treasury's disposal, without interest, the sum of 180,000,000 francs; was to perform, free of charge, all that the State might require in the way of handling its funds; was to give its services (likewise without charge) in disposing of all issues of Government consols; and was finally to establish new and additional branches. The Bank accepted all these terms, which were made still more exacting by the commission charged with the duty of reviewing the proposed contract. At last, June 21, 1892, the measure came up for discussion in the Chamber of Deputies. There, it was violently attacked by the Socialist orators, who especially found the specified yearly rental to be inadequate. They demanded the instituting of a State bank, which should vouchsafe credit free, or substantially free.

Amid the plaudits of the majority of the Chamber, M. Bardeau (who had charge of the bill), supported by M. Léon Say, demonstrated that the burdens imposed upon the Bank by the plan under debate represented the maximum of what could be reasonably asked, and went as far toward the Utopia of a gratuitous or almost gratuitous credit as could be tolerated. The general debate lasted until July 6, 1892. On that day it was interrupted, and ever since the measure has remained in abeyance, neither the Chamber nor the Government showing any indication to take it up anew. Meantime, the Bank has not suffered itself to become enfeebled in view of the uncertainties of the morrow, and has pursued the even tenor of its way, developing steadily its service and its strength. Even in the event that a State bank should take its place, it will remain none the less the oldest credit establishment in France, and will continue, with its deposits and its cheques, the work that it has known so well how to perform with its currency during nearly a century, to the great advantage of the country.

## SECTION III.

### ADMINISTRATIVE ORGANIZATION OF THE BANK.

IN our historical survey of the Bank of France we have made incidental reference to its organization; that feature of the institution, however, demands more detailed treatment.

The Bank is a private institution, whose capital is contributed by shareholders. The capital consists of 182,500 shares, of a par value of 1000 francs each. Taking into

account its reserve fund and real estate, each share has an intrinsic value of about 2000 francs. The shares are registered in the names of certain individuals, who acquire proprietary title by transfer on the books of the Bank. Shares may be applied for pupillary investments (*i. e.*, for minors and orphans), for investment in behalf of persons under guardianship, for the benefit of married women under separate dowry arrangements, and may even receive the qualifications of real estate. Dividends are payable semi-annually. The shareholders are formally represented by a body consisting of the two hundred largest owners of shares, all of whom must be French citizens, and be registered in the shareholders' lists for upwards of six months. This body constitutes a General Assembly, which meets in Paris annually on the last Thursday of January. Each shareholder has only one vote, regardless of the number of shares he possesses. Every person belonging to the General Assembly must appear and vote individually, without proxy privileges. Women are not admitted to these privileges. The Assembly listens to the report of the operations for the year, and selects the regents and censors.

## REGENTS AND CENSORS.

There are fifteen regents and three censors. Five regents and all the censors are from the manufacturing and commercial classes, and three of the regents must be chosen from among the officials of the Treasury General Disbursement office. The regents are elected for five years, the censors for three years. Both may be re-elected at the expiration of their terms of office. Each of the regents and censors must own not less than thirty shares, which are non-transferable during their official incumbency. They receive no remuneration, aside from vouchers certifying their attendance, which entitle each of them to twenty-four francs.

## GOVERNOR AND SUB-GOVERNORS.

The general direction of all the affairs of the Bank is intrusted to a governor and two assistants called under-governors. The governor and under-governors are appointed by the chief of the State. Before assuming his functions the governor must prove his possession of one hundred shares, and each under-governor must verify in fifty shares. They take their oath of office from the President of the Republic, swearing that they will direct the affairs of the Bank well and faithfully, according to the laws and regulations of the institution. The governor has a yearly salary of 60,000 francs; the under-governors 30,000 francs each. These salaries are paid by the Bank, which also provides residences and their furnishings. The governor and under-governors are prohibited from presenting for discount at the Bank any paper belonging to them or bearing their signatures. No paper can be discounted unless approved by the governor. He also appoints and dismisses the employees; has the sole power to sign drafts in the name of the Bank; signs contracts and correspondence; and appears in behalf of the regents in all matters at law against or for the Bank.

## THE GENERAL COUNCIL.

The General Council is composed of the governor, the under-governors, the regents, and the censors, the governor being the presiding officer. The governor, under-governors, and regents have authority to vote on all questions; the censors, acting as comptrollers of the Bank, have only advisory votes. The General Council has regular meetings every Thursday. It receives information respecting all the affairs of the Bank; investigates all departments of the establishment; decides upon agreements and contracts; determines questions concerning the issuance or withdrawal of bank notes; fixes the rate of discount, and annually votes the budget of the Bank and submits the required statement to the shareholders. No action of the General Council can be put into effect unless bearing the governor's signature. No question can be put to vote unless ten members of the Council having full voting power, together with one censor, are present. All proposed issues of paper money must be with the approval of the censors. The censors have the right to call extraordinary meetings of the General Assembly of the shareholders; but such calls can only take effect when approved by the regents. Other rights and duties of the censors are to make any proposals which they deem useful for the interests of the Bank, to watch over the execution of the laws and regulations, and to give an account of such supervision to the General Assembly.

## COMMITTEES.

The fifteen regents and three censors are constituted into seven committees to exercise the details of supervision over the transactions of the Bank, as follows: Discount Committee, Bank-note Committee, Committee on Books and Commercial Paper, Cash Committee, Committee on Relations with the Public Treasury, Committee on Branch Establishments, and Committee on Verification of Bond Deposits. The Discount Committee is changed every fortnight, the Cash Committee each month. All the other committees are reorganized at the end of six months by a process of rotation among the regents. The censors participate in the proceedings of the committees on bank notes and on books and commercial paper.

## DISCOUNT COUNCIL.

In order to pass upon the merits of paper presented for discount, there is a Discount Council of twelve members, selected from among the merchants of Paris. They are nominated for a term of three years, by the censors, from a list of thirty-six presented by the regents. These twelve members are, each in his turn, designated to serve in connection with the Discount Committee, wherein they have deliberative votes. Their office is unsalaried, except that each member receives a fee of twenty-four francs for attendance at meetings. No one can be eligible to membership unless he owns ten shares in the Bank, which he cannot sell during his tenure of office.

## BRANCH BANKS AND SUBSIDIARY OFFICES.

The Bank, in compliance with the provisions of the Act of June 9, 1857, possesses at least one branch in every Department of France. Besides its branches, the Bank has,



on its own initiative, created subsidiary offices in towns where it would prove too costly to operate regular branches. These subsidiary offices serve the same purposes as the branches, whereto they are simply attachments. In certain towns, where the Bank maintains neither branches nor subsidiary establishments, it conducts "collection bureaus," dependent upon the nearest branches or subsidiary offices. The collection bureaus are intended for the discounting of paper in the town in question, and are open each fifth day. The towns to which such accommodations are furnished are called "attached towns." When the collection bureau does business for several towns jointly, the latter are styled "associated towns." The branches are under the immediate direction of the Bank, and may be regarded as duplicates of the Bank in miniature. Their accounts are consolidated with those of the Bank, their budget is fixed by the General Council, and their staff is appointed and subject to removal by the governor. Their transactions are identical with those of the Bank of France. The director of each branch is designated by decree by the President of the Republic, upon the report of the Minister of Finance, from a list of three candidates nominated to the President by the governor of the Bank. Every director must verify in fifteen shares of the Bank, which cannot be transferred while he remains in office. The director carries out the decisions of the General Council, and acts in accordance with instructions received from the governor. He signs the correspondence of the branch and its other instruments, and he appears in court proceedings in the name of the regents at the request of the governor. The director is assisted by an Administrative Council, composed of six members at least and twelve at most, besides three censors. The administrators are nominated by the governor from a list of double the number presented by the regents. The censors are appointed by the regents. The duration of office of administrators and censors is three years, and they may be re-elected. They have no salary, but are paid twelve francs apiece for each attendance. Each administrator and censor must own four shares of the Bank. The director, administrators, and censors form a Council of Administration, in which the director is the presiding officer. This council keeps under supervision all the departments of the branch, proposes the annual budget of expenses, and sees to the execution of the laws and regulations. No paper can be discounted except on the recommendation of the administrators and the approval of the director. The council meets twice a month, and receives reports concerning all the business of the branch. Its doings cannot become of effect unless signed by the director. The administrators form three committees, namely, the Cash Committee, the Committee on Books and Commercial Paper, and the Discount Committee. The Minister of Finance may instruct the Inspectors of the Finances to verify matters in connection with the branches.

The subsidiary offices, which have been established without express statutory provisions, have a most simple organization. Each is directed by a chief of the subsidiary office, assisted by a cash clerk. These agents are appointed by the governor, and are placed under the immediate authority of the director of the branch of which the subsidiary office is a dependency. All paper presented for discount at a subsidiary office is at once forwarded to the corresponding branch, which throws out whatever is to be rejected. Such is the administrative machinery of the Bank of France. It should be added that all cases of violations of the laws and regulations applying to the Bank, and cases of dispute between the Bank management and its staff, are subject to the decision of the Council of State.

## STAFF OF THE BANK.

The staff of the Bank, appointed by the governor, consists, so far as the main establishment in Paris is concerned, of four principal chiefs—a secretary-general, comptroller-general, chief cashier and secretary of the General Council; to whose number are added the chief individuals intrusted with the management of the different offices. These various heads of departments have under their authority assistants, besides chief clerks and accountants of four classes, graded according to salary. The Bank also employs a large number of collection messengers, cash messengers, office factotums, guards, porters, and men and women workpeople engaged in the manufacture and handling of the bank notes and the cash and other property on deposit.

In the branches of the Bank the staff embraces a director, cashier, bookkeeper, clerks and messenger, according to the requirements of the service. The branches are under the supervision of inspectors chosen from the staff. The regular staff of both Bank and branches is recruited, principally in a competitive way, from candidates not younger than nineteen nor older than thirty. Those who have successfully stood the examinations are appointed to vacancies according to merit. Each employee is entitled, after thirty years of service, to a pension equivalent to one-half the salary received during the last three years of service, which reverts to his widow or minor children. The pension service is provided for partly by a reserve of two per cent. deducted from salaries, and partly by the liberality of the Bank.

## SECTION IV.

### OPERATIONS OF THE BANK.

#### OPEN ACCOUNTS.

THE operations of the Bank have a quality of extreme simplicity. They may be stated under two heads; services obtainable by certain persons only, and services available for the public at large. The Bank receives, on open account, without interest, such sums as may be paid in by individuals and private or public establishments. Certain of these accounts entitle the Bank's clients to the privilege of discounting paper; others allow nothing more than the depositing of funds and incidental conveniences. The deposits on open account are not subject to "stoppage of payment." The Bank inquires respecting the solvency and reputation of everyone wishing to open an account. It requires that an application be addressed to the governor, which must be accompanied with the signatures of three known persons, from whom its representatives thereupon seek information. If the inquiry proves satisfactory, the petition is submitted to the General Council, which rejects the application or pronounces the account open. No minimum deposit or minimum balance is exacted. With the opening of the account, privileges are conceded as follows: Funds deposited in the Bank may be drawn upon by drafts or cheques payable in Paris, or at the branches or subsidiary offices. The service of cheques and drafts from place to place is free, if they are intended to transfer money on which the Bank has already charged a commission, and if they are

drawn within five days after such profitable transaction by the Bank. Otherwise a commission of .05 per cent. is charged, with a minimum of fifty centimes. The next privileges are to make notes and acceptances payable at the Bank; to pay by cheques or transfers for notes presented by the Bank messengers at maturity; to be credited for transfer vouchers obtained from other accounts or even from third parties having no open accounts; to be credited with advances on stocks, etc.; with dividends on stocks deposited at the Bank, and with dividends on the Bank's shares, and to have paper collected or discounted. The following is a statement of the open accounts of the Bank in each of a series of years from 1810 to 1894, inclusive:

*Statistics of Open Accounts, in Millions and Hundred Thousands of Francs.*

YEARS.	Paid In on Open Account.	Paid Out on Open Account.	BALANCES.		
			Maximum.	Minimum.	Average.
1810	1,794.5	1,766.3	59.3	19.0	37.2
1820	3,105.3	3,087.9	77.6	40.5	56.6
1830	4,635.5	4,612.3	87.4	38.0	58.7
1840	4,914.8	4,909.3	87.8	45.7	56.5
1850	5,665.7	5,667.0	127.2	87.4	103.5
1860	18,464.3	18,462.4	256.0	174.5	209.2
1870	27,141.9	27,194.1	625.2	322.1	402.6
1880	43,775.0	43,768.9	482.8	321.7	411.5
1885	40,486.3	40,522.0	507.6	288.9	378.2
1886	45,527.9	45,505.8	1,461.6	197.6	462.9
1887	42,766.2	42,762.8	556.5	287.0	371.5
1888	47,358.8	47,702.4	457.8	298.8	378.5
1889	52,255.1	52,270.7	645.3	343.1	461.3
1890	50,306.5	54,329.8	492.3	311.5	401.9
1891	60,189.3	60,198.2	1,442.6	252.5	433.1
1892	48,736.7	48,693.3	536.3	323.7	419.5
1893	48,822.2	48,795.2	501.5	329.8	405.3
1894	56,783.9	56,950.5	1,083.5	351.9	445.1

## OPEN DISCOUNT ACCOUNTS.

In addition, the Bank opens current discount accounts, for persons who do not reside in localities having a branch or subsidiary office. These accounts are operated like the regular ones above described, excepting that all transactions are made by correspondence. The holders of open accounts having the privilege of discount may present commercial paper, merchandise warrants, and cheques on cities where the Bank has branches or subsidiary offices, and on "attached towns"; but in the case of "attached towns" only paper maturing on the 5th, 10th, 15th, 20th, or last day of the month is admitted. Notes and warrants must not have more than three months to run; the former must bear three signatures, the latter, two at least. The rate of discount is uniform for all paper and at all places. It is charged for a minimum of five days' interest for paper drawn on Paris and the branch towns, and eight days' for paper payable at places other than the place of presentation. The following are the statistics

of the Bank's discount operations for each year of the eighteen enumerated, extending from 1810 to 1894:

*Statistics of Commercial Discounts, in Millions and Hundred Thousands of Francs.*

YEARS.	Single Pieces.	Amount.	PAPER ON HAND.		
			Maximum.	Minimum.	Average.
1810		792.9	187.6	137.7	162.3
1820	114,977	303.7	67.6	26.2	38.9
1830	274,912	617.5	196.1	113.7	144.4
1840	676,676	1,105.8	211.1	152.9	174.7
1850	816,657	1,171.1	149.6	98.3	114.3
1860	3,684,852	4,964.8	582.6	428.6	493.3
1870	4,687,762	6,627.4	1,380.7	494.7	738.1
1880	9,185,577	8,696.9	1,018.2	579.3	758.5
1885	11,660,589	9,250.1	1,116.4	582.7	784.3
1886	11,377,405	8,302.9	1,125.6	413.7	620.8
1887	11,579,661	8,268.7	792.2	430.6	577.9
1888	11,958,137	8,585.4	816.7	495.1	621.1
1889	12,368,431	9,180.4	1,076.7	491.0	713.8
1890	12,583,222	9,534.6	984.6	493.2	669.6
1891	13,277,234	9,968.8	1,437.0	533.3	760.7
1892	13,089,468	8,415.8	870.7	409.7	550.4
1893	13,353,912	8,837.0	802.4	475.9	579.3
1894	13,489,506	8,725.0	1,030.7	360.0	564.6

The discount rate of the Bank of France has been distinguished from that of all other great banks by its stability and moderateness. The following comparison shows its fluctuations during the past ten years:

YEARS.	Number of Changes	Maximum Rate.	Minimum Rate.	Average Rate.
1885	None.	3 per cent.	3 per cent.	3 per cent.
1886	None.	3 per cent.	3 per cent.	3 per cent.
1887	None.	3 per cent.	3 per cent.	3 per cent.
1888	3	4½ per cent.	2½ per cent.	3.07 per cent.
1889	3	4½ per cent.	3 per cent.	3.16 per cent.
1890	None.	3 per cent.	3 per cent.	3 per cent.
1891	None.	3 per cent.	3 per cent.	3 per cent.
1892	1	3 per cent.	2½ per cent.	2.70 per cent.
1893	None.	2½ per cent.	2½ per cent.	2.50 per cent.
1894	None.	2½ per cent.	2½ per cent.	2.50 per cent.

Account-holders may deliver to the Bank for collection paper of any description which has no more than five days to run, and have its proceeds placed to their credit after the deduction of a slight commission. For many years the Bank performed this

service free, but the business in connection with it developed to such an extent as to be burdensome, and so it was needful to institute a certain collection rate. Since the beginning of the year 1895, it has permitted the opening of deposit accounts, without investigation, by all persons making requests in writing. Such deposit accounts are treated the same as the ordinary open accounts, with the exceptions that they cannot be used for transfers, and that the amounts carried to the credit of depositors become liable to the stoppage-of-payments clause. The rule prohibiting transfers (from one account to another) has for its object to distinguish deposit accounts from open accounts, and to bring the former within the pale of the common law. If the legal provision making open accounts non-seizable should be abrogated, the Bank would have no further reason to retain the restrictions that it has been obliged to adopt.

## LOANS AGAINST COLLATERAL SECURITY.

The Bank makes advances upon stocks free of commission. The only formality upon which loans depend is that the applicant's signature must be certified to by a person of known standing. The properties recognized as legitimate guarantys for advances are determined upon by the General Council; but its determinations must be approved by a decree of the President of the Republic. Advances are allowable only on certain French properties, or such as are of a dependent nature—for example, the Tunis bonds. The rates of advance to deposited security vary according to the character of the bonds. etc., amounting to eighty per cent. for State funds and seventy-five per cent. for Department bonds or for municipal or Chamber of Commerce obligations. Railway bonds and shares are pledgeable for sixty per cent. in cases where they earn income. All the percentages, however, depend upon the current quotations. The minimum loan is 250 francs, and no loans are made for less than a fortnight or longer than three months. At the expiration of three months, the loan can be renewed by simply paying interest, and the process may be repeated indefinitely. The rate for loans is higher than that for discounts, ranging from one-half to one per cent. higher. This is to prevent borrowers from speculating on the difference between the rate of the Bank of France and the exchange reports. The Bank keeps and gratuitously looks after the securities which it holds against loans. It opens special accounts for advances without any formality except written request. When these accounts show a credit in favor of the individuals, they may draw on them by transfer and cheque; they may repay the loans at any time, but a minimum interest of five days is charged on all sums advanced. The provisions as to character of securities acceptable and rates of valuation allowed are the same as in the cases of simple loans. While the Bank undertakes to keep and take charge of stocks gratuitously, accounts that have not previously been profitable to the institution are required to pay for such service.

The statement following shows the yearly amounts of the loans of the Bank, excluding those to the State, for a series of years extending from 1835 to 1894:

*Statistics of Loan Advances, in Millions and Hundred Thousands of Francs.*

YEARS.	Amounts Loaned.	STOCKS PLEDGED.		
		Maximum.	Minimum.	Average.
1835	53.4	29.1	6.8	16.2
1840	70.5	22.1	6.4	10.5
1850	76.7	22.0	10.9	18.8
1860	651.6	131.5	116.8	122.8
1870	542.9	163.2	97.1	121.6
1880	325.8	168.9	131.8	143.3
1885	584.6	312.4	273.9	285.2
1886	993.5	728.3	254.1	276.0
1887	589.7	298.2	258.3	270.6
1888	634.5	276.7	250.0	258.7
1889	712.6	288.6	240.2	255.0
1890	811.5	280.3	236.5	248.9
1891	1,980.0	1,294.4	264.1	298.4
1892	751.4	333.1	278.9	296.9
1893	807.1	344.8	283.5	302.8
1894	1,001.8	423.6	273.5	290.8

## MISCELLANEOUS FUNCTIONS OF THE BANK.

In Paris and at several of its branches the Bank gives advances on foreign moneys and on gold and silver bullion at the rate of one per cent. annually. The minimum term of such loans is for thirty-six days, with interest, which is at once deducted from the sum advanced. Loans may be continued beyond that period, but after the thirty-six days interest is due only per diem. The smallest loan given is 10,000 francs. These loans on bullion and money constitute a rather important item in the transactions of the Bank.

The Bank receives on free deposit values of every nature, charging trust fees. Stocks and like instruments are received at the windows of the Bank and all its branches and subsidiary offices, but are retained for safe-keeping only at Paris, Bordeaux, Lille, or Marseilles, these being the only cities that have a system of safes adapted for the purpose. The depositor is given a receipt for each delivery. Deposit receipts are not transferable by indorsement.

The Bank collects the dividends and interest coupons on the instruments on deposit. The accrued income is credited to the account of the owner; it may be paid to him at any branch or subsidiary office, and may even be mailed to him. The Bank also cares for collections of income on foreign bonds deposited at Paris; undertakes to collect bonds called in; makes payments on assessed stocks; exchanges stock certificates, and attends to stamping formalities on securities.

Agreeably to an arrangement with the Russian Government, any holder of Russian public funds may deposit them without charge at the Bank, and the certificates of such

deposit will be valid for the value of the stocks represented. This arrangement is designed to neutralize the inconvenience resulting from Russian laws on the subject of lost or stolen negotiable property. The Bank also engages to sell and purchase stocks on 'Change for cash, or on the security of a deposit of stocks, or on a margin.

*Statistics of Deposits of Stocks in the Bank of France on December 24th of Each Year.*

YEARS.	Number of Depositors.	Number of Transactions.	Number of Shares.	Value at Daily Quotations Millions and 100,000 Francs.
1855	6,182	23,783	608,667	495.7
1860	18,226	66,562	1,634,109	916.1
1865	27,976	110,154	2,764,595	1,338.2
1870	22,024	86,695	2,243,517	987.6
1875	24,690	110,057	2,564,068	1,456.2
1880	27,168	130,353	2,601,467	1,901.2
1885	39,899	255,932	4,513,104	3,113.5
1886	40,776	267,960	4,599,959	3,203.8
1887	41,933	274,683	4,614,614	3,265.1
1888	42,738	283,249	4,682,658	3,333.3
1889	45,034	301,589	5,277,035	3,642.3
1890	46,558	323,917	5,795,157	3,988.5
1891	48,977	352,317	6,262,449	4,214.6
1892	50,294	354,131	6,234,822	4,281.1
1893	51,272	359,006	6,269,908	4,281.2
1894	51,955	376,666	6,634,650	4,525.4

The Bank receives coin on deposit from any person, and gives a receipt payable on presentation, but not transferable by indorsement, the coin being returnable only to the depositor individually or to the person holding his power of attorney. It also receives in trust diamonds, and accepts in transit packages of the precious metals coming from abroad, which it surrenders to the consignees on bills of lading. At Paris, at the branches, and at the subsidiary offices, bills of exchange to order are signed, which the Bank sells at a commission of five centimes per 100 francs to those who wish to make transfers of accounts to towns having affiliated establishments. Finally, it buys and sells the precious metals. All transactions not authorized by the laws and regulations are prohibited.

## SECTION V.

### RELATIONS BETWEEN THE BANK AND THE STATE.

#### OBLIGATIONS TO THE STATE.

THE Bank is required to issue paper money; it is its duty to keep such issues under constant control, and it must see that the privilege is not abused. These general provisions are thoroughly recognized, but the means of safeguarding them vary. So

far as the administration of the institution of the Bank of France is concerned, the State contents itself with reserving the right to appoint the governor and under-governors. The governor, by refusing to sign decisions of the General Council, can prevent their taking effect. This is a practical veto power. He cannot make decisions, but can unmake them. The same result could be obtained if the Government should name the censors and confer on them the right of veto, leaving the shareholders, or rather the regents, free to select at pleasure the persons charged with the executive management. The adoption of this alternative plan was urged by the Bank upon the Government from 1814 to 1820. However, the various factors interested in a wise direction of the Bank have been pretty evenly balanced up to the present time; and, although the State's influence has occasionally appeared to be unduly predominant, neither injury nor abuse has resulted.

## THE TREASURY ACCOUNT OF THE BANK.

Aside from the function of control, the State's relations with the Bank are not different from those of individuals. The Bank carries an open account with the Treasury, which is in nowise distinguishable in form from the ordinary open accounts of merchants. The Treasury pays into the Bank the funds at its disposal and draws against them as required. The Bank, without charge, receives at its branches State funds, and transfers them to such places as the Minister of Finance may indicate. Lately, all these transactions have been performed gratuitously.

*Statistics of the Treasury's Account, in Millions and Hundred Thousands of Francs, for a Series of Years from 1810 to 1894.*

YEARS.	Paid In by the Treasury.	Payments on Behalf of the Treasury.	BALANCES.		
			Maximum.	Minimum.	Average.
1810	296.4	274.4	49.7	6.4	
1820	251.4	234.5	31.2	0.3	
1830	354.6	364.0	22.7	0.2	
1840	310.1	360.1	193.9	105.5	
1850	554.5	550.6	90.7	34.7	
1860	1,180.8	1,371.8	293.7	118.7	
1870	1,537.3	1,703.5	227.9	8.4	
1880	2,179.6	2,313.1	347.9	146.2	
1885	2,857.6	2,852.4	243.7	70.9	155.0
1886	4,384.8	4,588.4	1,451.0	45.3	288.8
1887	2,646.0	2,584.8	327.9	134.9	170.6
1888	2,578.0	2,686.0	399.6	95.1	280.5
1889	2,556.8	2,588.8	352.2	61.4	315.5
1890	2,951.9	2,831.2	360.3	87.3	188.0
1891	4,758.4	4,877.9	1,834.2	68.1	290.5
1892	3,037.6	2,972.2	459.6	138.9	315.5
1893	3,732.2	3,662.2	311.7	36.5	164.7
1894	3,664.1	3,673.6	264.6	74.4	189.8



Besides its account current, the Treasury, by a contract of the date June 10, 1857, which is a quasi-adjunct of the act renewing the Bank's charter, reserves to itself a permanent loan of 60,000,000 francs. The mechanism of that particular loan is rather complicated, and we will explain it somewhat in detail. The Treasury has an open credit of 60,000,000 francs, which it can use at its convenience, in whole or in part, and at any times desired. The Bank holds security for the loan in the shape of vouchers. The rate of interest on that loan is based on the rate for commercial paper, but must not be in excess of three per cent. The Treasury, consequently, enjoys the benefit of all reductions of discount below the three per cent. rate. Moreover, the Treasury's current discount is regulated by the showing of its credit balance, under the arrangement that, if the Treasury's credit at the Bank exceeds, or is equal to the advances made by the Bank, the Treasury owes no interest; otherwise, it owes interest on the difference. In 1878, the original loan of 60,000,000 francs was increased by 80,000,000 francs, so that the Treasury has a credit of 140,000,000 francs at its disposal, under conditions that will be explained. The amounts drawn from the additional eighty millions are liable to a maximum interest rate of one per cent. per annum. In order to clear up whatever may be obscure in the foregoing, let us suppose that, on a certain date, the loan account shows a debit of 140,000,000 francs and the current account a credit of 220,000,000 francs; in that case, the Treasury would owe no interest. On the other hand, suppose that, on some other date, there is a loan account debit of 140,000,000 francs and a current account credit of 60,000,000 francs, then the Treasury would owe interest, but only at the rate of one per cent. for the difference of 80,000,000 francs, since the original loan of 60,000,000 francs has not been encroached upon at all. If, however, the Treasury's debit on its loan account should be 140,000,000 francs, and its credit on its current account only 50,000,000 francs, the difference of 90,000,000 francs would be subdivided into two categories for interest purposes, 80,000,000 francs being chargeable with one per cent. interest and 10,000,000 francs (on account of the original item of 60,000,000 francs credit) with the current interest rate of commercial paper, not to exceed three per cent.

It is probable that when the Bank's concession is renewed the interest on the 140,000,000 francs will be stopped. This will involve but slight sacrifice for the Bank; for, with the system of compensation as adopted, the interest paid by the State, in the aggregate, is quite insignificant.

## CONTRACTS BETWEEN THE TREASURY AND BANK.

The Bank is obliged to render to the State all services which may reasonably be demanded of it. These services, running through the entire period of the Bank's existence, have been innumerable, and nearly all of them have led to special agreements or contracts. In general, such understandings have been in relation to discounts of Treasury vouchers or loans for more or less extended periods. The proposals of the Government are submitted to the General Council, which accepts them with such modifications as are deemed proper. The most important of all the contracts thus entered into was the one of July 3, 1871, establishing the method of reimbursement for the advances allowed during the war and the insurrection of the Commune. The open credits amounted to 1,530,000,000 francs. They were canceled by annual payments of 200,000,000 francs, interest being fixed at one per cent. Up to

the present, the Bank has never been subjected to the necessity of sharing profits with the State or paying a royalty for its concession. Former governments have always taken the position that the privilege of issuing notes was not granted to the Bank in its own interest, but for the advantage of commerce and the State, and that ample recompense for the monopoly was afforded by the undivided responsibility of the privileged institution and the valuable services which it is required to render.

## TAXATION OF THE BANK.

The Bank is liable to all taxes that are imposed upon ordinary banking institutions or houses; but it pays no others, unless the stamp duty on the note circulation be considered a special tax. That duty is calculated in the following manner: Each year the Bank determines the average daily amount of its productive transactions (discounts, loans, etc.). The share of average circulation corresponding to the productive operations is taxed at the rate of fifty centimes for each 1000 francs; on all above that figure the tax is only twenty centimes per 1000. The yearly payments of taxes by the Bank, from 1860 to 1894, have been as follows:

FRANCS.
1860 567,534
1870 922,200
1880 2,057,149
1885 2,487,210
1886 2,268,327
1887 2,222,897
1888 2,198,986
1889 2,270,038
1890 2,384,621
1891 2,769,135
1892 2,497,789
1893 2,531,943
1894 2,532,481

## SECTION VI.

### ADMINISTRATION OF THE CASH FUND AND THE CIRCULATION.

### BASIS OF NOTE ISSUES.

A BANK of issue, whatever its functions, has for its first duty the regulation of the paper and coin circulations—the maintenance of the two on a footing of perfect equality. The Bank of France maintains such an equality by a very simple process. It issues notes only as equivalents for commercial paper, or loans on securities or on gold or silver. It is careful in accepting the commercial paper offered, which must be

hedged about by all kinds of guarantees; so that it has only small losses to apprehend on this account. Consequently, if the Bank should cease to exist, the liquidation of its affairs could be effected within three months at the outside. It would begin by redeeming its notes with the coin in its vaults; then the commercial paper falling due daily would provide for the redemption of notes issued on the strength of such resources, and, finally, at the end of three months, the supply of coin and the supply of commercial paper would be exhausted, so that not a single bank note would remain in circulation. Of course, it will be answered that, while this is the theory, things would work differently in practice—that, for instance, the signers of commercial paper would not pay at maturity. That case has been foreseen, and in order to provide for such an eventuality, the Bank possesses a capital and a reserve. The capital of the Bank is not carried in the business in cash. It consists of consols. This plan has often been criticised; but it is rational enough. The Bank operates by the means of its notes, which constitute a loan, without interest, given to those who accept them. The security offered is the value of what the Bank has received in exchange for the notes; if that security is sound, the bills are good; but if bad, the Bank must suffer the consequences of its lack of discernment and pay its bills out of its private resources—*i. e.*, by drawing at first upon its reserves and then upon its capital. In this order of things, the capital and reserve are to be regarded as a mere guaranty, and it is but natural to place them in the form of consols, which is the mode of procedure used everywhere in the investment of guaranty funds.

## MECHANISM OF THE DOUBLE STANDARD.

The capital and the reserves constitute, in a manner, the invisible security for the bank notes; but the visible security is the coin of the Bank in the first place, and the stock of commercial paper in the second place. The hard cash of the Bank comprises the coin paid in against notes, coin collected on commercial paper, and purchases of gold, which purchases are always effected at par, or at less. The Bank's coin consists of both gold and silver, which are received by the Bank on precisely the same footing, and serve equally well for payments. Silver is preserved on an exact par with gold in French circulation, and four five-franc silver pieces may be exchanged at any time for a twenty-franc gold piece, notwithstanding the considerable decline in the market value of silver bullion. This phenomenon is easily explained. The quantity of silver in existence in France does not increase, because, since 1878, the coining of silver has been suspended entirely. Thus the actual supply of five-franc silver pieces—which M. Foville estimates at the probable maximum of two milliards (2,000,000,000) of francs—cannot increase, but can only be diminished, in consequence of use and loss, and also in view of the contingency that the Latin Union may be dissolved by giving back to Belgium and Italy their silver coins. These two milliards of silver money are really in excess of the country's needs. What is not required by the people flows back into the Bank, whose balances show an almost uniform amount of twelve hundred to thirteen hundred millions of silver. It is impossible that the country, with such a disbursing institution as the Bank of France at its service, can ever suffer from either an excessive or an insufficient silver circulation. Silver money has its fixed place in the economy of the country, and although its intrinsic value is at the very best only half its conventional value, it certainly would acquire a premium if it should become disproportionately scarce; in other words, one would, in that event, be obliged to give

one twenty-franc gold piece and some centimes for four five-franc silver coins. It is really impossible to do without the five-franc silver piece, which is the preferred coin of the country-folk; and neither the five-franc gold piece, which is too light, nor the five-franc bank bill, which is too perishable, could supplant it. Thanks to the limitation which has been placed upon the coinage of silver, and to the protection which the Bank thus enjoys against an over-supply, the silver money easily preserves its standard value. The ability to freely use silver at par relieves the Bank from the necessity of raising its discount rate, as the Bank of England does, when a demand for gold is manifested abroad. As it has the option of redeeming its notes and settling its standing accounts in five-franc silver pieces, it simply exacts a premium for the delivery of gold. Persons who desire to make a profit on gold are the only ones who have to pay in such instances; whereas an increase of the discount rate would affect merchants whose transactions are in notes or credits, the same as bullion-dealers who derive advantage from exportation. This practice of the Bank's, to be sure, has something arbitrary about it, which is rather offensive at first thought. But when it is considered that a high and permanent premium on gold would be equivalent to a depreciation of paper currency, it will be recognized that while the Bank may counteract certain exchange operations by a defensive premium, it could not, without great injury to itself, and even at the risk of its credit, proclaim the inferiority of its own paper in relation to gold. To sum up: This mechanism of the double standard works to perfection, and has successfully stood the test of a long experience, despite all the criticisms of theorists, because in practice it gives rise to no embarrassment or inconvenience.

## MAXIMUM OF THE CIRCULATION.

We cannot say so much about the operations of a legislative programme of comparatively recent enactment. When the forced currency was authorized in 1870, the issues were at first limited to eighteen hundred millions, then twenty-four hundred millions, then twenty-eight hundred millions, and, finally, thirty-two hundred millions. Upon the abolition, in 1878, of the forced currency measure, the Government retained the legal limit of 3,200,000,000 francs, which was afterward raised to thirty-five hundred millions, and later to four thousand millions. In times of forced currency a maximum limit of issue, based on the circumstances of the coin on hand and the probable needs of the public, is absolutely indispensable, since the Bank cannot rely upon the indications of plethoric issue afforded by the return of notes and the exit of coin, but obtains its sole information from the depreciation of notes on the exchanges, and when such intelligence is received the mischief has already been done. For this reason, a limitation, within narrow bounds, of the amount of bank notes that can be thrown into circulation, is needful whenever a forced currency prevails. On the other hand, during normal periods, the notes issued in excess return to the Bank, and the circulation regulates itself automatically without legislative intervention. Accordingly, a provision for a maximum issue of three and one-half or four milliards lacks practical significance and serves no definite purpose. And when the Bank finds itself held to such a limit it can no longer issue notes instead of paying gold, and the public, willy-nilly, has to take metal, to its great discontent, as happened several years ago. Projects for limiting circulation have engaged the imaginations of legislators of all countries—projects to ensure artificially what is brought about naturally. The

circulation is always at its natural level when the bank which created it is in condition to redeem its notes; in other words, when the liabilities exactable on demand are covered by available assets.

The legal-tender quality of the notes, or obligation of individuals and public officers to accept them in payment as actual money, dates only from 1870. This is a provision that the Bank has more reason to complain of than to regard with satisfaction, since it gives root, in the public mind, to the idea that if a bank note cannot be refused, the Bank, on the other hand, cannot decline to redeem a counterfeit bill. It would be more advantageous to leave everybody at liberty to take or reject the Bank's paper, as may appear convenient.

*Statistics of Coin on Hand and the Bank's Circulation, in Millions and Hundred Thousands of Francs, 1810 to 1894.*

YEARS.	COIN ON HAND			NOTE CIRCULATION		
	Maximum.	Minimum.	Average	Maximum.	Minimum.	Average.
1810	50.8	34.1	42.0	104.1	92.2	101.2
1820	218.3	161.8	194.9	171.9	122.2	153.8
1830	172.5	104.3	145.0	238.6	201.5	223.6
1840	261.2	216.3	246.9	255.3	203.8	223.4
1850	482.1	427.0	457.8	515.5	436.3	485.6
1860	573.0	411.4	513.5	805.8	703.6	749.6
1870	1,318.5	505.3	1,130.7	1,814.4	1,359.0	1,544.3
1880	2,103.6	1,763.7	1,974.1	2,481.3	2,206.8	2,305.4
1885	2,281.5	2,019.9	2,176.4	3,063.9	2,719.4	2,846.0
1886	2,525.8	2,220.5	2,422.7	2,973.7	2,658.1	2,789.2
1887	2,401.8	2,316.0	2,361.5	2,929.8	2,551.4	2,719.3
1888	2,347.1	2,242.1	2,301.0	2,891.3	2,516.8	2,676.4
1889	2,598.6	2,223.7	2,398.4	3,123.1	2,616.8	2,876.1
1890	2,592.8	2,360.6	2,513.2	3,259.8	2,893.4	3,060.4
1891	2,641.8	2,358.2	2,553.8	3,288.8	2,922.9	3,084.6
1892	2,983.5	2,587.2	2,826.5	3,335.7	3,037.0	3,151.3
1893	3,004.6	2,786.1	2,956.0	3,589.7	3,255.9	3,445.5
1894	3,304.6	2,951.1	3,083.7	3,675.1	3,314.7	3,476.5

*Classification of the Coin on Hand in the Bank of France at the end of each Year, in Millions and Hundred Thousands of Francs, 1870 to 1894.*

YEARS.	Gold.	Silver.	Total.
1870	428.8	68.4	497.2
1880	552.4	1,221.8	1,774.2
1885	1,155.2	1,083.6	2,238.8
1886	1,233.1	1,140.0	2,373.1
1887	1,105.6	1,190.0	2,295.6
1888	1,006.0	1,228.0	2,234.0
1889	1,261.7	1,242.0	2,503.9
1890	1,120.2	1,240.8	2,361.0
1891	1,336.8	1,252.7	2,589.5
1892	1,704.9	1,267.0	2,971.9
1893	1,702.5	1,261.3	2,963.8
1894	2,060.8	1,238.0	3,298.8

*Circulation by Denominations (in francs) of Notes of the Bank of France on the last Thursday in January, 1885, 1890, 1894.*

NOTES OF	1885.	1890.	1894.
5,000	25,000	25,000	25,000
1,000	1,160,976,000	1,221,176,000	1,339,502,000
500	290,587,500	238,106,500	262,821,000
200	524,800	490,200	474,400
100	1,281,976,600	1,518,194,100	1,765,716,300
50	162,734,450	191,655,000	378,059,600
25	505,825	448,300	422,975
20	2,698,980	1,835,280	1,550,160
5	820,130	750,375	721,040
Old notes	423,175	431,175	429,175

The term "old notes" in the preceding table signifies all notes issued and never returned, which, whatever their age and the probability of their having been destroyed, are always considered to be still in existence. In no case are they declared out of circulation. The Bank does not profit from destroyed or lost notes. If the Bank should be compelled to wind up its business, some period of time would be fixed for the withdrawal of its currency from circulation, and those notes which had not been returned at the expiration of that time would be pronounced void and their value accredited to the State. Everybody's mind is made up in favor of such a course, although as yet no law exists directing any disposition of the old notes, either for the benefit of the State or that of the Bank. The last plan of renewal of the Bank's charter prescribed that the amount of the notes of old issues which had not been returned

should be paid over to the State, and that in case of presentation of these bills they should be redeemed for the account of the State.

## PROFITS ON CIRCULATION.

In looking at the imposing aggregates of the coin and circulation of banks of issue, the thought readily occurs to inexperienced minds that the privilege to make bank notes is something akin to the Philosopher's stone, and there is temptation to repeat the expression of an Italian economist, that the domain of the ideal and miraculous knows no bounds. The reality, however, is much more prosaic. The bank note is not a creation of wealth, but merely a medium for the representation of values previously established; and unfortunate is the country that loses sight of this elementary truth. A bank's credit bears no relation to its circulation, except in so far as the individual accepting the note has confidence that the institution has something at its disposal, or which will be ready at short notice, wherewith it can give coin for paper. Taking into consideration all the restrictions, legitimate and necessary, although troublesome, which are placed upon banks of issue, the profits accruing from the power to emit paper currency are, in truth, decidedly unimportant. Estimates of these profits have been made in various countries and by various processes. A correct calculation may be arrived at in the following manner: The circulation of a bank of issue is composed of two distinctive parts—(1) that part with which the bank performs its discount operations, makes its loans and advances, and otherwise transacts business that yields a gain; (2) that part which simply serves the purposes of exchange for coin, and consequently affords no profit. The paper money of the first variety may be styled *productive circulation*, and that of the second variety *unproductive circulation*. Let us suppose the average circulation to be three and one-half billions, and the average of discounted paper, advances, etc., eight hundred millions. The bank therefore needs eight hundred millions of notes to transact its business, while twenty-seven hundred millions of notes are passed to the public, not for the bank's advantage, but for the accommodation of those who prefer paper to coin—an exchange proceeding which brings nothing to the bank, but is, on the other hand, burdensome to it. If the bank had only its own interest in view, it would, by this showing, have only eight hundred millions of notes in circulation. If we suppose the right of note-issuance to be withdrawn, the bank could, instead of using notes, do the same amount of business by attracting deposits of funds and paying therefor a consideration, say of  $\frac{1}{2}$  per cent.—the rate that for more than fifteen years has been allowed in France on open accounts repayable at demand. Under such a policy the bank would have to pay  $\frac{1}{2}$  per cent. of 800,000,000 francs, or 4,000,000 francs. This figure represents the amount that is saved by notes, and is accordingly the gross profit obtained from the right of issue—from which the cost of manufacturing the notes and the stamp tax on the notes must be deducted.

The following table shows the profits of the Bank of France on its circulation during the last five years, reckoned on the basis of the preceding demonstration:

*Profits on the Note Circulation of the Bank.*

YEARS.	Productive Circulation, in Millions and Hundred Thousands of Francs.	Gross Profit at One-half Per Cent. Francs.	Cost, etc. Francs.	Net Profit Francs.
1890	951.9	4,759,000	2,035,000	2,724,000
1891	1,082.4	5,412,000	2,236,000	3,176,000
1892	1,880.6	4,403,000	2,170,000	2,233,000
1893	916.5	4,082,000	2,217,000	1,865,000
1894	870.2	4,351,000	2,145,000	2,206,000

Thus the value of the privilege amounts to comparatively little in France, and it might even be extinguished completely if the private banks, as the tendency runs, should succeed in doing away with interest on open accounts. Moreover, the profits on circulation are only a minor item of the Bank's gross profits, as the following figures show:

YEARS.	Profits on Transactions. Francs.	Profits on Investments, etc. Francs.	Total of Gross Profits. Francs.
1885	37,990,706	13,667,451	51,658,157
1886	32,677,526	12,620,192	45,297,718
1887	30,801,441	13,336,403	44,137,844
1888	31,688,323	12,158,421	43,846,744
1889	36,060,887	12,974,935	49,035,822
1890	33,029,688	13,809,736	46,839,424
1891	36,368,775	12,621,275	48,990,050
1892	28,705,864	12,618,691	41,324,555
1893	28,406,170	11,915,725	40,321,895
1894	27,371,399	11,418,093	38,789,492

## EXPENSES AND DIVIDENDS.

The running expenses of the Bank are very considerable. It has a numerous staff; it pays, aside from the stamp tax on circulation, all the ordinary taxes to which banks are liable, and it is compelled to maintain branches at a loss; so that when the expenses are placed against the profits, the net results for the shareholders come within tolerable bounds.



YEARS.	Taxes and General Expenses. Francs.	Net Dividend per Share. Francs.	Value per Share at End of Year. Francs.
1885	15,529,718	185	4,690.00
1886	15,643,284	155	4,300.00
1887	15,371,732	150	4,280.00
1888	15,801,427	142	3,932.50
1889	15,588,588	152	4,067.50
1890	15,931,446	157	4,320.00
1891	16,202,509	159	4,580.00
1892	16,279,661	130	3,875.00
1893	16,438,878	124	4,160.00
1894	17,292,792	113	3,645.00

## ACCOUNTS OF THE BANK.

Aside from the annual report of its transactions, the Bank publishes weekly a balance-sheet, of which the following is a specimen:

PARIS AND BRANCHES.		September 5, 1895.
ASSETS.		
Coin in hand at the Bank and branches, September 5th:		FRANCS.
Gold	2,048,201,341	
Silver	1,259,082,302	
		3,307,283,643
Bills receivable over due		42,694
Comm. bills receivable discounted in Paris, not yet due		231,602,694
Treasury vouchers		
Bills receivable of the branches		264,242,269
Advances on bullion in Paris		878,000
Advances on bullion in the branches		129,300
Advances on public securities in Paris		136,732,905
Advances on public securities at branches		166,843,618
Advances to the State		140,000,000
Income bonds of reserve fund		10,000,000
Income bonds of reserve fund (absorbed banks)		2,980,750
Convertible income bonds		99,626,975
Inconvertible income bonds		100,000,000
Building and furniture of the Bank		4,000,000
Real estate of the branches		15,476,959
Expenses of the management of the Bank and its branches		3,274,291
Use of the special reserve		8,407,444
Divers accounts		86,757,105
Total		4,578,278,682
LIABILITIES.		
Capital of the Bank		182,500,000
Profits added to the capital		8,002,313
	{ Law of May 17, 1834	10,000,000
Convertible reserves		{ Former Department banks 2,980,750
		{ Law of June 9, 1857 9,125,000
Permanent reserve of the Bank		4,000,000
Special reserve		8,407,444
Bank notes in circulation		3,374,312,930

Back interest on securities on deposit	20,882,695
Notes to order and demand receipts	26,180,711
Account with the Treasury, creditor	271,135,625
Paris accounts	520,831,395
Accounts in branches	69,022,226
Dividends due	2,449,663
Discounts and divers interests	3,596,772
Back discounts of last six months	635,022
Divers accounts	64,216,132
Total	4,578,278,682

Most of the items in this statement are perfectly comprehensible, but a few explanatory remarks may not be superfluous. “Coin in hand” is the total amount of gold and silver specie and gold bullion held by the Bank; it has no silver bullion. The silver of the Bank comprises French, Belgian, Italian, Swiss, and Greek five-franc pieces, and the fractional pieces of the same countries, excepting Italy—Italian small coins having been returned.

“Bills receivable, matured yesterday, payable to-day,” are bills that have not been presented on the day of maturity to the parties having to pay them, and which will be either paid or protested on the day of the statement.

“Paris bills receivable” signifies commercial paper held by the Bank on the day of publication of the balance-sheet. As the regulations of the Bank do not forbid the discounting of paper payable abroad, the Bank, in order to provide for such transactions, has a separate department for “bills receivable, foreign,” which, however, is of importance only in exceptional cases.

The term “Treasury vouchers” will be understood by recalling what we have said in Section V on the relations between the Bank and the State concerning advances made by the Bank to the Treasury for discounts of vouchers. When such discounts are effected, the vouchers on hand constitute the item “Treasury vouchers.”

“Bills receivable of the branches” are the commercial paper of the Bank payable at the branches, subsidiary offices, and attached towns.

“Advances on bullion” are the loans allowed by the Bank on gold bullion and foreign moneys, enabling the holders to take advantage of fluctuations in the market. Such transactions are of little consequence.

“Advances on securities” are the aggregate of current loans, either direct or on open account.

“Advances to the State” figure constantly in the balance-sheet as 140,000,000 francs, representing the permanent loans of sixty and eighty millions already alluded to.

“Income bonds of the reserve fund.”—The Bank, by the provisions of the laws of the 24th Germinal, Year XI, and April 22, 1806, had established a very considerable reserve out of its profits. Various subsequent laws have authorized the distribution of a portion of this, and the statutory reserve has been fixed at ten millions. It is unnecessary to point out that all the income bonds of the Bank figure in the statement at their purchase price, which at times is fifty per cent. below their actual value.

The item “Convertible income” represents the amount of the capital of the Bank, 91,250,000 francs before its doubling, to which are added the profits on that capital yielded by the increase of the discount rate above six per cent. and the remainder of account left at the doubling of the capital in 1857—the latter item being 375,000 francs.

“Inconvertible income.”—The 100,000,000 francs carried in the balance-sheet under this head is the amount placed in income bonds in 1857 in consequence of the doubling of the capital. This item is not to be considered among the available assets, because there has never been any legislative act designating the bonds in question as negotiable.

The “Building and furniture of the Bank” and “Real estate of the branches” are estimated in the statement at much less than their real value on account of allowances made in the sinking fund. It is probable that 40,000,000 francs could be realized by their sale.

The “Expenses of the management of the Bank and branches” are the aggregate of general expenses since the beginning of the year.

“Use of the special reserve.”—This is a special item, originated at the end of 1871, to comprise the exceptional profits of the years following the war, these profits being applied to provide for extraordinary charges that may be cumbersome, and to make up for any insufficiency of dividends.

The item “Divers accounts” represents customers’ accounts not otherwise classified.

The “Liabilities” side of the balance-sheet is headed by “Capital of the Bank.” We have already traced the history of the Bank’s capital and its variations, and shown what part it plays. There is no need to recur to this subject.

“Profits added to the capital” are the profits made out of the increase of the discount rate above six per cent. They have been invested in income bonds, which figure among the convertible income bonds.

“Convertible reserves and special reserves” form the counterpart to the income bonds of the assets. They have served for the old reserves and the reserve established at the end of 1871.

The “Permanent reserve of the Bank” represents the value of the Paris building and its furniture, according to an estimate made in 1834.

“Bank notes in circulation.”—This is the largest item in the liabilities. The maximum aggregate of the notes is fixed by law at four milliards (billions).

“Back interest on transferred or deposited securities.”—The Bank collects gratuitously dividends on securities, and retains the proceeds on account of loans or on deposit, crediting the corresponding accounts accordingly.

“Notes to order and demand receipts, payable in Paris or at the branches.”—The Bank, for a previous consideration and commission, issues notes to order in favor of anybody asking for the privilege, and receives cash on deposit. These transactions are represented by the above item.

The “Treasury account” embraces the remittances or payments made to the credit of the Treasury, either by the Treasury direct or by third parties. The sums carried on that account are always at the Treasury’s disposal, and can be withdrawn in Paris at once or in the provinces after notice.

“Open accounts in Paris and the branches”—the credits of account-holders, whereof they can dispose either by transfers or by cheque without previous notice.

“Dividends due” are dividends on shares of the Bank which have not yet been cashed by the owners.

“Discounts and divers interests” in Paris and the branches are profits realized since the beginning, not taking into account the dividends on income bonds belonging to the Bank.

“Bank discounts of the last six months” stand for a portion of the income during the previous half-year from discounted paper maturing in the current half-year, which income belongs to the profits of the current half-year.

The “Divers accounts” are miscellaneous accounts of comparative unimportance.

## ECONOMIC IMPORTANCE OF THE BANK’S BALANCE-SHEET.

The conspicuous rôle of the Bank as a medium of credit in France makes its balance-sheet a document of primary significance. Its varying holdings of commercial paper are more or less indicative of the activity of business. But a study of its accounts as a whole admits of widely different conclusions, which have been discussed with clearness by an economic writer, M. Clément Juglar, and for which the special name of economic meteorology might not inappropriately be coined. M. Juglar has demonstrated, by painstaking observations, (1) that discounts reach their maximum during years of crisis, and are at the minimum in years following the terminations of crises, which he styles years of liquidation; (2) that the coin of the Bank is of minimum amount in years of crisis and of maximum in years of settlement. The author of this treatise has added his observations to M. Juglar’s, and has found that the

celerity with which deposited funds of open accounts change hands is at the maximum in years of crisis and at the minimum in years of settlement.

A representation by a system of curved lines of the varying statistics of discounts, coin on hand, and open account transactions gives a very interesting exhibit, exactly similar to barometric charts, from which the prevailing conditions of business may be seen and the probabilities of the future may be forecast as the weather is indicated and prophesied by the barometer. These estimates are general, and are applicable to all countries.

## CONCLUSION.

While the Bank of France continues to be by far the most important of French financial institutions, it is not the sole arbiter or the sole dispenser of credit in France. Side by side with it and competing with it, always ready to discount paper as credit institutions, are other banks that have grown and attracted large deposits, which they procure on extremely low terms, thanks to the liberty that they enjoy under quite different conditions than those by which the Bank of France is restricted. They offer a formidable opposition to the Bank, demonstrating that the bank cheque is able to contend victoriously against the bank note, at least in normal times. But when periods of trouble supervene and depositors withdraw their money from the ordinary banks, the Bank of France comes to the front, with its inexhaustible resources, to supply all needs. Its operations, commonplace enough in commonplace eras, become energetic and decisive in emergencies of economic and political distress. Then the Bank is the rock to which all the nation clings. The bank note is accepted in France the same as gold, and even as, in some respects, better than gold. Yet this marvelous instrument is not without its faults. The absolute security that the Bank gives to the holders of its notes, and the aid that it lends liberally to other banks and trade in general, have lulled the public into a kind of sleepy routine. Capital is no longer sought, but flows into the savings-banks, which are managed by the State. Capital, thus diverted, not only takes certain risks, but assumes great responsibilities, instead of fertilizing the country for commerce and industry. Certainly, the Bank of France cannot be reproached with having fulfilled its mission too well; but one may, nevertheless, regret that it operates too much to exempt commerce and banking from the struggle for life. This criticism is not addressed to the Bank, but to public spirit. For the rest, it may well be wished that France might preserve forever the old institution that has served her so long and so beneficially.

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## CHAPTER VI.

### BANKS AND BANKERS AFTER THE REVOLUTION.

#### SECTION I.

#### THE GREAT DISCOUNT BANKS OF PARIS.

NAPOLEON 1. had little liking for speculation. Under his reign the bankers played only a minor part. After the Ouvrard affair, the Government ceased to ask them for special contributions, and, indeed, no longer applied to them at all. As, moreover, the Imperial Government contracted no loan and made no issue of consols, the influence of the bankers was almost *nil*. Meantime important houses in Paris, whose existence antedated the Revolution, continued to do a large and prosperous business. Several of these are still at the forefront of French finance.

Conditions underwent a complete change with the return of the Bourbons. The indemnities exacted from France by the Allied Powers, and the reimbursements granted to the *émigrés* for their confiscated estates, required large issues of consols, which were negotiated through the agency of the bankers. Throughout Europe, the governments entered upon an era of loans, and a vast field of activity was opened up to banking institutions, which was continually enlarged until it became necessary to bring together capital for the creation of railroads.

The relations of bankers to commerce in France consist chiefly of discount operations. Banks discount paper with three signatures, but refuse to discount direct for original parties to such instruments. The third signature is ordinarily a banker's indorsement. It may properly be said that, at the outset, one of the principal aims of the Bank of France was to act as a counterpoise against the bankers and their stock of discount paper.

With the object of rendering access to the privileges of the Bank of France more practicable for ordinary tradesmen, a temporary establishment was founded in 1830, called the Comptoir d'Escompte (Discount Bureau), mentioned in the chapter on the History of the Bank of France. At the time of the Revolution of 1848, the experience of 1830 was put to advantage, and discount bureaus were set up in many places. These concerns, designed as only temporary offices, became permanent in various instances, and several of them are now important banking institutions. The best known is the one in Paris. A decree of March 8, 1848, authorized the formation of the Comptoir d'Escompte de Paris (Discount Bank of Paris), with a capital of 20,000,000 francs, one-third to be supplied by shareholders, and the other two-thirds by the State and the city of Paris. The profits were to accrue exclusively to the shareholders, the State and the city waiving all gains on their investment. This extraordinary arrangement is accounted for by the exceptional circumstances under which the bank

originated. The raising of capital in France during that revolutionary period was necessarily attended by great difficulties, and, in fact, could be successfully brought about, for the purpose in view, only by the co-operative action of the Chamber of Notaries and the charitable societies. The Government emphasized its proceedings by setting apart a fund of 60,000,000 francs “for the interests of small trade,” which it advanced to the different discount bureaus, repayable at the end of three years. On the 18th of March, 1848, the Comptoir d’Escompte de Paris began its career with a paid-in shareholders’ capital of 1,587,021 francs in coin—all that had been subscribed up to that date of the 6,666,500 francs capital required to be found by shareholders. In addition, it received one million from the Treasury as a share of the sixty millions fund. With these feeble resources the Discount Bank undertook to come to the rescue of the trade of Paris. In twelve days, from the 18th to the 31st of March, 30,087 commercial instruments bearing two signatures, presented by more than 5000 persons, and amounting to 13,402,167 francs, were admitted to discount. The soundness of the paper offered was passed upon by a Discount Council, or advisory board, of sixty members, selected from all departments of commerce and industry. On each discount transaction five per cent. was retained by the bank, and its equivalent in shares was credited to the individuals having recourse to the services of the institution. The regulations of the bank were narrowly restricted. Its business was confined to the discounting of paper bearing two signatures. Paris discountable paper was limited to 105 days, and provincial paper to sixty days, except such as was payable in cities where the Bank of France had branches, in which cases ninety days’ maturity was allowed. These restrictions soon underwent change. Storage warehouses were established in France, which issued warrants modeled upon the ones that for a long time had been in vogue in England. The Discount Bank received authority to make loans on such warrants as collateral. Sub-Treasury bureaus were created, which deposited their funds in the Comptoir d’Escompte, accepted collateral from their clients, and caused them to sign notes that in turn were discounted at the bank. These Sub-Treasury bureaus proved to be quite superfluous. They were discontinued, and the Comptoir d’Escompte dealt directly with borrowers.

From the beginning of the institution, on March 18th, until July (1848), its total discounts amounted to ninety-three millions and its collections to sixteen millions. The paper rediscounted at the Bank of France showed a total of fifty-nine millions, and the provincial paper sent for collection twenty-two millions. In the second half of 1848, and during the whole of 1849, the bank continued to develop and to render the most valuable aid to the business community of Paris. It gradually lost its special character as a bureau, and took on more and more the aspect of a true bank. It asked for and readily obtained an extension of its charter for six years, from March 18, 1851. Thus assured, for a certain period, of an active existence, the Comptoir d’Escompte broadened the scope of its operations. In February, 1850, it negotiated the loan of the civil list, designed to liquidate the debts of the old civil list and of the private estate of Louis Philippe. In December of the same year, it put in a bid for two millions of consols, which, however, were not awarded to it. In 1851, it opened a subscription for the capital of the Bank of Algeria, and in the month of August it had charge of the subscription lists for fifty millions to the city of Paris.

Its discount business, meantime, showed as follows:



In 1848-49, 124,000 notes for 98 millions of francs.\*

In 1849-50, 237,000 notes for 145 millions of francs.

In 1850-51, 319,000 notes for 215 millions of francs.

In 1851-52, 382,000 notes for 273 millions of francs.

## THE COMPTOIR'S CAPITAL DOUBLED AND QUADRUPLED AND ITS REGULATIONS CHANGED.

In 1853, the Comptoir d'Escompte's transactions had reached such magnitude that the inadequacy of the capital was recognized, and it was accordingly increased to twenty millions. This was apart from the original funds contributed to the capital by the State and the city of Paris, which, it was now arranged, should be gradually repaid, the concession being extended to March 18, 1887. At the same time, the regulations were modified. Aside from discounts and the taking up and collecting of commercial paper, the bank was authorized to make loans on securities and to undertake subscriptions to issues of securities for the accounts of third parties. The business still expanded, and the Discount Bank acquired a genuine character of comprehensive public usefulness.

In 1860, the Government inaugurated a free-trade policy, and as the throwing open of the French markets naturally led to sympathetic treatment of French commerce in foreign markets, the Comptoir instituted agencies in France, in the French colonies, and in other countries. In order to provide for the requirements of this enlarged field, it now doubled its capital by the issuance of 40,000 new shares of 500 francs each, which were offered to the public at 580 francs, making its capital stock 40,000,000 francs. A contract was made with the banks of the French colonies, allowing the latter to draw on the Comptoir so as to procure for themselves remittances on France. Prominent among the foreign agencies was that at Shanghai, created in 1860. Through its instrumentality the collection of the war indemnity which the Chinese Government owed to France was effected. This agency had made itself a powerful promoter of direct relations between France and China. Shortly afterward, the Calcutta, Réunion, Bombay, Hong Kong, and Saïgon agencies were founded.

In 1866, the Comptoir, though operating under a capital of 40,000,000 francs, with ten millions of reserve, again found its means utterly insufficient for its vast business, and the shareholders decided on another doubling of capital, which brought the total up to eighty millions. The new shares were sold at 625 francs. Under the provisions of an act relating to joint-stock companies, promulgated in 1867, credit associations increased in number. To keep abreast of the competition, the Comptoir d'Escompte still further extended its organization, opening agencies at Nantes, Lyons, and Marseilles in France, and abroad at London, Alexandria, and Yokohama. At the same time, several other agencies were seen to be unprofitable experiments and were abandoned.

## UNFAVORABLE CONDITIONS AFTER THE WAR OF 1870.

After the Franco-Prussian war of 1870, the institution found itself in a difficult position. The circumstances of its agencies in the Orient had been considerably affected by new conditions, such as the opening of the Suez Canal, rapid steamship service, and the construction of telegraph lines, which gave to England marked advantages. The management of the bank, having to struggle against these quite novel embarrassments, devoted itself to plans for recuperating its strength. The Alexandria agency was discontinued in consequence of the dangers occasioned by the financial disorders of Egypt. From 1873 to 1875, every effort was made to develop strength without attempting to grow. In 1876, the bank received substantial reward for this sagacious course. It was intrusted by the French Government with the duty of consolidating and converting the Egyptian debt. In 1877, it lent its services to the Government of Russia in the negotiation of a loan of three hundred and seventy-five millions. But, whilst the affairs of the central office improved, those of the remote Oriental agencies constantly became more troubled. The Saïgon agency was turned over to an independent bank; the Bank of Indo-China, and the agencies at Hong Kong, Yokohama and Réunion, were dissolved. On the other hand, agencies were opened at San Francisco, Melbourne, and Sydney. Although the Comptoir took an active part in the business movement of 1879-81, it managed to avoid the entanglements of excessive speculation, and was not seriously disturbed by the distressing crisis of 1882.

The Comptoir's concession ran out in 1887, but had been renewed in its original form for an additional term of twenty years. The management now displayed much activity, seeking opportunities everywhere to counteract the diminishing tendency of its discount transactions. Discount business had become a subject of warm rivalry on the part of all credit associations, and, in consequence of the abundance of capital and the low rates for capital, was growing less and less remunerative.

## THE COMPTOIR'S COMMITMENT TO THE SOCIÉTÉ DES MÉTEAUX.

Unfortunately, the Comptoir d'Escompte lent its support to a concern styled the Metals Company (Société des Méteaux), which, at its beginning, was a purely commercial enterprise, but was soon drawn into the whirlpool of speculation. The Metals Company had cornered a large stock of copper and tin; and its first purchases, although within reasonable bounds, had exercised a strengthening influence upon the market. Allured by this success, M. Secretan, the head of the company, set out to achieve a colossal operation, analogous to the famous cotton deal of Mr. Biddle, president of the Bank of the United States, in 1839. He entered into contract with a great number of copper mines to force a general rise in prices by a limitation of production. The chief of the Comptoir d'Escompte, without the knowledge of the administrative council of the institution, was a party to several of these contracts, guaranteeing their execution. When the Administrative Council became aware of this, heavy advances had already been made to the Metals Company on copper which, at

forced sale, would have occasioned disastrous losses. Throughout the whole of 1888, copper production increased largely as a result of the energy of mines not in the pool; and as consumers refused to pay the prices demanded by the Metals Company, the stock of the company grew alarmingly. Consequently, the Comptoir was obliged to allow enormous advances. Several combinations intended to facilitate the settlement of the Metals Company's engagements were without favorable issue, and the liabilities soon reached such proportions that the chief of the bank, M. Denfort Rochereau, crushed under the responsibilities he had assumed, committed suicide. A panic ensued, and a terrific run was made upon the Comptoir d'Escompte. The Government, viewing with much concern the probable effects, upon the Paris market and the Comptoir's commercial clientage, of a discontinuance of payments by so important a house, caused the governor of the Bank of France, the principal bankers, and the heads of the great credit establishments to meet in conference. The outcome was that the Bank of France agreed to advance 140,000,000 francs to the Comptoir, in consideration of guarantys by numerous banking concerns that they would permit it to settle matters amicably. The French and English courts annulled some of these pledges on the score that they were contrary to the by-laws of the bank, and thereupon the Comptoir's trustees, who had consented to such breaches of the regulations, had to make good a portion of the losses incurred by their fault, and paid in a total of 25,000,000 francs. The settlement was conducted with prudence and skill, and yielded results that the public had hardly dared to hope for. The entire liabilities were wiped out, the loan of the Bank of France was repaid without having recourse to those who had guaranteed it, and almost the entire capital was ultimately recovered.

*Statistics of Transactions of the Comptoir d'Escompte, in Millions and Hundred Thousands of Francs.*

YEARS.	DISCOUNTS.		PAPER ON HAND DEC. 31.		ADVANCES.	
	Number of Pieces.	Amounts. Francs.	Number of Pieces.	Amounts. Francs.	Amounts. Francs.	Outstanding Dec. 31. Francs.
1880	2,924,215	2,344.1	172,819	136.0	207.7	39.1
1881	3,073,632	2,197.6	148,028	111.4	264.9	26.1
1882	2,727,825	2,120.3	113,145	97.9	235.5	25.6
1883	2,722,872	2,087.2	115,026	102.2	216.0	31.5
1884	2,869,445	1,983.9	124,353	86.6	285.1	25.9
1885	2,766,275	1,860.1	121,349	129.2	235.7	17.2
1886	2,661,920	1,735.2	106,967	99.8	202.1	27.3
1887	2,573,039	1,566.9	108,231	93.7	237.5	16.6
1888	2,444,272	1,783.0	95,843	121.5	258.8	11.0

*Current Accounts and Deposits.*

YEARS.	Paid in by Depositors Francs.	Drawn by Depositors Francs.	Balance on Dec. 31. Francs.	Subscriptions, Sales, and Purchases of Public Funds. Francs.
1880	810.7	801.1	103.5	2,959.4
1881	804.6	825.7	82.4	4,168.1
1882	762.9	757.6	87.7	3,326.3
1883	762.2	757.0	92.9	2,412.8
1884	788.7	773.8	107.8	3,833.8
1885	764.6	767.3	105.1	2,435.5
1886	763.5	767.7	100.9	2,485.2
1887	673.4	675.1	99.2	2,778.1
1888	673.6	664.9	107.9	2,482.8

*Transactions of the Agencies.*

YEARS.	In the Colonies and Abroad. FRANCS.	PROFIT AND LOSS.				Market Price of Shares on Dec. 31. FRANCS.
		In France. FRANCS.	Profits. FRANCS.	Expenses. FRANCS.	Dividends per Share. FRANCS.	
1880	2,936.7	626.6	14,820,398	8,374,235	46	1002.50
1881	3,443.9	629.1	18,100,013	10,922,424	48	1045.00
1882	3,517.8	681.7	19,401,249	12,193,970	48	990.00
1883	3,561.0	663.4	17,062,504	9,726,300	48	920.00
1884	3,743.0	668.7	18,147,144	10,818,125	48	980.00
1885	3,517.4	710.7	16,808,467	9,522,979	48	997.50
1886	4,210.3	805.1	16,636,928	9,440,989	48	1030.00
1887	4,107.5	746.0	17,726,605	10,295,235	48	1048.75
1888	4,509.0	702.9	18,206,996	10,412,966	50	1055.00

## THE NATIONAL DISCOUNT BANK OF PARIS TAKES OVER THE COMPTOIR D'ESCOMPTE.

The downfall of the Comptoir d'Escompte de Paris was a real national calamity, for this institution had been very successful in organizing and serving numerous French interests, principally in foreign countries and the far East. Encouraged by the Government, a new financial combination, comprising representatives of the banking, commercial, and manufacturing interests, undertook its reconstruction, under the general advice and supervision of M. Denormandie, former governor of the Bank of France. M. Denormandie, on April 26, 1889, concluded a negotiation with the liquidators of the Comptoir, whereby its charter and goodwill, together with its real estate and other effects, were acquired. To the old shareholders was reserved preferred right of subscription for the new shares; and, besides, they were to enjoy exceptional benefits in the division of the profits. The capital was fixed at 40,000,000 francs, and a call for an immediate subscription of half the amount was made, which had great success. The new company, adopting the name of Comptoir National d'Escompte de Paris (National Discount Bank of Paris), recovered quickly the ground that had been

lost. Its business advanced with such rapidity that on November 5, 1889, it became necessary to provide for more capital; which, accordingly, was raised to 80,000,000 francs, by the issue of 80,000 shares of 500 francs each, at 30 francs premium, 250 francs per share being paid up. In 1891, the company absorbed the Banque de Dépôts et Comptes Courant (Deposit and Account Bank), which had an intact capital of 15,000,000 francs and a splendid establishment in the heart of Paris. It called 125 francs per share of the new issue of stock, exchanging the shares of the Banque de Dépôts et Comptes Courant for absolutely non-assessable new shares, which increased the paidup capital to 75,000,000 francs. The National Discount Bank has since that time continued its successful operations, steadily enlarging the working sphere of the old concern. Besides agencies in France, it has opened offices in Chicago and Madagascar. The Comptoir stands to-day in the first rank of French finance.\*

*Statistics of the Comptoir National d'Escompte de Paris, in Millions and Hundred Thousands*

YEARS.	DISCOUNTS.				BILLS RECEIVABLE ON HAND DECEMBER 31st.		DEPOSITS.			PROFIT AND LOSS.	
	French Paper.		Foreign Paper.		French.	Foreign.	Paid In.	Drawn.	Balance Dec. 31st.	Profits.	Expenses.
	Number of Pieces.	Amounts.	Number of Pieces.	Amounts.							
1889	1,111,777	620.6	66,634	501.4	61.7	35.9	638.7	548.6	90.1	3,041,250	2,607,147
1890	2,444,069	1,616.1	229,823	1,805.3	96.0	43.9	1,533.3	1,500.5	122.9	10,605,714	7,681,147
1891	3,018,792	1,781.5	278,624	1,602.1	88.6	28.4	1,852.3	1,866.2	109.0	10,277,505	8,041,147
1892	3,461,455	2,391.1	315,310	1,389.2	107.4	41.0	1,941.6	1,913.7	136.9	6,231,634	3,206,147
1893	4,110,220	2,947.9	354,528	1,606.4	107.0	46.1	2,043.3	2,032.8	147.4	7,211,772	3,247,147
1894	5,231,845	3,738.4	340,355	1,335.8	138.4	33.6	3,053.1	3,007.8	94.7	7,344,565	3,319,147

*Statement of November 30, 1895.*

ASSETS.

	FRANCS.
Cash on hand	36,317,562.71
Bills receivable and commercial paper	223,868,965.16
Loans on margin settlements of securities in pledge	24,238,690.14
French colonial banks	11,896,255.12
Correspondents' collections	23,333,482.30
Customers' accounts—Debtors	29,082,042.26
Consols, bonds, and securities, inclusive of the use of the reserve fund	11,853,483.95
Agencies out of Europe	21,179,052.46
Advances on collateral	43,266,468.66
Financial engagements	3,207,280.85
Drafts against non-European agencies	23,448,114.95
Debtors by acceptations	35,892,328.59
Credits by guaranteed acceptations	44,431,074.95
Order and miscellaneous accounts	12,901,714.50
Real estate	7,250,000.00
Stock payments not called, after deducting the called assessments	2,228,250.00
Total	554,394,766.60

LIABILITIES.

	FRANCS.
Capital	100,000,000.00
Reserves	7,626,557.70
Cheque and discount account	197,898,200.12
Customer's accounts—Creditors	88,528,403.19
Scrip and deposits with declared maturity	37,987,774.92
Coupons and dividends payable	4,681,012.27
French colonial banks	854,838.99
Paper out for collection	10,350,409.54
Acceptations for account of the non-European agencies	15,234,203.80
Acceptations and bills payable for account of third parties	75,664,538.32
Order and miscellaneous accounts	9,946,521.40
Real estate—yearly obligations	5,622,306.35
Total	554,394,766.60

## THE CRÉDIT FONCIER—MORTGAGE BANKING.

In the early career of the Second Empire the landed proprietors became quite strenuous in urging the construction of a special credit institution as a remedy for the “mortgage leprosy,” as it was then styled. Since 1770, Germany had possessed a system of so-called land credit companies that had performed important services. Acquaintance with German methods had been spread in France by the illustrious

economist Walowski. Several plans were formulated between 1835 and 1852, but none was considered practical. Some of these devices went so far as to propose a species of mortgage paper money, which meant practically a renewal of the assignat fiat scrip. A decree of February 28, 1852, laid the foundations of the mortgage banking scheme. It provided for loans repayable in yearly installments, with long maturities, secured by mortgage bonds (which, in turn, were secured by mortgages), bearing interest and negotiable without cost. These mortgage bonds had to be issued in each case by a broker, whose function it was to verify the securities, collect the yearly installments from the borrowers, and pay the interest to the lenders. As soon as the decree became law, a company with a capital of 25,000,000 francs was formed in Paris at the initiative of Walowski, entitled the Banque Foncière de Paris (Mortgage Bank of Paris). Among its promoters were some of the most eminent men in France. Its establishment was authorized by decree of July 3, 1852. Other companies on the same plan were formed in the Departments.

The independent action of these different mortgage banks proved prejudicial to their common welfare. There was much clashing of interests. The Government resolved to bring about a fusion, and to make the Paris Banque Foncière a central agency for all land credit transactions. The consolidation was accomplished on December 10, 1852, and the central bank, extending its scope throughout the whole country, took the name of Crédit Foncier de France (Mortgage Bank of France). It received a subvention of 10,000,000 francs from the State, and its capital was swelled to 60,000,000 francs, half of which had to be forthcoming immediately. The bank engaged to loan, within a brief period, 200,000,000 francs on landed estates, at a rate of five per cent., which was to provide for both interest and sinking fund. These two hundred millions were to be distributed among the Departments *pro rata*, according to their mortgage debts. In order to raise the required 200,000,000 francs, the company set out to issue a loan, consisting of mortgage bonds of 1000 francs each, "to bearer," with interest at three per cent. This loan did not realize what was contemplated, and the conditions had to be modified. By a decree of November 21, 1853, the bank's original rate of five per cent. (including interest and sinking fund) was replaced by a sliding scale calculated on the basis of the consol rate of three per cent. The new plan worked admirably, yet the loans of the Crédit Foncier aggregated only about 50,000,000 francs. Another decree (July 6, 1854) gave rise to a complete reorganization. The direction of the business was assigned to a governor and two under-governors, appointed by the Chief of the State. The administration was vested in an Administrative Council, chosen by the Shareholders' Assembly, and the control was confided to censors, also selected by the shareholders. It will be noticed that this organization is copied from that of the Bank of France. Having acquired its final constitution, the Crédit Foncier made another effort for resources through the sale of bonds, but it was necessary first to enlist the special favor of the public. The management addressed itself to the general tax collectors, who were authorized to lend their co-operation. Still, the bond sales showed only slow progress. Finally, it was decided to profit by the example of the German companies, and instead of borrowing cash from the public on loans, to pay its own borrowers with mortgage bonds, which were to be taken at par and which the Crédit Foncier also agreed to receive at par in settlement. This method has various advantages, on the principle that issues of bonds and loans granted are always on the same level; but it involves the serious inconvenience of leaving the borrower to

speculate on the mortgage bank's bonds, first when he negotiates them at the time of effecting the loan, and second when he needs them again for settlement. Despite these difficulties, the Crédit Foncier saw the quotations of its mortgage bonds go up rapidly, so that it was induced to discontinue the paper loan system and resume cash loans, for which it issued premium (prize) bonds.

The theory of these bonds is very simple. They are repayable in fifty or sixty years, and bear fifteen francs interest (three per cent.). A certain number of them receive, at each drawing, prizes ranging from 1000 to 100,000 francs. The fascination of the prize tempts the public to pay much more for such bonds than for similar ones having no premium feature. Notwithstanding the necessity of paying prizes, the Crédit Foncier borrows money at cheaper rates than other companies which issue bonds payable strictly at par—for instance, railway companies. The Crédit Foncier is but a broker between proprietors and capitalists, and therefore can issue bonds only for the amount of the loans made. The loans must not exceed half the value of the real estate pledged, upon which a first mortgage is placed in favor of the institution. As special security to the public, the capital of the bank must be equivalent to at least five per cent. of the bonds outstanding. Apart from long loans, the Crédit Foncier grants loans at short maturity—to run not less than ten years. Finally, the company is authorized to make advances at long or short maturity, with or without mortgage, to Department administrations, communities, and agricultural associations, in the shape of prize bonds, and to loan to landed proprietors for drainage and improvement of lands.

*Statistics of Mortgage Loans of the Crédit Foncier (in Millions and Hundred Thousands of Francs).* REAL-ESTATE LOANS.

YEARS.	Number of Loans.	Amounts Loaned.	Loans in Force on Dec. 31st.	Bonds in Circulation on Dec. 31st.	Loans Made from Capital and Reserve.	Loans Made by Issue of Scrip.
1853	306	26.7	26.7	22.1		
1855	293	12.6	66.9	61.1		
1860	719	48.2	179.4	176.4		
1865	1,705	97.8	582.1	571.0		
1870	1,225	51.8	868.3	846.8		
1875	839	46.2	865.8	848.4		
1880	3,660	219.0	945.9	928.9	10.3	
1885	4,271	147.0	1,991.3	1,872.9	85.3	
1886	4,322	168.8	2,022.6	1,954.1	104.0	
1887	3,696	115.3	2,029.1	2,038.1	83.0	
1888	4,093	111.7	2,032.7	2,138.8	87.4	
1889	3,515	102.0	2,053.5	2,040.0	87.0	26.3
1890	2,925	82.7	2,002.0	2,011.3	62.3	25.6
1891	3,305	123.2	1,998.9	1,926.3	62.9	25.2
1892	3,780	125.4	1,899.8	1,858.3	62.4	25.2
1893	3,497	120.3	1,862.3	1,793.9	71.0	25.6
1894	3,510	98.3	1,817.3	1,689.2	70.8	26.0



*Progress of Capital.*

FRANCS.

In 1853 30,000,000

In 1862 60,000,000

In 1869 90,000,000

In 1877 130,000,000

In 1882 155,000,000

In 1888 170,500,000

*Loans to Communities (in Millions and Hundred Thousands of Francs).*

YEARS.	Number of Loans.	Amounts Loaned.	Loans in Force Dec. 31st.	Community Securities Dec. 31st.	Loans Made from Capital and Reserves.
1859	6	19.2	19.2	14.9	
1860	56	24.9	48.8	45.6	
1865	140	105.3	231.5	215.0	
1870	26	18.6	482.5	443.0	
1875	32	100.8	578.2	551.9	
1880	469	238.6	636.5	497.4	
1885	722	53.0	859.7	801.3	
1886	2,088	92.0	937.0	897.9	4.9
1887	3,135	86.9	999.0	994.8	4.8
1888	2,552	68.9	1,040.5	982.4	4.8
1889	2,300	115.4	1,000.8	955.6	4.7
1890	1,575	77.4	1,138.0	1,000.5	4.6
1891	1,238	98.7	1,156.9	1,033.1	5.5
1892	793	80.0	1,151.1	1,040.1	5.6
1893	1,287	85.1	1,176.2	1,117.9	3.5
1894	1,438	132.7	1,223.4	1,127.0	3.4

In addition, the Crédit Foncier does a regular banking business, discounts commercial paper, makes loans on securities, negotiates issues of securities for third parties, and runs current accounts—to each of which the following tabular statement (in millions and hundred thousands of francs) relates:

YEARS.	Bills Receivable on Hand on Dec. 31st.	Loans on Securities in Force Dec. 31st.	CURRENT ACCOUNTS AND CASH VOUCHERS.		
			Paid In	Drawn Out.	Balance Dec. 31st.
			<u>*316.4</u>	<u>*298.1</u>	<u>*75.4</u>
1868	103.9	39.0	<u>†355.7</u>	<u>†327.9</u>	<u>†94.1</u>
1870	53.8	23.6	143.2	193.7	20.6
1875	176.9	10.7	247.1	241.6	71.6
1880	126.5	32.9	224.3	223.5	63.5
1885	227.7	30.9	273.4	265.7	78.7
1886	264.6	23.3	274.9	275.6	78.0
1887	387.5	24.1	259.8	261.4	76.4
1888	438.8	23.3	259.8	262.0	74.2
1889	275.0	21.4	325.2	312.2	87.2
1890	303.1	21.8	268.2	277.7	77.7
1891	291.5	20.1	330.5	323.0	85.2
1892	202.8	16.5	315.4	319.4	81.2
1893	181.7	20.5	292.9	290.5	83.6
1894	159.0	18.5	292.6	292.1	84.1

\*Year 1862.

† Year 1865.

*Profit and Loss, Dividends, Capital, and Reserve.*

YEARS.	Gross Profits.	Expenses and Sinking Fund.	Dividends.	Reserves Millions and Hundred Thousands Francs.	Market Price of Shares.
	FRANCS.	FRANCS.	FRANCS.		FRANCS.
1853	2,536,963	588,417	17.50	0.9	590.00
1855	4,402,270	3,035,950	17.50	1.4	415.00
1860	12,637,615	8,525,607	30.00	3.7	950.00
1865	44,529,673	36,695,578	52.50	9.5	1,325.00
1870	75,152,916	66,675,650	42.50	17.7	885.00
1875	79,155,780	71,709,145	36.25	23.2	910.00
1880	72,053,516	60,518,750	42.50	65.2	1,443.25
1885	130,672,181	110,826,574	60.00	115.4	1,345.75
1886	135,374,731	115,232,942	60.00	121.7	1,422.50
1887	140,763,911	120,266,753	62.00	129.1	1,397.50
1888	145,379,373	123,453,214	62.00	137.2	1,362.50
1889	148,274,379	125,970,861	63.00	145.1	1,331.75
1890	149,632,291	127,428,279	63.00	153.2	1,300.75
1891	148,288,645	127,183,047	60.00	155.3	1,245.00
1892	145,729,904	127,721,113	50.00	139.2	1,015.00
1893	140,646,783	123,629,680	45.00	142.9	1,037.50
1894	136,689,909	120,960,928	44.00	138.3	915.50

The Crédit Foncier, by virtue of the very important volume of its capital and reserves, and of the distribution of its premium bonds (which are the preferred securities of small investors), is intimately connected with the economy of the country; yet at the present day it has to contend against embarrassments that were not foreseen when it abandoned its bond loan system for cash loans. The rate of interest has declined steadily during the last years, and the repayments of loans have in consequence grown to proportions that have upset all calculations. Loans repayable in a term of fifty to sixty years are accordingly paid back in twenty-nine or thirty years. The Crédit Foncier, by its regulations, must diminish the circulation of its bonds in an even ratio with repaid loans. Now, as the regular market price of its bonds is rather above that at which they were issued, and as at special times (in proximity to drawings) special values are added in consequence of the prize feature, the buying up process means decided loss for the bank. Some counteractive efforts have been made in the way of conversions of several series of bonds, but it is necessary to move with much prudence so as not to disturb the public holding the premium bonds. The Crédit Foncier, in view of this situation, has increased its sinking fund reserves at the expense of dividends, which declined for some years, and so occasioned a fall in shares without affecting the solidity of the company or its credit. With these exceptions, the bank has worked in a manner that cannot be regarded with unreserved satisfaction.

By the mortgage loan system a great impetus has been given to the building of cities, and the loans to communities have largely encouraged the prodigality of municipalities. As the capital of the whole of France, drained by the premium bonds, has been thrown into the cities and principally into Paris, it has come to pass that the country population has flocked to the towns. There, during the progress of great public works, they have found high wages; but they have remained notwithstanding the loss of employment. The Crédit Foncier has consequently contributed, more than any other responsible agency, to the growth of the city proletariat, which affords the most favorable soil for the seeds of Socialism. This institution, however, has not been able to realize in any large way the hope that it would cause the rural mortgages to vanish. Its scope hardly reaches the agricultural acres at all, and its influence there is almost nothing. For the purposes of loans to cultivators of the soil the Crédit Foncier formerly conducted a distinct branch, the Crédit Agricole, which completely failed to perform what was expected of it. The following balance-sheet contains some instructive particulars on this point:

## CRÉDIT FONCIER DE FRANCE.

*Situation au 30 Novembre 1895.*

*Situation au 30 Novembre 1895.*

ACTIF.	FRANCS.
Espèces en caisse et à la Banque de France	5,354,412.20
Effets et valeurs diverses	153,930,964.90
Trésor public	22,392,973.60
Avances sur dépôts de titres	18,922,978.19
Correspondants	5,740,627.11
Banque hypothécaire en liquidation	16,093,199.86
<i>Emprunteurs:</i>	
Prêts hypothécaires	1,758,198,911.49
Prêts communaux	1,263,660,727.41
Prêts réalisés avec les fonds provenant des Bons à lots	26,263,114.13
Prêts réalisés avec les fonds du capital social et des réserves	73,505,671.05
Semestres d'annuités échus	30,054,001.82
<i>Obligations retirées de la circulation, soit par tirages spéciaux soit par rachats en Bourse (art. 63 et 87 des st<sup>s</sup>):</i>	
Obligations Foncières	122,798,181.50
Obligations Communales	145,120,770.86
Immeubles acquis à la suite d'expropriations	29,162,791.21
<i>Hôtels et mobilier:</i>	
Prix d'estimation des hôtels	12,933,709.25
Frais d'appropriation et mobilier	788,489.60
Divers	8,926,145.80
Intérêts acquis, mais non échus	51,510,835.10
Dépenses d'administration	3,911,105.09
Total	3,749,269,610.77

PASSIF.	FRANCS.
Capital social	170,500,000.00
Réserve obligatoire	19,579,362.02
<i>Provision pour l'amortissement des emprunts:</i>	
Provision ordinaire	49,922,862.06
Provision extraordinaire	57,254,974.53
<i>Réserves et provisions diverses:</i>	
Réserves pour l'amortissement des immeubles du siège social	7,296,592.75
Réserve spéciale provenant de la Banque Hypothécaire	1,500,000.00
Réserve commune avec le Crédit Foncier et Agricole d'Algérie	983,160.16
Réserves sans affectation	251,138.72
Provision pour faire face à l'excédent des créances hypothécaires sur la valeur estimative des immeubles acquis par la Société	5,501,710.86
Provision pour créances douteuses	2,532,931.95
Dépôts en compte courant	71,036,680.77
Correspondants	24,716,417.61
Sous-Comptoir des Entrepreneurs	4,000,186.48
<i>Versements différés:</i>	
Sur Prêts Hypothécaires	21,258,926.11
Sur Prêts Communaux	92,838,534.59
<i>Obligations Foncières—Montant au pair:</i>	
Des obligations en circulation	2,308,947,800.00
Des obligations retirées de la circulation	157,739,100.00
<i>A déduire:</i>	1,777,901,345.05
Versements à recevoir des obligataires	201,893,580.00
Prime à amortir à recouvrer des emprunteurs	486,891,972.95
<i>Obligations Communales—Montant au pair:</i>	
Des obligations en circulation	1,300,518,200.00
Des obligations retirées de la circulation	146,998,300.00
<i>A déduire:</i>	1,300,996,880.06
Versements à recevoir des obligataires	12,825,185.00
Prime à amortir à recouvrer des emprunteurs	13,437,929.00
Bons à lots en circulation	26,263,114.13
Obligations à rembourser et intérêts échus à payer	35,155,130.33
Semestres d'annuités reçus par anticipation	6,844,402.15
Divers	26,312,633.63
Intérêts dus, mais non échus	32,044,727.43
<i>Profits et pertes:</i>	
Reliquat de l'exercice 1894	117,403.23
Exercice 1895	14,604,494.15
Total	3,749,269,610.77

Certifié conforme aux écritures:

*Le Gouverneur, LABEYRIE.*

## THE CRÉDIT AGRICOLE.

In 1856 the crops failed, and the distress in the rural districts engaged the solicitous attention of the Government. All competent authorities concurred in the opinion that one of the chief causes of inadequate agricultural production was the lack of sufficient capital and credit to enable the farmers to procure the requisite equipment and fertilizing material. The projects conceived were numerous, but none solved the problem. The Government, urged by the people to take some definite steps, addressed itself to the Crédit Foncier, and asked that institution to complete its work of establishing a department having for its especial object the furnishing to agriculture of the credit so much needed. Accordingly, the Crédit Foncier, July 28, 1860, organized the Société de Crédit Agricole (Farmers' Credit Company), with a capital of 20,000,000 francs, which was increased to 40,000,000 on April 22, 1865. The new concern proposed to procure capital and credit for agricultural and kindred industries, and to assume, with the Government's sanction, all transactions necessary for affording means for clearing and improving the soil, for stimulating and preserving its productiveness, and for generally developing the farming interests. It was authorized to undertake, or to facilitate by its guaranty, the discounting or negotiation of notes; to open credits or allow loans on collateral or other special securities; to receive deposits, with or without interest; to open current accounts; to make collections, and to issue and place securities corresponding to loans and credits granted. The company discounted and guaranteed paper having at least two signatures, one of the signers being entitled to the privilege of discount. Discounted paper could not run longer than ninety days. In the cases of advances and credits, the company was not permitted to issue either bonds or scrip having longer than five years or less than forty-five days to run. No scrip for less than 100 francs could be given out. The business management of the Crédit Agricole was placed in the hands of the governor and under-governors of the Crédit Foncier, but it had a separate administrative council and censors. In spite of all endeavors, the Crédit Agricole did but little for agriculture. The Government, disappointed in its expectations, conducted an exhaustive investigation in 1866, the result of which, so far as the company was concerned, demonstrated that hardly anything had been accomplished. Some practical reforms were hinted at, but, on account of the Franco-Prussian War, they could not be put into execution. As the Crédit Agricole was unable to find employment for its resources in the field originally prescribed, it went into enterprises quite alien to its mission. Noteworthy, from 1873 to 1876 it made advances to the Egyptian Government amounting to 168,000,000 francs. It had procured this enormous sum by opening credits through the Crédit Foncier and handing over to that company the securities received from the Egyptian Government. When Egypt declared her insolvency, the Crédit Agricole, at its own application, in order to escape bankruptcy, went into liquidation. The Crédit Foncier incidentally suffered seriously. In order to recover, it asked the governor and under-governors for a sum of 16,000,000 francs. The 300 francs per share still due on the stock of the Crédit Agricole was called, and 24,000,000 francs was thereby netted. The share-owners of the Crédit Agricole, by paying a complementary assessment of

fifty francs per share, received full-paid stock of the Crédit Foncier. Meantime the financial situation of Egypt had improved, and the settlement of loans, far from leaving a loss, showed a profit for the Crédit Foncier. The marked failure of the Crédit Agricole affords a fresh demonstration of the impracticability of experiments for applying to agriculture the methods of credit employed for commerce.

## THE CRÉDIT INDUSTRIEL ET COMMERCIAL.

When France, by the commercial treaties of 1860, abandoned the system of Protection and adopted a more liberal trade policy, the need for a financial machinery to correspond to the new circumstances was much felt. The English joint-stock banks, with whose organization and methods the Continent had never been much acquainted, served as a model to those who desired to furnish France with institutions that she lacked. A decree of date May 7, 1859, authorized the creation of a company designated the Société Générale du Crédit Industriel et Commercial (General Industrial and Commercial Company), to be capitalized at 60,000,000 francs, with 120,000 shares at 500 francs each, one-quarter to be paid in. Eighty thousand shares were issued at par, upon the company's organization, and the balance of 40,000 were sold at 600 francs in June, 1864. The forms of business included in the company's transactions were: to discount commercial paper in France and foreign countries; to allow advances on warehouse vouchers, and all kinds of obligations with fixed maturity transferable by indorsement; to make advances on pledges or collateral; to open current accounts; to perform for the account of its clients payments and collections; to issue and accept drafts and bills of exchange; to negotiate securities on the Bourse; to receive deposits of securities from individuals; to undertake issues of public loans, stocks, and all other securities; to make conveyances—in brief, to conduct all the operations of banking houses. The company has had a relatively placid existence. It possesses a substantial clientage, which has always remained faithful to it, and for which it does very numerous services. It conducts ten branch offices in Paris. The following statement affords a record of its operations:

*Statistics of the Crédit Industriel et Commercial (in Millions and Hundred Thousands of Francs).* CURRENT ACCOUNTS AND DEPOSITS.

YEARS. Paid In Drawn. Balance on Dec. 31st. Deposits on time on Dec. 31st.

1859	100.4	97.8	2.6	
1860	332.1	303.3	31.4	1.0
1865	766.5	755.0	38.9	0.2
1870	319.2	369.3	19.1	1.7
1875	1,616.3	1,597.5	59.4	3.9
1880	1,877.1	1,875.3	63.7	
1885	2,753.5	2,755.3	76.7	
1886	3,384.6	3,364.6	96.7	32.7
1887	2,929.6	2,948.5	77.8	17.2
1888	2,937.5	2,922.0	93.3	33.3
1889	2,805.0	2,805.1	93.2	27.6
1890	2,936.9	2,952.9	104.2	25.7
1891	2,266.0	2,273.8	96.4	20.6
1892	2,930.2	2,928.9	97.7	13.0
1893	2,386.7	2,407.9	76.5	13.4
1894	2,664.7	2,661.7	79.5	9.7

DISCOUNTS.

YEARS.	FRENCH PAPER.		FOREIGN PAPER.		ON HAND ON DEC. 31st.		BOURSE ORDERS EXECUTED.
	Number of Pieces.	Amounts.	Number of Pieces.	Amounts.	French Paper.	Foreign Paper.	
1859	8,604	61.8	3,987	17.8	10.9		1.1
1860	33,028	231.8	4,465	39.2	35.9	1.7	3.0
1865	33,689	367.2	2,607	28.0	54.3	1.7	46.1
1870	16,600	200.7	656	3.2	34.2	0.1	12.2
1875	64,807	495.2	3,923	43.7	75.0	2.8	40.4
1880	143,607	789.3	2,684	33.5	73.3	2.4	60.6
1885	244,058	1,242.7	6,378	94.0	71.2	11.8	134.0
1886	229,989	1,166.0	7,852	116.7	73.5	6.4	158.1
1887	215,685	1,005.1	9,462	152.5	69.6	8.4	181.3
1888	215,158	1,043.8	6,115	85.2	90.9	3.4	266.5
1889	301,666	1,175.3	7,520	92.3	78.5	8.8	293.0
1890	322,475	1,078.0	9,003	127.5	77.2	10.8	349.0
1891	558,422	1,067.0	11,734	77.1	71.6	7.2	414.5
1892	751,365	1,070.5	14,952	64.7	71.7	2.3	356.6
1893	802,066	1,076.8	15,323	41.1	58.8	3.6	329.2
1894	759,482	998.4	16,303	64.3	59.2	3.8	400.2



*Statistics of the Crédit Industriel et Commercial (in Millions and Hundred Thousands of Francs).* PROFIT AND LOSS.

YEARS.	Gross Profits. Francs.	Expenses. Francs.	Dividends. Francs.	Market Price of Shares Dec. 31st. Francs.	Reserves. Francs.
1859	532,956	282,920	21.50		
1860	2,801,023	1,355,180	11.00	565.00	107,384
1865	4,004,681	1,148,265	23.75	687.50	6,000,000
1870	2,803,337	1,124,633	12.50	615.00	6,000,000
1875	4,670,859	1,726,069	24.00	735.00	7,000,000
1880	3,863,013	1,504,349	18.56	736.25	7,000,000
1885	3,455,582	1,960,545	11.60	650.00	7,000,000
1886	3,836,328	1,798,453	12.37	591.25	3,500,000
1887	5,156,845	2,755,483	13.40	576.25	4,000,000
1888	6,437,961	4,049,819	13.40	605.00	4,620,068
1889	5,894,027	3,319,335	14.43	590.00	5,239,475
1890	6,250,298	3,546,025	15.57	635.00	6,500,000
1891	5,087,204	3,049,394	15.63	575.00	6,500,000
1892	5,287,182	2,750,462	15.62	550.00	7,000,000
1893	4,735,330	2,838,747	14.58	560.00	7,000,000
1894	4,076,922	2,476,685	12.50	552.00	7,000,000

*Balance-sheet, November 30, 1895.* ASSETS.

		FRANCS.
Cash	{ Coin in Bank (of France)	611,243.29
		{ Coin on hand 6,230,833.69
Ready funds at Bank		4,580,052.89
Bills receivable	{ France	52,192,980.67
		{ Foreign 2,077,273.29
Current accounts		23,653,714.18
Consols, stocks, and bonds		4,817,176.90
Advances on securities		14,530,962.94
Margin loans on pledged stock		8,832,100.80
Acceptances, credits		5,608,021.30
Coupons to collect		1,067,663.37
Brokers, sale and purchases for account of third parties		
Company's real estate		3,213,543.96
General expenses	{ Old	
		{ New 634,645.94
Assessment on shares not called		45,000,000.00
Total		173,050,213.22

LIABILITIES.

		FRANCS.
Capital, issued		60,000,000.00
Statutory reserve		6,000,000.00
Extraordinary reserve		1,000,000.00
Deposit accounts for cheques at one-half per cent.		40,838,280.36
Deposit accounts on notice		14,066,928.49
Current accounts	{ France	38,777,347.85
		{ Foreign 2,798,128.28
Miscellaneous		
Bills payable		6,433,871.00
Brokers, sale and purchase for account of third parties		982,201.95
<i>Interests and Dividends:</i>		
Former items remaining		33,450.00
Balance of 1895		81,080.00
Rediscount of bills receivable		121,722.05
Profit and loss	{ Old	291,936.66
		{ New 1,625,266.58
Total		173,050,213.22
Bills receivable on hand, to mature		54,270,253.96
Paper in circulation, bearing the company's indorsement		19,075,000.00

## COMPANY FOR THE ENCOURAGEMENT OF TRADE AND INDUSTRY.

Like the Industrial and Commercial Credit Company, the Société Générale pour favoriser le développement du Commerce et de l'Industrie en France (General Company for the Encouragement of Commerce and Industry in France) was originated on the plan of the English joint-stock companies. It obtained its authorization by a decree of May 4, 1864, and its incorporation was effected on the same day. Its purposes are to help companies in existence or to be established which seek to promote manufacturing or commercial enterprises or are connected with public works; to dispose of their stock and bonds; to accept on behalf of shareholders commissions to watch and control them; to take shares in such companies up to half their stock capital; to open credits for companies, merchants, and manufacturers; to discount commercial paper on France and abroad; also to discount vouchers of the Treasury, of public departments and municipalities, having at most six months to run; to undertake collections and other cash services for customers; to make advances on securities; to receive voluntary deposits, and to afford accounts current. The company is not permitted to speculate in public securities on time transactions, but is allowed to make advances on speculative continuations (*contangos*). The stock capital is 120,000,000 francs, in 240,000 shares of a face value of 500 francs, on which 250 francs have been paid in. The operations of the Société Générale are on a vast scale. It has manifested great activity in fulfilling its aims, and has opened numerous branches in France. There are thirty-eight in Paris alone, and 145 in the provinces. An agency also is maintained in London. The offices are run with a strict regard for economy, and by intelligent management the whole system has attracted a splendid business. The history of the company is one of animated enterprise. Large interests have been taken in a great many undertakings, like Paris Guano, Port of Callao, etc.; which have given rise to numerous lawsuits and tied up a considerable part of the capital. In recent years, the company has given its principal attention to ordinary banking business, for which it is perfectly equipped and which it prosecutes with large success.

*Statistics of the Société Générale*

CURRENT ACCOUNTS						DISCOUNTS.				
YEARS.	Payments. Drawn. on Dec. 31st.		Balance of Deposits on Time, on Dec. 31.	Participation in Financial and Industrial Concerns.		Securities on Hand on Dec. 31st.	Amount of Discount.	PAPER ON HAND ON DEC. 31st		
								Paris.	Provinces.	Foreign.
							MILLIONS.	MILLIONS.	FRANCS.	FRANCS.
1864	172.8	151.9	20.9	3.2		15.9	123.2	17.5	1.8	2.7
1865	895.4	886.7	29.6	49.1		7.8	493.2	11.0	2.2	12.4
1871	1,099.9	1,038.7	85.2	30.9	54.1	20.3	735.9	27.8	12.5	20.5
1875	2,080.8	2,079.6	123.1	87.6	55.3	33.5	1,906.9	37.4	29.4	35.6
1880	2,052.1	2,034.8	145.8	114.1	64.0	15.0	2,483.2	56.7	28.7	16.6
1885	1,816.1	1,804.2	158.3	89.8	65.9	58.7	3,067.7	43.2	57.9	17.4
1886	1,998.9	1,981.5	175.7	86.2	65.1	52.4	3,358.9	41.3	59.0	15.3
1887	1,827.6	1,830.9	172.4	94.7	65.0	61.7	3,475.1	47.1	56.3	21.5
1888	1,874.7	1,892.5	154.6	92.8	84.2	57.5	3,626.0	63.2	62.3	30.2
1889	1,887.0	1,865.5	155.5	88.7	70.9	48.1	3,647.0	42.8	58.4	30.3
1890	1,872.2	1,811.2	162.1	94.7	69.5	36.6	3,547.8	51.2	53.1	16.5
1891	1,793.3	1,676.9	144.2	96.3	66.0	33.4	3,161.3	46.8	73.7	13.1
1892	1,683.2	1,564.0	150.5	101.5	66.1	62.7	2,935.4	34.3	80.6	6.4
1893	1,570.9	1,650.9	157.4	97.0	64.6	63.7	2,703.8	29.0	81.9	8.7
1894	1,657.8		164.3	93.3	68.8	46.4	2,930.5	30.4	97.2	13.7

*Statement of November 30, 1895.*

ASSETS.

	FRANCS.
Cash on hand and in bank	28,897,755.97
Bills receivable on hand	131,553,336.45
Paper out for collection	21,442,981.05
Margin loans on pledged stocks	22,968,898.26
Coupons for collection	1,617,981.33
Consols, shares, scrip, and bonds	64,911,536.12
Advances on collateral	88,560,324.53
Interests in industrial and commercial enterprises	4,244,454.98
Interests in financial enterprises	68,207,331.72
Real estate of the company	4,307,434.06
Bank accounts abroad and various accounts	111,003,065.49
Assessments on shares, not called	60,000,000.00
Interest on shares (coupon of October 1, 1895)	1,500,000.00
	609,215,099.96

LIABILITIES.

Capital	120,000,000.00
Statutory reserve	7,726,253.07
Special reserve	6,000,000.00
Cheque account	155,819,464.99
Deposits at fixed maturity	98,039,100.00
Call accounts	1,241,032.06
Bills payable	50,197,698.10
Bank account abroad and various accounts	166,466,618.77
Interest and dividends	236,648.25
Balance of last statement	104,238.81
Profit and loss (less general expenses)	3,404,045.91
	609,215,099.96
Paper in circulation, bearing the company's indorsement,	69,333,716.88

## THE CRÉDIT LYONNAIS.

The Crédit Lyonnais stands to-day at the head of French financial establishments, both for the magnitude of its capital and the volume of its business. It was inaugurated in Lyons as a limited company on July 6, 1863, and changed into a stock company on April 25, 1872. It discounts commercial paper, issues and indorses bills of exchange, makes advances on listed stocks and other collateral, transacts every kind of cash service for customers by means of current accounts, buys and sells securities for clients, takes charge of subscriptions for public funds and other securities, negotiates loans for governments, Departments, and public and commercial establishments, receives securities on free deposit and takes care of them, engages in real-estate transactions, and does a general banking business in France and abroad. Conducted

with remarkable tact and a perfect understanding of the needs of its clientage, the Crédit Lyonnais has grown rapidly. It makes a chief specialty of discounts. In order to keep fully informed about conditions in the various countries from which applications for its services may be received, it has a separate department, under the direction of experts, for the collection and analysis of documents, etc., relating to every country and its business affairs. The records and compilations of this branch of the Crédit Lyonnais are not in any general manner available to the public; but all who have ever had access to its archives, embracing the financial history of the whole world for the past twenty years, have found added reason for admiration of its magnificent equipments. There are twenty-six agencies of the Crédit Lyonnais in Paris and the suburbs, one hundred and sixteen in the Departments, and sixteen abroad. The subjoined statistics will set forth the essential facts of its vast business better than any descriptive account.

*Statistics of the Crédit Lyonnais (in Millions and Hundred Thousands of Francs).*

YEARS.	Deposits on Call, Dec. 31st.	Deposits on Time, Dec. 31st.	Amounts Discounted.	Paper on Hand on Dec. 31st.
1863	6.4	3.4		5.8
1865	26.0	14.6		23.1
1870	22.1	20.6		16.0
1875	140.7	73.6		99.6
1880	272.0	111.2		138.3
1885	320.5	39.9	3,555.1	227.8
1886	415.8	45.2	4,079.4	244.2
1887	470.1	46.9	4,757.8	265.1
1888	537.0	48.7	5,406.9	323.7
1889	565.5	50.1	5,983.0	412.3
1890	611.2	66.5	6,237.1	459.9
1891	667.5	117.1	6,799.6	544.1
1892	687.4	124.1	6,957.5	503.5
1893	705.7	127.9	7,187.6	527.4
1894	859.6	122.8	7,266.7	585.4

*Acceptances, Advances, Securities Held, Coupons.*

YEARS.	Acceptances Payable, Dec. 31st.	Advances on Collateral, Dec. 31st.	Securities on Hand, Dec. 31st.	Coupons Paid for Account of Third Parties.
1863	1,200,000	5,300,000	1,500,000	
1865	17,000,000	31,600,000	6,400,000	
1870	3,600,000	18,800,000	6,200,000	
1875	24,100,000	117,300,000	5,600,000	
1880	37,300,000	170,700,000	37,700,000	
1885	32,600,000	83,400,000	60,900,000	337,800,000
1886	52,300,000	159,400,000	57,800,000	349,400,000
1887	72,800,000	154,000,000	53,200,000	418,800,000
1888	106,800,000	173,800,000	47,900,000	492,600,000
1889	115,500,000	129,100,000	19,900,000	733,200,000
1890	142,400,000	138,800,000	20,100,000	719,500,000
1891	82,800,000	120,900,000	20,800,000	790,000,000
1892	115,100,000	178,100,000	12,200,000	820,000,000
1893	134,900,000	178,600,000	15,700,000	846,900,000
1894	136,100,000	242,800,000	18,800,000	853,600,000

*Profits and Reserve.*

YEARS.	Net Profits. Francs.	Dividends. Francs.	Average Quotations of Shares.	Reserve.
1863	198,072	4.00		9,904
1865	1,957,260	35.00	502.50	190,737
1870	1,457,220	25.00	516.75	1,676,641
1875	3,100,224	20.00	677.68	13,666,518
1880	7,389,458	35.00	944.94	70,000,000
1885	10,035,342	15.00	534.87	60,000,000
1886	6,059,747	15.00	540.18	60,000,000
1887	7,023,250	17.50	560.27	60,000,000
1888	10,588,679	25.00	592.51	50,000,000
1889	11,512,693	27.50	681.28	50,000,000
1890	12,589,338	30.00	755.62	50,000,000
1891	14,179,679	30.00	791.71	50,000,000
1892	12,104,959	30.00	785.44	40,000,000
1893	12,329,776	30.00	770.00	40,000,000
1894	12,428,200	30.50	760.40	40,000,000

*Growth of Capital.*

1863 20 millions, fully paid in.  
 1872 50 millions, 250 francs paid in.  
 1875 75 millions, 250 francs paid in.  
 1875 75 millions, 250 francs paid in.  
 1879 100 millions, 250 francs paid in.  
 1881 200 millions, fully paid in in 1894.

## CRÉDIT LYONNAIS.

*Stock Company—Capital, 200,000,000 francs.*

Statement of November 30, 1895.

ASSETS.	FRANCS.
Coin on hand and in banks	95,014,744.86
Bills receivable (commercial paper)	527,146,746.12
Margin loans on pledged stocks	95,987,622.80
Current accounts	320,833,438.82
Advances and credits on collateral	122,709,128.94
Shares, vouchers, bonds, and consols	22,715,074.10
Real estate	30,000,000.00
Order and miscellaneous accounts	30,733,992.65
Assessments not called (less anticipated payments)	31,578,450.00
	1,276,719,198.29
LIABILITIES.	FRANCS.
Deposits and sight orders	324,526,935.07
Current accounts	415,555,474.29
Acceptances	145,765,859.68
Time orders	95,471,127.70
Order and miscellaneous accounts	55,399,801.55
Reserves	40,000,000.00
Capital	200,000,000.00
	1,276,719,198.29

## THE BANK OF PARIS AND THE NETHERLANDS.

The establishments hitherto considered are the principal French banking and financial concerns, and represent well the aspects of modern French banking. It remains for us to glance at an institution which is rather different, but which, by its standard and its connections, has an important place in the affairs of France. We refer to the Banque de Paris et des Pays Bas (Bank of Paris and the Netherlands). It began its existence on January 27, 1872, as a result of the consolidation of the Société de la Banque de Paris (Paris Banking Company) and the Société de Crédit et des Dépôts des Pays Bas (The Netherlands Credit and Deposit Company). Its objects are to perform financial, industrial, and commercial transactions, including real-estate business and public works contracts, in France and abroad, for its own account or for third parties. Its capital, which was originally 125,000,000 francs, divided into 125,000 shares of 1000 francs each, with 500 francs paid up, was reduced to 62,500,000 francs of 125,000 shares at 500 francs each, fully paid. The Bank of Paris and the Netherlands receives no deposits for current accounts, and admits comparatively little paper to discount. It operates with its capital and reserves, and exercises its activities specially for the emission of stocks and securities. Besides the central office in Paris, there are branches in Amsterdam, Brussels, and Geneva, where extensive relations are enjoyed



and a very faithful clientele is possessed. Alliances are maintained with the principal French and foreign banks, so that the influence of this house may be said to extend throughout the world. Its statistics are not very comprehensive, for only one balance-sheet is issued each year, and the profit and loss account is not itemized in much detail. Information respecting the development of its business is chiefly to be sought in the accounts of its correspondents and in those relating to its securities. Subjoined are the figures of principal interest, stated in millions and hundred thousands of francs:

YEARS.	Commercial	Divers	CORRESPONDENTS		Securities	Profits.	Expenses.	Dividends.	Average Quotations of Shares.
	Paper on Hand on Dec. 31st.	Advances on Dec. 31st.	ON DECEMBER 31ST.		on Hand Dec. 31st.				
			Dr.	Cr.		FRANCS.	FRANCS.	FRANCS.	FRANCS.
1872	50.9	79.0	75.0	87.8	16.7	16,454,453	2,371,365	60	1,253
1875	70.6	41.4	26.9	56.1	38.1	8,923,650	1,081,890	50	1,146
1880	5.4	70.0	25.2	58.5	47.2	13,696,994	1,475,773	60	1,048
1885	25.4	29.8	24.5	46.3	50.7	5,055,405	1,025,269	30	689
1886	12.3	60.1	30.4	71.3	47.7	5,919,598	1,009,366	35	677
1887	20.7	28.5	34.3	66.4	55.9	6,623,175	1,060,720	40	741
1888	31.2	67.8	38.5	156.3	66.7	7,398,729	1,040,281	40	799
1889	37.9	68.5	41.2	95.3	51.7	6,513,992	1,120,291	40	796
1890	25.3	22.3	51.4	83.9	54.5	7,934,494	1,276,442	45	822
1891	32.5	42.9	46.5	55.6	34.9	2,135,597	1,196,020	30	785
1892	20.7	37.8	31.2	63.3	26.2	5,055,979	1,225,159	30	656
1893	13.0	42.2	37.5	54.2	33.0	4,651,066	1,181,590	30	644
1894	18.9	70.8	32.5	96.5	35.4	6,646,506	1,259,334	35	669

## PRIVATE BANKS.

Aside from the incorporated banking institutions, France has a great number of private banks. In the large cities the bankers have clienteles made up, in general, of merchants and manufacturers pursuing kindred lines of business. For instance, certain houses discount paper specially for the hardware trade, others for the wine and liquor traffic, others for grocers. By this system the banks are able to keep well informed about their customers. The transactions of the private banks are usually very simple, embracing discounts, credits, current accounts (generally entitled to interest), transfers, and collections, advances on securities, and finally Bourse operations.

## SECTION II.

### THE BOURSE, CLEARING-HOUSE, AND FINANCIAL OPERATIONS AT LARGE.

STOCK Exchange bankers, or rather *coulissiers* (stock-jobbers), are intermediaries whose functions are to execute time or cash orders on securities which are not handled by licensed brokers. The latter are styled *agents de change* (exchange agents), and their guild enjoys the monopoly of negotiating “parquet” securities—*i. e.*, those listed and dealt in on the floor of the Bourse. The Bourse bankers do not, however, content themselves with transactions in stocks non-listed in the official bulletins of the Bourse brokers, but frequently encroach upon the prerogatives of the latter; whereby numerous difficulties arise between the brokers and the jobbers. Several plans have been under discussion for doing away with the exchange brokers’ monopoly and substituting a free body of brokers in securities.

### CLEARING-HOUSE OF PARIS.

In conclusion of our survey of the financial machinery of France, some words require to be said about an organization that has held forth great hopes, which have hardly been realized, the *Chambre de Compensation des Banquiers de Paris* (Clearing-House of the Paris Banks). It was created in 1872, as an exact counterpart of the Clearing-House of London. As the English regulations were reproduced without alteration, it is unnecessary to make any explanations. The Bank of France has lent its most cordial support to the Clearing-House, but unfortunately the French public makes but a limited use of cheques, and the clearings reach only a comparatively insignificant total. Practically, clearings are done through the Bank of France, and consist of transfers on the part of account-holders. The following are the statistics of Clearing-House transactions from the beginning, expressed in millions and hundred thousands of francs:

YEARS.	Paper Presented for Clearing.	Paper Cleared.	Paper Not Cleared but Settled by Orders.
1872-73	1,602.6	1,056.8	545.7
1873-74	2,142.3	1,397.1	745.2
1874-75	2,009.7	1,417.5	592.2
1875-76	2,213.7	1,569.0	644.7
1876-77	2,598.6	1,881.7	716.9
1877-78	2,199.6	1,626.7	572.9
1878-79	2,628.2	2,000.8	627.4
1879-80	3,222.7	2,440.1	782.6
1880-81	4,084.5	3,091.8	992.7
1881-82	4,545.1	3,391.1	1,154.0
1882-83	4,158.8	3,101.4	1,057.4
1883-84	4,218.8	3,188.0	1,030.8
1884-85	4,142.6	3,195.3	947.3
1885-86	3,923.9	3,128.5	795.4
1886-87	4,391.6	3,524.3	867.3
1887-88	4,696.4	3,831.6	864.8
1888-89	5,418.2	4,379.4	1,038.8
1889-90	5,140.9	4,136.2	1,004.7
1890-91	6,003.9	4,721.8	1,282.0
1891-92	4,868.8	3,889.6	979.2
1892-93	4,715.2	3,823.8	891.4
1893-94	5,379.3	4,360.2	1,019.1
1894-95	6,143.5	5,527.6	615.9

In illustration of the above statement that cheques are but little employed in France, the figures below are interesting. They are taken from an exhibit compiled by the Ministry of Finance, which, regrettably, stops with 1891:

YEARS.	Cheques on Paris. Francs.	Out of Town Cheques. Francs.
1880	2,758,098	1,638,832
1881	3,683,301	1,891,423
1882	2,953,880	1,597,650
1883	2,925,290	1,541,150
1884	2,924,410	1,510,635
1885	3,175,350	1,459,105
1886	3,216,390	1,522,055
1887	3,317,320	1,599,675
1888	3,441,940	1,549,865
1889	3,703,250	1,689,960
1890	3,747,090	1,615,625
1891	4,019,400	1,682,260

## CHANGES IN BANKING METHODS—COMPETITION FOR PAPER.

The French credit and deposit institutions have adopted, in their business, methods resembling those that are in successful operation in the great Parisian stores, like the Louvre and Bon Marché. Trade is attracted by performing cheaply and even gratuitously all kinds of cash and transfer services, and charging light fees only when occasion requires. The active rivalry that characterizes their operations has been advantageous to the public in a certain measure, but it has had the serious consequence of so reducing the rate of interest that there is no longer any elasticity, while margins for profits have disappeared and losses have become hard to support. The ruin of the Comptoir d'Escompte, soon followed by the fall of the Société des Dépôts et Comptes Courants—both of which disasters were largely brought about by the stagnant condition of deposits on demand or short terms—made a profound impression on the minds of managers of credit institutions. They resolved to confine their investments of deposits first to commercial paper which, in case of necessity, could be rediscounted at the Bank of France, and second to advances and to margins which had to be settled within fifteen days, or a month at farthest. Therefore examination of the balance-sheets of the credit companies easily shows that liabilities due are covered by ready assets, and that, from this point of view, the situation is entirely free from menace. But in order to arrive at such security, the financial concerns are constantly prosecuting what has been picturesquely styled a “discount chase.” Everybody likely to have commercial paper for disposal is canvassed by the brokers, who place it not only with the banks but with railway and insurance companies, which always have on hand a goodly supply of bank bills with a view to earning income for their surplus cash. The quantity of discountable paper annually made in France can be calculated with ease. The stamp duties from commercial paper indicate the gross apparent amount on which the tax is assessed. The tax is 5 centimes per 100 francs, or 1/2000 part of the total. But as 5 centimes is the minimum tax, each fraction of 100 francs being counted as a full 100 francs, the figure obtained from this percentage would be too large. An investigation based on the books of the Bank of France demonstrates that ten per cent. should be deducted. The following table gives the aggregate yearly valuation of commercial paper:

*Paper Discounted in France Annually.*

YEARS. Stamp Duty. Gross Amount of Paper. Net Amount of Paper.

	FRANCS.	FRANCS.	FRANCS.
1881	15,104,600	30,209,200,000	27,188,300,000
1882	15,050,400	30,100,800,000	27,090,800,000
1883	15,182,400	30,364,800,000	27,328,400,000
1884	14,397,900	28,795,800,000	25,916,300,000
1885	13,585,800	27,171,600,000	24,454,500,000
1886	13,220,800	26,441,600,000	23,797,500,000
1887	13,220,000	26,440,000,000	23,796,000,000
1888	13,445,800	26,891,600,000	24,202,500,000
1889	13,588,900	27,177,800,000	24,460,100,000
1890	13,943,200	27,886,400,000	25,097,800,000
1891	14,272,200	28,545,100,000	25,690,600,000
1892	11,482,200	22,964,400,000	20,668,000,000
1893	11,552,000	23,104,000,000	20,793,600,000
1894	11,197,000	22,394,000,000	20,154,600,000

The volume of discountable paper has sensibly decreased in recent years. At present, assuming that the making of notes is a constant matter and that the average time to run is forty-five days, the amount outstanding at a given time may be reckoned at about 2,500,000,000 francs. But not all this paper is admissible to discount; and deducting in the ratio of refusals at well-conducted banks, it may be considered that two billions is an approximately correct estimate. Of this two billions of discountable paper, the Bank of France carried during 1894, according to the statement of December 31st, 497,700,000 francs; the Comptoir National d'Escompte 172,000,000 francs; the Crédit Industriel et Commercial, 63,000,000 francs; the Société Générale, 141,300,000 francs, and the Crédit Lyonnais, 585,400,000 francs—showing a total for the five institutions of 1,459,400,000 francs. There remains at most only six hundred millions to divide among other banks and bankers and the railway and insurance companies—not taking into consideration that a good many merchants and manufacturers retain their own commercial paper. The Bank of France receives, generally, more than a third, but less than one-half of the notes drawn, and probably fully half of the really discountable paper; but much of this reaches the Bank only at maturity, so that the profits derived from this source do not always compensate for the cost of handling and collection.

In view of the diminution of the mass of commercial paper and the continual fall in the rate of exchange, the banks will, in all probability, be compelled soon to look for profits in other directions. Up to the present they have dispensed genuine credit almost entirely—credit on the strength of substantial property—and have rarely granted personal credit. But the innovation of personal credit, if practised according to the methods in use in the banks of Scotland, by the process of “cash credit” (as the English term runs) would offer no more serious risks than the discounting of paper. Such a system would admit of solving a problem hitherto considered unsolvable—the problem of credit for farmers and artisans.

## AGRICULTURAL AND POPULAR LOANS.

This problem has always been regarded as a rather whimsical one in France. Most of those interesting themselves in it have been guided more by philanthropic and charitable sentiments than by matter-of-fact and economic ideas. The signal failure of the Société de Crédit Agricole, which has already been considered, proved that a great institution cannot make loans to agriculture the fundamental basis of its operations. In reality, there can no more be a special agricultural credit than a special maritime credit or mercantile credit. The one thing in existence is *credit*, without any specialization—meaning the confidence manifested in the borrower by the lender. The law, under the guise protecting the farmer, has occasioned for him all kinds of drawbacks. It sets aside all his assets as a guaranty for the landlord's rent for a period of three years (including the running year). It declares that the farmer who buys in order to resell is not a merchant and cannot be pronounced a bankrupt; and it allows him the privilege of declining to be tried before the Tribunals of Commerce, so that his creditors are reduced to the necessity of suing him in interminable and ruinous civil proceedings. The consequence is that, in France, with few exceptions, farmers find it well-nigh impossible to obtain credit. Those who consent to loan to the farmer, taking the perilous risks involved, make him pay a large bonus. Thus, while credit is easily procurable for the merchant, it is ruinous for the farmer. One of the chief grievances of the French rural population is the usury which is the natural product of the murderous so-called protection inflicted by law on agriculture.

Nevertheless, in certain special cases the Bank of France has been able to place its services at the disposal of agriculture. M. Giraud, director of the Nevers branch, originated a novel plan. In the Nièvre the cattle-growers buy lean cattle in the spring, fatten them on their grazing lands, and at the end of nine months sell them to the butchers. M. Giraud concluded that, if the Bank of France should lend these individuals money for the purchase of lean cattle, it would certainly be paid back at the end of the fattening season. In order to make the required advances conform to the regulations of the Bank, the cattle-men were to execute notes with three signatures, which the Bank would discount, allowing two renewals, so that after nine months the advances would be regularly wiped out. The Bank, applying in this instance its rule to accept directly only paper with three first-class signatures, required a banker's surety in case the signer and first indorser were not persons of strong standing. At the same time, it demanded the production of rent receipts, so as to avoid the danger of being forestalled by the landlord's lien. Thanks to the co-operation of the Bank of France, the cattle industry has been developed materially. It has been taken hold of successfully in many Departments; and one of the poorest, the Department of Lozère, has experienced a very considerable growth of wealth and prosperity as the fruits of a branch of the Bank of France introduced there on the plan inaugurated by M. Giraud in the Nièvre.

But this contribution by the Bank of France to a solution of the problem of agricultural credit was merely to meet the circumstances of a most exceptional case. Projects for discounts of farmers' paper in general, for loans on growing crops, etc., are still unmaturing.

## RAIFFEISEN INSTITUTIONS.

Many people whose views merit consideration have proposed the introduction in France of Schulze-Delitsch banks and Raiffeisen institutions. The latter, which do not require the organization of actual capital, have generally been regarded with preference, and to-day there are a number of Raiffeisen establishments operating in France, although no details as to the amount of business done by them are accessible. They have, as a rule, been instituted by agricultural syndicates (co-operative societies) in conformity with a law of November 5, 1894—which statute, by the way, is perfectly superfluous. That law authorizes all or part of the members of an agricultural syndicate to form an agricultural credit association, having for its exclusive object to facilitate and extend the agricultural business undertaken by the syndicate or those belonging to it. The associations may receive deposits on current account, with or without interest, and they may assume the duty of making collections and payments for the syndicate and its members so far as agricultural matters are concerned. They are permitted to contract necessary loans to establish or increase capital. The capital cannot take the form of shares, but only of such subscriptions as the associated persons choose to make, which subscriptions may be of unequal amount, must be registered, and are transferable only among the members and with their joint consent. The profits that the association is to make on its transactions are stipulated by the regulations; and, after deducting for general expenses and for interest due on loans contracted, at least three-fourths of them is to be applied toward the creation of a reserve fund, which must amount to at least half the capital. The surplus is to be divided *pro rata* among the members of the syndicate, according to the business done by them. There are no dividends to parcel out. In the event of dissolution, the reserve fund and the excess of assets over liabilities go to the members *pro rata* according to their subscriptions. The credit associations so established are commercial bodies, but must keep accounts in conformity with the provisions of the Commercial Code. They are exempt from license fees and from the tax on personal property. The individuals intrusted with the administration are personally responsible for violations of the regulations and for breaches of the law. It may be doubted whether the associations started under the act are to be taken very seriously. The French people, with their spirit of equality, find it rather galling to be bossed and to have their affairs discussed by men with whom they are in daily contact. It appears to the Author that the Scotch “cash credit” system, under the auspices of important credit associations, would work much more efficaciously for the interests of both agricultural and popular credit.

## POPULAR CREDIT INSTITUTIONS.

“Popular credit” is a term at present no better adapted for favorable acceptance than “agricultural credit.” A pioneer “People’s Credit Association,” founded during the Second Empire by men of consequence, was an absolute failure. A society christened “The Prince Imperial,” for which collections were made, exerted only an insignificant influence. In the early years of the Third Republic, a Caisse Centrale de Crédit Populaire (People’s Central Credit Institution) was attempted by one of the great credit associations, with the patronage of the chief men of the Republican party—Gambetta, Paul Bert, and others; but it had only an ephemeral life and

rendered no services. Finally, a so-styled “People’s Credit Society,” started by a venerable friar, Father Ludovic de Besse, recently went into liquidation after suffering heavy losses. Several small mutual loan associations exist, but credit for artisans seems even more remote—if that is possible—than credit for farmers. In France everything still remains to be done along such lines.



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## CHAPTER VII.

### BANKING IN THE FRENCH COLONIES.

#### SECTION I.

##### THE BANK OF ALGERIA.

FIFTEEN years after the conquest of Algeria, the need of a bank became felt in that colony. Application was made to the Bank of France. The management deemed it indispensable to interest Algeria in the French institution, but disapproved the idea of a branch pure and simple. By the plan which was accordingly formulated, the Algerian establishment was to be separate, and to have an independent capital of ten millions—two millions to be furnished by the Bank of France and eight millions to be raised by issuing 8000 shares of 1000 francs each. The bank was to have exclusive privilege to put forth notes to bearer payable at sight, under the immediate supervision of the Bank of France, and its operations were to constitute a distinct system of accounts. The Bank of France, however, made haste slowly in the practical work of organizing the Algiers institution. This was due to decided misgivings. The Government, taking cognizance of the reluctance thus displayed, resolved to create a wholly independent bank, to be named the Banque d'Algérie (Bank of Algeria). The law for its foundation was enacted August 4, 1851, and specified a capital of 3,000,000 francs, divided into 6000 shares of 500 francs each. The charter was for twenty years, to expire April 4, 1871. The same measure authorized the Bank to issue notes of 1000, 500, 100, and 50 francs, with the proviso that the note circulation should not be more than three times the amount of coin on hand. The original regulations have been variously modified. A decree of March 30, 1861, increased the capital to 10,000,000 francs, adding 14,000 new shares. The question of renewal of charter came up in 1867. The law of January 15, 1868, extended the duration of the Bank to November 1, 1881, without change of capital.

During the Franco-Prussian War several legislative dispositions were made affecting the circulation of the Bank of Algeria. A statute enacted August 12, 1870, decreed a forced currency for the notes, limiting their amount to 18,000,000 francs. By the law of March 26, 1878, this limit was advanced to 48,000,000 francs, and the use of notes of twenty and five franc denomination was authorized. In 1876, the Bank applied for a further extension of its concession and for the privileges of doubling its capital and making advances on securities. The question of renewing the concession brought up another—whether it would not be expedient to merge the Bank of Algeria into the Bank of France. This was determined in the negative, for the opinion prevailed that such a fusion would add undesirably to the actual and moral responsibilities of the Bank of France, since it would be difficult for the latter to keep the proceedings of the Algerian bank and its twenty-four branches under effective surveillance; and since, on the other hand, the Algerian population would not readily accommodate itself to the

rules and practices of the Bank of France. One of the objections urged on the latter score was that the Bank of Algeria had been accustomed to discount paper bearing only two signatures, whereas the Bank of France required three signatures. These considerations dispelled for the time being the whole consolidation idea. But in order that there might be opportunity for full liberty of action in the future, it was deemed wise to fix the same date (December 31, 1897) for the expiration of the two concessions. A law adopted April 3, 1880, again doubled the capital stock, bringing it up from ten to twenty millions. It now consists of 40,000 shares of 500 francs each.

As a result of the successive increases in the value of shares, the surplus was swelled to 11,000,000 francs, of which 1,000,000 was taken to reimburse the State for its loan to the Bank at the outset. The remaining 10,000,000 was applied to the reserve fund.

The notes of the Bank of Algeria are legal tender. The maximum of issue is 75,000,000 francs. The Bank discounts bills of exchange and similar paper to order, including Treasury and other public drafts and warehouse receipts; \* makes advances on public securities and Algerian railway bonds upon the same terms as the Bank of France; receives on current account, without interest, sums deposited by individuals, and does cash services for depositors; carries on current account, at interest, funds of large financial institutions and others which are intended for Algerian public works; allowing open credit for such funds in consideration of orders on France; sustains relations with the Bank of France for transactions of collection and discount; takes on free deposit securities, money, and gold and silver bullion, and issues drafts or orders against payments of specie or bank notes at ten days' sight or fifteen or more days from date. The shareholders are represented by a General Assembly, comprised of owners of at least ten shares. Every shareholder has a vote for each ten shares, with the proviso that no one shall have more than five votes. The General Assembly nominates the administrators to the number of nine, and three censors. The Disbursing Treasurer-General of Algeria is delegated by the Minister of Finance to serve as Government Commissioner in the Administrative Council. The administrators and censors hold office for three years, and perform duty successively in groups of three. They are re-electible. The director of the Bank is named by the Chief of the State on the recommendation of the Minister of Finance, and the assistant-director is appointed by the Minister of Finance.

The administration is complicated. Algeria is a country which exports raw material and imports manufactures. Most of the time the balance of trade is against her, and she has to pay more than she receives. In addition, considerable debts have been contracted to Paris for the building of railways, and exchange is generally unfavorable to Algeria. To supply remittances on France the Treasury sells to the merchants African Treasury orders, and pays its receipts for their account into the Bank of Algeria, which allows interest. This mode of exchange is costly, and the expense is enlarged by the advance account current which the Bank of Algeria carries at the Bank of France in order to maintain a fund for drawing direct on the metropolis. Besides the main office in Algiers, the Bank has branches at Bona, Constantine, Oran, Philippeville and Tlemcen, which promote usefully the commerce and agriculture of the colony. It has tried the experiment of numerous agricultural loans, not all of which have had lucky results. By its co-operation Algerian viticulture has risen to its present

importance; but loans allowed somewhat broadly have ultimately had oppressive consequences for the farmers, who have been unable to repay the Bank at the day of reckoning. Thus to-day the Bank owns an enormous acreage, greatly to its embarrassment. The present market price of shares indicates that, granting that the Bank is not seriously crippled and that its capital remains whole, it nevertheless has in a measure lost public confidence.

*Coin and Circulation of the Bank of Algeria (in Millions and Hundred Thousands of Francs).*

YEARS.	COIN ON HAND.			CIRCULATION OF NOTES.		
	Maximum.	Minimum.	Average.	Maximum.	Minimum.	Average.
1851-52	1.0	0.2	0.8	1.3	0.1	0.8
1854-55	2.0	0.8	1.6	2.8	2.4	2.6
1859-60	2.3	2.0	2.1	4.6	3.1	4.1
1864-65	9.2	4.5	6.7	7.1	5.4	6.2
1869-70	11.8	7.3		22.3	14.0	16.2
1874-75	29.2	16.9	23.7	37.3	25.8	30.3
1879-80	27.6	24.8	25.8	59.5	42.5	48.7
1884-85	33.2	25.2	30.0	70.3	55.2	63.5
1885-86	30.5	22.4	27.3	67.4	54.4	60.7
1886-87	26.1	21.0	24.1	72.4	56.1	62.8
1887-88	28.7	23.2	26.0	77.5	58.8	66.6
1888-89	37.3	30.2	34.0	75.2	61.4	67.7
1889-90	34.5	25.9	31.9	88.0	65.3	73.3
1890-91	29.5	25.3	27.5	88.1	72.2	79.5
1891-92	34.3	27.5	31.7	81.0	68.1	75.1
1892-93	40.1	32.8	37.5	74.8	66.3	71.0
1893-94	43.3	34.3	40.0	82.9	60.3	70.0
1894-95	36.0	28.1	33.4	90.5	70.4	80.0

*Profits, Expenses, etc.*

YEARS.	Profits.	Expenses	Dividends.	Average Price of Shares.
	FRANCS.	FRANCS.	FRANCS.	FRANCS.
1851-52	113,200	52,700	21.60	
1854-55	220,200	94,600	36.50	
1859-60	539,600	141,500	46.50	
1864-65	870,300	175,200	60.00	934.33
1869-70	1,365,700	343,500	66.00	1,159.69
1874-75	2,239,300	495,000	80.00	1,389.27
1879-80	2,572,800	749,600	71.00	1,502.08
1884-85	6,297,500	703,400	92.00	2,203.43
1885-86	6,152,100	778,600	80.00	2,113.05
1886-87	5,553,400	765,600	80.00	1,970.39
1887-88	5,856,800	751,000	80.00	1,687.47
1888-89	6,161,800	779,200	80.00	1,495.83
1889-90	6,157,400	798,200	80.00	1,475.70
1890-91	5,456,000	826,500	70.00	1,620.46
1891-92	6,032,209	817,267	60.00	1,400.00
1892-93	5,700,563	835,030	50.00	1,060.00
1893-94	5,886,761	873,424	38.00	734.30
1894-95	5,789,830	889,972	30.00	770.40

*Individual and Treasury Current Accounts (in Millions and Hundred Thousands of Francs).*

YEARS.	Maximum.	Minimum.	Average.	Maximum.	Minimum.	Average.
1851-52	0.3	0.1	0.2			
1854-55	0.7	0.5	0.6			
1859-60	1.4	0.8	1.1			
1864-65	2.5	1.6	2.1			
1869-70	4.7	3.1	3.9			
1874-75	3.9	2.5	3.1			
1879-80	10.2	7.1	8.0			
1884-85	5.3	3.2	4.2	43.9	25.4	33.9
1885-86	5.9	3.7	4.7	41.1	24.3	32.2
1886-87	6.5	4.7	5.4	29.7	9.1	19.8
1887-88	6.5	4.9	5.7	21.2	5.4	13.2
1888-89	9.6	4.3	6.1	38.6	14.4	32.5
1889-90	6.9	4.1	5.9	33.6	14.3	23.6
1890-91	8.4	4.7	6.0	26.3	8.9	17.4
1891-92	5.3	3.5	4.6	44.3	27.3	38.8
1892-93	7.2	3.0	5.0	50.8	42.1	45.7
1893-94	3.7	1.9	2.8	75.5	53.9	61.6
1894-95	6.1	1.7	4.2	60.1	27.8	62.9

*Commercial Discounts (in Millions and Hundred Thousands of Francs).*

PAPER ON HAND.

YEARS.	Number of Pieces.	Sums Discounted	Maximum.	Minimum.	Average.
1851-52	8.8	7.5	0.1	1.1	
1854-55	20.5	2.4	1.6	1.9	
1859-60	62.0	8.6	6.6	7.2	
1864-65	73.8	11.7	7.2	9.1	
1869-70	153.2	22.3	14.7	17.3	
1874-75 249,691	185.7	25.2	19.2	21.8	
1879-80 423,535	351.1	49.9	38.4	42.4	
1884-85 538,851	523.4	86.8	78.4	83.8	
1885-86 512,971	525.3	89.3	80.3	85.4	
1886-87 430,819	465.9	86.2	74.4	79.8	
1887-88 378,707	415.0	73.1	67.7	70.2	
1888-89 386,375	430.3	81.0	66.5	73.9	
1889-90 382,911	420.5	79.6	65.8	72.2	
1890-91 311,835	418.6	73.8	62.3	66.9	
1891-92 340,795	425.6	89.4	72.8	79.9	
1892-93 322,489	396.6	93.2	79.2	84.3	
1893-94 353,112	442.4	97.0	87.6	92.5	
1894-95 343,249	434.5	97.0	87.7	92.0	

*Landed Property  
Acquired by the  
Bank by  
Foreclosures.*

FRANCS.

1873-74 7,000,000
1874-75 13,100,000
1879-80 6,600,000
1884-85 5,200,000
1885-86 5,100,000
1886-87 5,100,000
1887-88 5,600,000
1888-89 12,000,000
1889-90 23,100,000
1890-91 20,400,000
1891-92 8,000,000
1892-93 8,500,000
1893-94 8,400,000
1894-95 10,900,000

The Bank of Algeria publishes an annual statement of its transactions. These statements are rather incomplete, and it is vain to search in them for details such as

are given by the Bank of France. It issues a monthly balance-sheet, of which the following is a reproduction:

*Condition of the Bank of Algeria on November 30, 1895.*

ASSETS.

	FRANCS.
Cash on hand	33,771,330.82
Consols	11,866,010.00
Bills receivable on hand	92,360,005.14
Bills receivable out for collection	1,902,925.30
Loans on securities	319,734.40
	94,582,664.84
Correspondents	6,884,441.25
Liquidations (accounts settled according to Article 35 of the Regulations)	6,412,780.48
Buildings of the Bank	2,311,179.14
Landed property	10,909,774.87
Running expenses	62,257.14
Branches (in account with the Bank)	91,380,743.45
Advances to the Government (Chambers of Commerce).	1,389,661.96
Miscellaneous accounts	2,518,891.55
	262,089,465.50

LIABILITIES.

Capital	20,000,000.00
Bank notes in circulation	84,781,205.00
Bills payable	22,665.55
Accounts current	6,228,116.61
Disbursing treasurers (their current account)	3,090,000.00
Public Treasury	33,616,444.19
Dividends due	587,934.41
Bonuses and commissions	427,157.73
Profit and loss	47,970.63
Rediscounts	440,271.12
Statutory reserve	6,666,666.66
Extraordinary reserve	1,980,357.48
Real-estate reserve	2,311,179.14
Bank of Algeria in account with branches	90,914,172.18
Miscellaneous accounts	10,975,324.80
	262,089,465.50

To sum up: The Bank of Algeria has pursued a very liberal policy in its loans, and has contributed energetically to the development of the great French colony; but the methods it has employed are not above criticism. The vast landed property that it owns has absorbed part of its reserves, but, on the other hand, is well administered,

and adequately corresponds in value to the figures reported in its statements. Yet the experience of all times, especially illustrated by the recent crisis in Australia, demonstrates the danger of investments in land. Although the condition of the Bank of Algeria excites no alarm, it is infinitely less satisfactory than it would have been if the Bank had kept clear of farm loans, which offer bad security in comparison with obligations on demand, like the bank note. The function of lender on long terms is, indeed, not properly within the sphere of the bank, but belongs rather to establishments that make a special business of engagements at stated maturity. The Bank of Algeria does not stand alone in this matter, however, for some of the French colonial banks have suffered from similar mistakes.

## SECTION II.

### OTHER COLONIAL BANKS.

AT the time of the abolition of slavery in the French colonies, an income of 6,000,000 francs was provided for the slaveowners. To make their position less painful, a plan was also devised to procure for them advantages of credit which had not existed up to that time. With that object in view, Article 7 of the same act stipulated that one-eighth part of the indemnity for Guadeloupe, Martinique, and Réunion should be applied to establish a loan and discount bank in each of those colonies. The income bonds so set apart were to be deposited in the bank as collateral for the bank notes which it was authorized to issue. Each colonist entitled to indemnity, excepting those whose claims were under 1000 francs, had a right to receive shares of the bank equivalent to the damage suffered. It was not within the original purview to have private capital participate in the organization of the banks in the three colonies. Shortly after the creation of the Banks of Guadeloupe, Martinique, and Réunion, like establishments were founded in Guiana and Senegal. Later, banks were set up in Indo-China and New Caledonia. The Bank of New Caledonia had only a brief career, failing after a few years.

The capitals of the colonial banks at present are as follows, all paid up except that of the Bank of Indo-China:

FRANCS	
Bank of Martinique	3,000,000
Bank of Guadeloupe	3,000,000
Bank of Réunion	4,000,000
Bank of Guiana	600,000
Bank of Senegal	600,000
Bank of Indo-China	*12,000,000
* Three million francs paid up.	

The capital in each case can be increased or decreased only by shareholders' assessments approved by the Governor of the colony and sanctioned by decree. The colonial banks have the sole right to issue bank notes in their respective colonies. The

duration of the various privileges, excepting that of the Bank of Indo-China, fixed at twenty years, was provisionally extended upon expiration, and then renewed until 1894. Provisional re-extensions were made for 1895 and 1896. The Bank of Indo-China, which was established later than the others, has not yet completed the term of its concession. The colonial banks are conducted as joint-stock companies. Their shares are 500 francs, par value. The shareholders are represented by 100 principal owners of shares that have been registered at least six months on the books. Each member of the Assembly has but one vote. The Assembly considers and, when desirable, approves the statement of transactions for the year, and elects the administrators and censors. The treasurer of the colony is *ex-officio* one of the administrators. The administrators (trustees) selected by the bank are three in number, and serve for three years, one retiring each year, although re-election is allowed. The censor acts for two years, and likewise may be re-elected. The Assembly nominates an assistant-censor, who may take the place of his chief when the latter is absent or unable to perform his duties. The Minister of the Colonies also appoints a censor.

The Administrative Council deliberates and votes on all questions affecting the bank. The censors keep all departments of the institution under surveillance, and also see that the laws and regulations are executed. The director is appointed by the President of the Republic from a list of three candidates presented by the Banking Inspection Commission for the Colonies upon the recommendation of the Ministers of the Colonies and the Finances. The director acts as president of the Administrative Council, and is responsible for the enforcement of its resolves. No resolve is valid unless signed by the director. No discount or advance transaction can take place without his approval. He directs the offices, appoints the employees, and receipts for and indorses documents. He is not permitted to pursue any private business, and must possess as security twenty shares of the bank. In the event of absence or incapacity his place is filled by a director *ad interim* appointed by the Privy Council of the colony.

By a decree of November 17, 1852, it was determined, as an indispensably necessary measure for properly controlling the colonial banks so far as their European business was concerned, to create in Paris a "Central Agency of Colonial Banks." The central agent is selected by the Minister of the Colonies. He represents all these banks in their transactions with Paris, attending to the taking up of notes and to purchases for the banks. He also has charge of the transfer of shares in France, and is the legal representative of the establishments in court proceedings before the tribunals of Paris. The expenses of the agency are borne by the banks *pro rata* according to their capital. The Minister of the Colonies designates some credit house (at present the Comptoir d'Escompte) to carry current accounts for the colonial banks. The amount of collections of the commercial paper on Europe of the colonial banks is credited to them; also the amount of such paper as has to be negotiated in Europe; the amount of back interest on consols belonging to them or intrusted to them, and all other sums which may be received for their account. On the debit side are charged drafts or orders issued in favor of third parties by the banks on the Paris credit house and paid by them, the dividends of their shares, and all expenses on their account. All collections and payments are subject to the approval of the central agent. The colonial banks, further, are kept under inspection by a commission in connection with the Ministry of the Colonies, composed of nine members—a State Councillor chosen by



the Council of State, four persons appointed by the Minister of the Colonies, who must reside in Paris and of whom at least two must be shareholders, two persons named by the Minister of Finance, and two selected by the General Council of the Bank of France. The commission elects its president. All documents sent to the Ministry appertaining to the colonial banks are communicated to it. Its advice is asked concerning all acts of the Government that affect them. It recommends such measures of examination and control as seem expedient. Annually it reports to the Parliament and the President of the Republic upon the results of its administration. These reports are published in the “Journal Officiel,” and in at least one newspaper of each colony.

The agency of the colonial banks is from time to time brought under examination by the Inspectors of Finance, who inspect all the current accounts of the banks, report upon the manner in which the central agent fulfills his duties, and recommend any changes of method that may be called for. The transactions of the colonial banks comprehend discounts of notes to order and home commercial paper provided with the signatures of two solvent persons; negotiations, discounts, and the sale of drafts or orders on the metropolis or abroad; and advances on negotiable securities or on non-negotiable engagements secured variously by warehouse receipts for goods in storage, growing crops, bills of lading, transfers of bonds, or shares of the bank, and deposits of bullion, moneys, or gold and silver of every kind. The most remarkable transactions of the colonial banks—or, at least, some of them—are those on growing crops, which seem to constitute, indeed, the chief purpose of their existence. Any proprietor, farmer, or lessee of a farm, or planter, who wishes to borrow on his growing crop gives notice in writing a month ahead. This notice is entered in the book kept for that purpose by the Registrar. Everyone who is not actual owner of the soil must exhibit the consent of the proprietor, which is inscribed in the register at the same time that the declaration relating to the loan is made. Any creditor holding a mortgage on the buildings or a claim on the crop, or upon the proprietor, may remonstrate against the granting of the loan. The remonstrance is filed with the Registrar, who notes it on the margin of the application. The Registrar is obliged to furnish abstracts of such records to all asking for them. At the end of a month after the would-be borrower’s declaration, the loan may be made by the bank. By virtue of procedure which the bank takes in the same connection, it acquires a lien on the crop and is considered the owner thereof. Its lien takes precedence over the rights of all who have not entered protest. If the debtor neglects to gather his crop in sufficient time, or omits to do anything needful in the premises, the bank, after summoning him, and by a simple order from a justice of the peace, can be authorized to harvest and care for the crop in the stead of such negligent debtor, the bank advancing the required sums for expenses, which it receives back, together with the principal of the capital, out of the crop and its money product.

## STATISTICS OF THE COLONIAL BANKS.\*

(In Millions and Thousands of Francs).

*Discounts.*

	MARTINIQUE.	GUADELOUPE.	RÉUNION.	SENEGAL.	GUIANA.	INDO-CHINA.
YEARS.	On Discounts. Hand June 30th.	On Discounts. Hand June 30th.	On Discounts. Hand June 30th.	On Discounts. Hand June 30th.	On Discounts. Hand June 30th.	On Discounts. Hand June 30th.
1880-81	24,176	7,998	2,003	8,506	769	2,367
1881-82	22,762	5,958	8,197	1,902	8,219	869
1882-83	22,486	5,307	9,199	2,483	7,674	2,097
1883-84	22,295	5,744	10,258	2,714	7,057	2,579
1884-85	18,188	4,330	9,127	2,650	6,506	2,617
1885-86	12,672	3,874	6,442	2,034	8,124	1,722
1886-87	12,376	3,522	5,506	1,533	6,498	1,534
1887-88	11,781	3,039	4,234	1,060	6,570	1,800
1888-89	10,190	3,217	3,423	1,009	10,333	2,976
1889-90	11,745	3,542	3,170	1,114	16,779	5,194
1890-91	16,593	5,233	3,334	1,013	21,715	5,406
1891-92	23,388	7,925	3,604	1,067	21,509	6,027
1892-93	26,855	7,662	3,645	1,265	21,839	4,283
1893-94	23,669	8,268	3,772	1,353	9,610	4,035

*Advances on Growing Crops.*

	MARTINIQUE.	GUADELOUPE.	RÉUNION.	INDO-CHINA.
YEARS.	Sums Advanced. in Force on June 30.	Sums Advanced. in Force on June 30.	Sums Advanced. in Force on June 30.	Sums Advanced. in Force on June 30.
1880-81	2,868	7,233	138	3,247
1881-82	3,326	20	8,132	80
1882-83	3,324	37	8,387	332
1883-84	4,548	387	9,249	1,220
1884-85	2,871	97	8,677	797
1885-86	2,703	68	7,820	1,391
1886-87	3,070	397	7,843	751
1887-88	3,630	74	8,171	346
1888-89	2,769	73	7,579	78
1889-90	3,612	363	8,040	773
1890-91	2,958	306	8,403	280
1891-92	4,352	1,811	9,347	157
1892-93	3,816	820	8,788	117
1893-94	4,995	971	8,563	183

The Banks of Senegal and Guiana make no loans on crops, as those colonies are not agricultural. These very important transactions in Martinique, Guadeloupe, and Réunion have become dangerous because of the fall in sugar. The Bank of Réunion, particularly, is in a most precarious position, owing to the large loans that have not been repaid.

The advances on goods in storage are of importance only in the Banks of Réunion and Indo-China.

*Loans on Merchandise.*

RÉUNION.		INDO-CHINA.		
YEARS.	Amounts Loaned.	Situation on June 30th.	Amounts Loaned.	Situation on Dec. 31st.
1880-81	13,146			
1881-82	9,947		9,162	
1882-83	11,955	2,990	12,534	
1883-84	13,798	3,485	20,998	
1884-85	11,605	3,967	28,307	
1885-86	10,709	3,250	29,588	3,158
1886-87	4,977	1,771	29,044	3,609
1887-88	4,666	812	21,095	4,874
1888-89	4,722	657	30,785	5,104
1889-90	7,674	968	27,559	6,139
1890-91	5,712	1,027	32,354	6,449
1891-92	6,836	1,374	33,287	4,713
1892-93	5,964	1,039	37,910	4,032
1893-94	3,959	813		

*Rates of Interest in 1893-94.*

Discounts. Per Cent.	Imported. Per Cent.	Advances on Crops. Per Cent.	Loans on Merchandise Colonial. Per Cent.	Loans on Precious Metals. Per Cent.	Other Transactions. Per Cent.
Martinique	8	3	8 8	6	6
Guadeloupe	6	6	6 6	6	6
Réunion	7½ to 8½	6	9 6	4 to 8	7½ to 9
Senegal	6 to 8		6 to 8	9	6 to 8
Guiana	8		8 8	8	6
Indo-China	8 to 12	7 to 9	7 to 9	7 to 9 8 to 12	4 to 7

*Open Current Accounts Without Interest.*

YEARS.	MARTINIQUE.			GUADELOUPE.			RÉUNION.			GUIANA.			SEN.
	Paid In.	Drawn.	Balance June 30.	Paid In.	Drawn.	Balance June 30.	Paid In.	Drawn.	Balance June 30.	Paid In.	Drawn.	Balance June 30.	Paid In.
1880-81	58,649		1,070	63,776		1,774	8,174	7,384		4,117	3,527	494	302
1881-82	64,331	63,236	2,164	72,085	69,462	3,397	12,285	12,595	818	3,527	3,731	290	877
1882-83	71,423	71,704	1,883	72,125	73,658	1,864	11,013	11,227	604	3,487	3,551	226	1,56
1883-84	67,298	67,785	1,396	72,814	72,465	2,213	7,689	7,844	449	2,791	2,854	163	2,42
1884-85	39,838	39,236	1,498	56,286	56,371	2,128	10,187	10,057	579	2,711	2,705	169	2,92
1885-86	31,071	31,480	1,089	45,587	45,830	1,885	1,572	8,392	759	2,625	2,604	190	1,90
1886-87	32,749	32,248	1,590	52,476	52,064	2,297	7,347	7,437	669	3,700	3,639	251	2,19
1887-88	38,154	37,935	1,809	57,061	56,772	2,586	8,924	9,146	447	4,592	4,544	299	1,57
1888-89	42,935	42,370	2,374	50,338	49,432	3,492	9,548	9,481	514	5,178	5,016	461	1,26
1889-90	43,608	44,564	1,418	51,656	52,020	3,128	19,438	18,204	1,748	4,074	4,213	322	1,11
1890-91	37,199	37,070	1,547	49,040	49,411	2,757	31,634	32,340	1,642	2,745	2,736	331	1,14
1891-92	31,427	31,722	1,252	45,042	45,483	2,316	28,086	27,673	1,455	2,886	2,900	317	1,19
1892-93	31,448	31,512	1,188	48,180	48,240	2,256	27,417	27,233	1,640	3,751	3,686	382	1,16
1893-94	29,386	29,904	670	49,371	49,546	2,081	18,192	18,602	1,230	4,711	4,445	648	552

*Movement of Exchanges with France.*

YEARS.	MARTINIQUE.		GUADELOUPE.		RÉUNION.		GUIANA.		SENEGAL.		INDO-CHINA.	
	Drawn on France.	Sent to France.	Drawn on France.	Sent to France.	Drawn on France.	Sent to France.	Drawn on France.	Sent to France.	Drawn on France.	Sent to France.	Drawn on France.	Sent to France.
1880-81	11,454	9,848	14,251	17,537	4,833	5,898	4,645	4,973	3,033	3,598	18,770	17,233
1881-82	11,031	12,018	16,075	20,208	8,569	7,672	4,395	4,155	3,431	3,992	20,374	25,536
1882-83	16,731	16,340	18,095	20,197	9,887	9,067	4,844	4,842	4,788	4,529	23,927	31,410
1883-84	15,985	16,245	22,425	23,172	9,995	8,191	5,018	5,425	3,990	4,661	38,128	52,472
1884-85	6,193	8,443	17,871	18,841	3,485	7,632	5,082	5,101	4,756	5,116	38,359	53,850
1885-86	4,997	4,030	13,332	13,440	4,534	5,483	4,754	4,600	4,509	4,509	40,307	64,206
1886-87	4,700	5,586	10,550	14,679	3,603	3,014	4,962	5,285	3,639	5,355	25,852	45,363
1887-88	4,970	6,424	12,675	17,716	4,882	5,761	5,791	6,564	3,673	6,659	37,582	49,543
1888-89	4,464	5,010	13,319	16,744	4,309	3,947	5,710	5,866	2,795	3,188	40,036	62,110
1889-90	6,640	6,287	14,136	14,633	2,230	2,977	4,496	5,269	2,323	3,103	29,358	49,388
1890-91	9,236	6,718	16,383	12,181	2,296	3,302	5,283	5,587	2,121	3,793	48,127	59,500
1891-92	9,876	2,917	14,249	15,302	3,265	3,247	5,165	5,762	1,943	4,530	52,645	65,250
1892-93	6,244	7,010	15,200	16,685	1,915	2,225	5,645	6,259	2,462	4,219	45,086	59,455
1893-94	6,244	6,809	15,900	17,107	2,904	3,098	5,652	6,674	2,802	4,194		

*Coin on Hand at End of Business Year.*

YEARS. Martinique Guadeloupe. Réunion. Senegal. Guiana. Indo-China.

1880-81	2,547	2,079	3,561			2,743
1881-82	2,525	2,295	4,063	808	703	4,115
1882-83	2,867	2,311	4,016	790	581	1,940
1883-84	2,187	2,536	3,868	518	499	4,814
1884-85	2,523	2,379	4,170	554	685	6,388
1885-86	2,360	2,324	3,905	455	923	4,910
1886-87	2,417	2,670	3,759	458	782	5,224
1887-88	2,482	3,111	3,297	694	634	5,956
1888-89	2,313	3,722	2,783	531	1,108	6,047
1889-90	2,830	2,907	2,527	522	784	6,049
1890-91	2,203	3,178	2,646	482	670	8,322
1891-92	2,912	2,953	2,844	745	688	8,149
1892-93	2,196	2,974	2,778	1,298	685	9,572
1893-94	2,581	3,200	2,651	564	926	10,470

*Bank Note Circulation.\**

YEARS. Martinique. Guadeloupe. Réunion. Senegal. Guiana. Indo-China.

1880-81	1,584	550	9,855			4,717
1881-82	5,546	6,329	9,121	426	1,513	6,558
1882-83	5,843	6,582	7,619	807	1,289	7,783
1883-84	6,010	6,431	7,247	755	1,452	8,138
1884-85	6,851	6,095	9,777	751	1,438	10,572
1885-86	5,107	5,910	7,608	823	1,388	11,777
1886-87	5,345	7,120	5,526	758	1,453	12,293
1887-88	6,190	7,624	5,026	847	1,656	13,047
1888-89	6,058	7,335	5,176	779	1,409	11,949
1889-90	6,517	6,890	6,343	928	1,421	15,974
1890-91	6,005	6,576	7,455	1,086	1,519	15,911
1891-92	5,432	7,034	7,409	919	1,546	18,696
1892-93	5,126	7,932	7,623	987	1,639	20,926
1893-94	7,007	8,376	9,416	912	1,923	22,077

\* The proportionately high figure of the coin on hand and the bank note circulation of the Bank of Indo-China is explained by the wide reach of that Bank's influence. It has establishments at Saïgon, Hanoï, Tourane, Haiphong, Pnam Penh, Pondichéry, Hong Kong, and Nouméa. It is even proposed to establish a branch at Réunion in case the bank of that colony goes into liquidation.

<i>Profit and Loss.</i>										
YEARS.	MARTINIQUE.		GUADELOUPE.		RÉUNION.		GUIANA.		SENEGAL.	
	Net Profits.	Dividends.	Net Profits.	Dividends.	Net Profits.	Dividends.	Net Profits.	Dividends.	Net Profits.	Dividends.
	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.
1880-81		88.05	487,659	75.50		100.00		76.25	24,909	26.00
1881-82		74.95	501,719	77.50	671,044	83.00	114,227	81.05	36,310	40.00
1882-83	483,333	75.00	555,666	85.50	617,902	85.00	141,751	99.40	73,754	72.00
1883-84	614,003	70.00	511,678	78.00	627,240	80.00	133,726	94.05	63,418	63.00
1884-85	154,807	25.00	322,135	37.00		12.50	128,029	90.30	96,780	92.00
1885-86	472,162	65.00	299,255	40.00			116,112	82.30	82,643	80.00
1886-87	448,772	60.00	431,270	62.50			120,176	85.05	82,809	80.00
1887-88	536,354	62.50	664,624	95.00			135,303	95.00	82,922	81.00
1888-89	518,694	70.00	789,896	115.00			75,618	36.20	84,821	45.00
1889-90	474,497	70.00	819,260	122.50	341,623	45.50	125,018	62.00	117,676	50.00
1890-91	494,114	65.00	712,793	95.00	640,291	49.50	156,068	88.00	124,051	52.50
1891-92	765,021	70.00	691,507	95.00	284,000	35.00	158,812	110.00	150,426	50.00
1892-93	664,560	60.00	660,116	100.00			149,710	103.90	190,322	57.50
1893-94	649,013	65.00	723,982	105.00			140,114	96.20	172,860	65.00

We reproduce below, as a sample, the balance-sheet of the Bank of Martinique for June 30, 1894, as published by the Inspection Commission of the Colonial Banks. The various items of assets and liabilities are self-explanatory, and call for no remarks. All balance-sheets of the colonial banks are made up on the same form, and we deem it proper to call attention to the good arrangement of this statement, which might well serve as a model for banking summaries.

*Condition of the Bank of Martinique, on June 30, 1894.*

ASSETS.

	FRANCS.	FRANCS.
Coin on hand	2,581,022.09	
Bills to take up to-morrow, stamped paper, etc.	78,014.42	
		2,659,036.51
Local bills receivable	8,268,199.41	
Bills receivable with bank-stock collateral	269,592.50	
Bills receivable with consols collateral	2,485.00	
Bills receivable with merchandise collateral	17,500.00	
Bills receivable with crop collateral	971,236.00	
Loans on gold and silver	583,804.00	
Loans by communities	496,402.73	
Total of loans and discounts		10,609,219.64
Registered consols		4,504,544.03
Western R. R. bonds, guaranteed by the State		32,943.65
Buildings		246,199.90
Movable property		35,983.60
Income of sinking fund		43,262.60
Central agency		130.93
Bank of Guiana		55,381.83
Miscellaneous		8,042.75
Pension fund securities		74,795.00
Total		18,209,540.44

LIABILITIES.

Bank notes in circulation	7,007,550.00
Current accounts	670,585.70
Deposit receipts payable at sight	47,824.04
Bills payable	13,724.16
Current dividends	4,922.10
Back dividends	6,737.20
Bank of Guadeloupe	170.00
Comptoir d'Escompte (current account)	3,369,292.27
Balance of orders drawn on the Comptoir	3,614,512.10
Total	6,983,804.37
Less remittances in favor of the Comptoir	1,511,475.10
Balance due the Comptoir by the bank	5,472,329.27
Debts exactable under deduction of ready coin*	13,223,842.47
Capital	3,000,000.00
Reserve and sinking funds	1,548,047.50
Reserve for paper in suspense and for interest to the Comptoir	112,910.81
Employees' pension fund	75,544.50

Profit and loss	367,361.20	
Less running expenses	58,166.04	
Leaves		309,195.16
		18,269,540.44
*Bank notes in circulation		7,007,550.00
One-third in coin would be		2,355,850.00
Coin on hand		2,581,022.09
Surplus of metallic stock		245,172.09



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## PART II.

### BANKING IN ITALY.

#### CHAPTER I.

##### PRIMITIVE BANKS.

THAT Italy is the native country of banks is amply evidenced by the common acceptance of Italian terms in banking parlance. It is highly interesting that two of the primitive Italian banks are still in existence, though much modified, the Banco di Napoli and the Banco di Sicilia. The objects of the first banks are perfectly indicated in distichs inscribed beneath two statues by Bernino adorning the front of the Monte di Pietà at Naples (the Bank of Naples):

Forsan abest misero signata pecunia civi  
Atque illum interea tempora sæva premunt,  
Nummorum huic operi ingentes cumulamur acervas,  
Pignore deposito, quod petit inde damus.  
Si quis amat brevibus cante persolvere chartis  
Aut timet insidias furis et arma domi  
Congerite huc aurum, placidas et carpite somnos  
Per me stucros civibus esse licet.

##### THE MONTE VECCHIO.

In 1156, the Venetian Treasury found itself exhausted, and the Doge Vital Michel proposed to levy a forced loan on the wealthiest citizens, assuring four per cent. interest to the creditors. This was the first instance of a public debt. The lenders were given a kind of semi-official status and, under the guaranty of the State, were authorized to open a deposit establishment which issued orders payable in ready ducats of a fixed standard. This institution was called the Monte Vecchio.

Loan and pledge establishments, or Monts de Piété and deposit offices, were the original banks of Italy. The oldest appears to have been the Bank of Venice, or Bank of St. Mark's. The Mont, says the celebrated historian Cesare Conti, was one of the instrumentalities wherewith the Italian republics sought to provide for urgent needs by establishing State debts. The credits issued by the Mont offered their holders more safety than even the metallic moneys, which could always be debased, and they circulated freely. The Government used them exclusively for its payments. The transactions attained larger dimensions in the course of time, and the Monte Vecchio had the distinction of making transfers of funds by signature (*giro*)—a species of modern banking instrument. To this ancient Mont, the Venetians added, in 1580, the Monte Nuovo, as an aid for carrying on the war with Ferrara, and later (after the

Seven Years' War) the Mont Nuovissimo. The remains of these concerns served for the construction of the Bank of Venice, which endured until the fall of the Republic.

## THE BANK OF ST. GEORGE.

The creation of the Bank of St. George is a very remarkable landmark in history. Genoa, says C. Conti, was formerly accustomed to cede certain revenues to the State's creditors. In 1345, a "Chapter" was formed, with the necessary employees, and the debt was divided into shares of 100 livres which could be sold and transferred. As the collection of the different taxes was intrusted to different officers, the expenses consumed the profits. To simplify matters, the various branches of the service were consolidated into a single "College," composed of eight members, which adopted the name of Bank of St. George. The members of the college were appointed by the creditors of the State, and were to render their accounts to one hundred selected creditors. Each administrator of the bank had the title of Consul. Every credit of 100 livres was called a *lieu*+? (place). Each creditor was a *locataire* (holder), and a certain number of credits united under a single head constituted a *column*. *Purchases*, or *writings*, were the total of lieu+?s, which were styled *Monts* at Florence, Rome, and Venice. The taxes set apart for the payment of lieu+?s produced seven per cent. net. The lieu+?s were recorded in eight registers, corresponding to the eight departments or wards of the city, subdivided for the palaces of the nobles and the lodgings of the bourgeois.

When this separation was abolished, in the 17th century, the records were made up without distinction of classes, and the creditors received coupons bearing their names and the notary's signature. No bills could be put into circulation unless their value was represented by coin, and all paper was payable at sight out of money kept in the sacristies, where many people deposited their savings, and also out of the sums intended for public charities.

The supreme direction of the Bank of St. George was assigned to eight protectors, who, when necessary, associated with themselves eight procurators, eight members of the office of the forty-four, and four syndics, or comptrollers. The protectors summoned annually a Grand Council of 480 holders, half of whom were designated by lot and half selected by ballot. The magistrates of the Republic were required to take an oath to maintain the inviolability of the bank. This society prospered, being less corrupt than others. It was regarded as a promoter and conservator of peace. Its credit grew steadily, especially from the time when the Republic, unable to maintain the defence of Caffa against the Turks and Corsica, ceded those possessions to it. Thus the establishment of St. George was at once a commercial bank, a State depository for the revenues, a contractor for the taxes, and a political custodian. The large increase of State indebtedness caused the Government to pledge to the bank the sovereignty of St. George in Genoa and of Justiniania in Chios. The bank was pillaged by the Austrians in 1746; but it recovered and continued in existence until 1800, when it was destroyed by the French.

## THE MONTE DE PIÉTÉ OF NAPLES.

The Bank of Naples is a credit institution formed by the consolidation of several charitable establishments, the oldest of which was founded in 1540. Up to that date, says Eugenio Tortora,\* money loans were made only by the Jews, for they came under the condemnation of the Catholic Church as usurious. An edict issued by the Emperor Frederick (13th century) authorized the Jews to take ten per cent. interest, but in 1507 Ferdinand the Catholic deprived them of all right to institute legal action against borrowers, so that as these lenders could rely no longer upon the security of written instruments, they were brought to the necessity of insisting on personal property as pledges.

On the occasion of a visit by Charles V. to Naples, the Grand Seigneurs, desiring to tender him a magnificent reception, pledged all their personal property and silverware to the Jews. The latter made very hard conditions and realized exorbitantly. After the King's departure, the borrowers complained of the extortions they had suffered. Their clamors were so loud, and public opinion sided with them so decidedly, that the Viceroy, Don Pedro de Toledo, promulgated in 1540 a stringent edict commanding the Jews to quit the city and kingdom at once. The edict was carried out to the letter. But, after the expulsion of the Jews, it became necessary, in order to obtain loans, to apply to rich Christians, who did not scruple to exact an interest even higher than that charged by the Jews. As a corrective for this state of things, two philanthropic men, Aurelio Paparo and Leonardo di Palma, instituted, in 1539 or 1540, with their own capital, a house called the Sacro Monte della Pietà. They made loans on pledges by individuals, opening an office where free loans were granted on values below ten ducats, with very moderate rates for higher amounts. Soon, the house of the two founders was unable to accommodate the business done, and the Mont de Piété had to be transferred to the Foundling Asylum, or Santa Annunziata. The directors of the asylum became protectors of the Mont de Piété. During the first years of its existence the Mont de Piété was supported by small sums raised by collections and by gifts from persons taking an interest in the good work. Gradually these sums accumulated. Countess Carrafa and Cardinal Acquaviva made fine donations which enabled the concern to enlarge its loan transactions and to engage in charitable enterprises, such as the releasing of persons imprisoned for debt, the granting of dowries to poor children, the ransoming of captives taken by the Berbers, etc. Wills drawn in favor of the Mont de Piété specified that the legacies should be devoted to these and similar uses.

## APODISSARY ACCOUNTS.

In 1573, the Mont de Piété inaugurated quite a novel system, the apodissary service (from the Greek αποδεικτος, demonstrative, meaning that the books were so kept as to clearly exhibit the nature and state of the account). This service consisted in the opening of current accounts (*madrefidi*), in transfers of funds by drafts (*giro*) and instruments resembling cheques (*fèdi di credito*), and in issuing orders for money payable at sight (*polizze di credito*), etc. The Mont de Piété had become a bank with a circulation, and acquired considerable importance in the economic organization of Naples.

Its success stimulated imitation; and, in 1563, an association named the Santa Maria del Monte dei Poveri was started by a lawyer with the object of liberating imprisoned debtors. Its capital, very meagre at the beginning, was made up by subscriptions and by alms gatherings. As late as 1860, its representative, wearing a hood that hid his face, could be seen soliciting alms in the churches and streets. He cast the moneys given him into the peculiarly constructed boxes in the churches, for which he had no key. In 1583, twenty-nine noblemen, at the instance of Brother Paolino da Lucca, organized an association for the relief of prisoners and the modest poor. It called itself the Compagnia del Santo Nome di Dio (Society of the Sacred Name of God). It had for some years much competition with the Monte dei Poveri. The two united in 1599, taking the name of Monte dei Poveri del Santo Nome di Dio. This establishment gradually became one of the richest of Naples. The Annunziata Asylum, which had sheltered the Mont de Piété in its early career, sought in turn to engage in banking enterprises, and at a date that cannot be determined exactly, between 1577 and 1587, began operations as the Banco Ave Gratia Plena, or della Santissima Annunziata. In 1589, the Asylum for Incurables opened a bank known as the Banco Santa Maria del Papolo. Later, on the same model, there were the Banco del Espiritu Santo, the Banco Sant' Eligio, the Banco San Giacomo, and the Banco del Santissimo Salvatore, conducted on a partly charitable, partly financial basis. All this appears strange to modern economists; but such institutions nevertheless played an important part and are the legitimate ancestors of the banks of issue.

Their practical functions were of wider range than those of our present banks. They had a royal official capacity and discharged the duties of exchange agents, auctioneers, commissioners, and, in a large way, notaries. The “apodissary” service, which has been alluded to, comprehended current accounts and the issuing of bills payable in specie held by the bank; which was an advantageous improvement on the old plan of giving back the identical coins received. The banks of Naples—and this is an important fact in the history of credit—never acknowledged themselves to be *depositories* of money in the narrow sense of the word—*i. e.*, under obligation to return the specie as it was delivered to them—but claimed to have the mere character of *debtors* for certain amounts of money of determined weight and standard taken into common deposit. The loan service was substantially confined to advances on articles of gold and silver, on merchandise, and finally on clothing and household effects.

## A BANKING MONOPOLY ESTABLISHED.

In 1580, the Viceregal Government devised a banking monopoly, to be granted for twenty years to four merchants, who should have exclusive right to establish houses and offices for money transactions. By this scheme, the Mont de Piété alone was to continue. The object of the Government was to draw a large sum out of the monopoly. As soon as the law was made known, all the bankers who were not admitted into the monopoly, and whose business had to cease, entered protest, and their complaints reached the ears of Philip II. He had given his consent to the monopoly with reluctance, and he accordingly suppressed it in 1583—but without returning the 600,000 ducats that he had received for it.

## DEBASEMENT OF MONEY STANDARDS.

In the history of these old banks it is interesting to note their struggles against difficulties resulting from the continual alterings of moneys. Their *fédi* and *polizze di credito* specified that repayments should be made in money of a determined weight and standard; but usually weight and standard underwent change when the day of reckoning came. They received from their borrowers money of changed character in repayment of advances, and had to give out unexceptionable money to their book (*apodissary*) creditors. In 1622, they suspended payments, and their offices remained closed until an order from the Viceroy forced them to open again. The terms of this order reduced the amount of credits by one-third, and directed the payment of the two-thirds in bonds bearing five per cent. interest, while the moneys forming the cash stock of the banks had to be reduced to the new standard. To compensate the banks for the losses they had sustained from the alterations of coins, the Viceroy allowed them, in 1623, an income from the taxes amounting to 46,430 ducats out of a total of 773,871 ducats. This income, added to the assets left in the banks, was to be employed for settling the credits that had been reduced to two-thirds. The banks not only had to suffer from the ignorance and bad faith of the Government, but, notwithstanding their charitable objects, they were sacked by the mob. In 1647, in Masaniello's insurrection, only the Mont de Piété was spared. In consequence of these robberies, the non-payment of the tax income and the misdeeds of the Duke de Guise, captain of the people, who seized the largest part of the coin remaining, all the banks ceased their service. In 1656-57, a public calamity brought them relief. The pest attacked Naples and raged with great fury. The personal effects of the sick and dead were burned without discrimination; and thus large amounts of *fédi di credito* were destroyed, which the banks, consequently, were never called on to redeem.

## ANOTHER CRISIS IN NAPLES.

The death of Charles II., in 1701, precipitated another economic crisis in Naples, which imperiled the banks and completely ruined the Annunziata Bank. Charles II., who was childless, had left his vast possessions to a French Bourbon prince, Philippe, a nephew of Louis XIV., and it was known that the House of Austria would not quietly submit to this disregard of the Spanish succession. A war between France and Austria was imminent, in which the Kingdom of Naples, as a Spanish possession, could not fail to be involved. All the holders of *fédi* and *polizze* demanded their exchange in gold and silver. The banks took various steps to delay payments, and succeeded in calming the panic. But the necessity of definitely determining their available resources led to discoveries of great defalcations in the Annunziata, the Bank del Salvatore, the Bank of San Giacomo, and the Monte dei Poveri. The Annunziata's deficit was too large to be covered, and the establishment failed and passed out of existence. The institutions surviving the trouble regained strength, and in 1793 they had on deposit sums equivalent to more than 100,000,000 francs, and their capital aggregated 60,000,000 francs.

## MISFORTUNES TO THE OLD BANKS.

But in 1794 began sad misfortunes for the old banks. Ferdinand IV. allied himself with Austria in the war with France, and as he lacked means for armaments, he laid hands on the money deposited in the banking houses. He then consolidated them under a syndicate arrangement controlled by the Government, and compelled them to issue more than 140,000,000 francs of paper currency. The banks were unable to recover from this shock, despite all the measures taken to reassure the public. French rule took the place of the Bourbon in 1805. As it was not within the province of the new government to restore to the banks what the old dynasty had taken away, plans were considered for re-establishing confidence, but without successful issue. All the banks were brought under a common régime, and discount business was added to that of loans on pledges. Next, it was attempted to create a discount bank on a joint-stock basis. Murat, to furnish an example, subscribed for the first shares; but the undertaking was a failure. When the downfall of Napoleon permitted the Bourbons to return to Naples, one of the first efforts of Medici, Minister of Finance of the reinstated dynasty, was directed to bank reorganization. The bank now became an institution for affording the Government the use of private money.

## THE BANK OF THE TWO SICILIES.

A decree of December 12, 1816, created the Bank of the Two Sicilies, with two divisions, one for individuals and the other for the Court. The first division was organized by six of the old banks, and the second was a successor to the Bank of San Giacomo. The Government had returned to the banks the property sequestered by the French administration so far as it had not been sold. The "Individual Division" received private deposits and used them to make loans on pledges, such as articles of gold or silver, metals for manufacturing purposes, jewels, clothing and stuffs. The "Court Division" was a depository for all the receipts of the Treasury, and conducted the Treasury's payments. Connected with it was a special department for the discounting of Treasury certificates and commercial paper of individuals. Individuals had the privilege of depositing their funds in the Court Division. The Individual Division was under the supervision of the Government as a whole, and the Court Division was controlled by the Minister of Finance. The bank was conducted by a regent and presidents, and by governors appointed by the King. No guaranty was given to private persons for their deposits. The permission granted them to place their funds in the Court Division gave rise to confusion between private interests and those of the Treasury, which was increased when, in 1824, a second Court Bank was established to receive deposits and make loans on the collateral of gold and silver articles, and also to operate the Individual department of the Court Division. A decree of June 25, 1818, was a further instance of the State's meddling. It contemplated bringing into activity the discount bank that had been promised for two years, and authorized the Treasury to loan 1,000,000 ducats (4,250,000 francs) to this bank at nine per cent. which, later, was reduced to six per cent., on condition that the loan should be redeemed out of the profits. It was natural that the Government should wish to control the bank's management, but the decree of 1818 had nothing less in view than to give the Minister of Finance absolute power over that institution. He had

authority to fix the rate of discount, and was to be informed weekly as to transactions; he was privileged to allow discounts above the credits provided for in the regulations, and he could change the regulations at will. But it was not mere caprice that actuated the Minister of Finance in making these provisions. He sought in the discount bank a means for sustaining the floating debt of the State, and of avoiding the negotiation of Treasury certificates in the open market. These certificates were discounted by the bank at scarcely two per cent. The Treasury often issued bonds and sold them to the bank to escape the need of placing them on the Bourse. Besides, the bank discounted large quantities of mercantile bills of exchange, which were given it in payment for customs duties. It was, in short, a credit institution at the service of the Treasury, using the moneys of private individuals for the purpose. To review all the successive requirements to which it was subjected would be superfluous; they were amplifications of the decrees of 1816 and 1818.

The bank, having become distinctly transformed into an annex of the Treasury, subsequently lost entirely the character of a deposit and loan institution for the public. Private deposits were in a large measure absorbed for State operations. The paper issued by the Discount Bank had the same offices as the receipts that had already been issued to individuals for deposits and that circulated in the whole kingdom. It no longer could be doubted that the bank was a Government institution when the management of the Mint was intrusted to it. It did not, however, lose public confidence, and private deposits continued to flow in. The faith thus displayed, which appears unaccountable, was due to various causes. The deposit certificates (*fédi di credito*) enjoyed quite special privileges. When indorsed, all kinds of transactions could be effected with them, even sales and purchases of real estate—whatever the value—without obligation to use stamped paper or to make them of record. The day of the return to the bank of the *fédi di credito* was the absolute date for completion of the transaction. These bank vouchers were regarded by the Naples people as extremely useful. The bank also rendered gratuitous services to depositors in connection with their current accounts. Commercial houses, speculators, and all public offices made their payments through the bank, and so dispensed with keeping cash on hand. The State offices were required to receive the certificates the same as coin, and in the provinces the State officials had to pay coin for them. In a country having no other credit institution, such privileges were of great importance. The circulating medium in the Neapolitan provinces was almost entirely silver. Gold money had never been abundant, and for large amounts the bank's paper was preferred. Moreover, there was no other establishment to receive deposits of funds, as the Government had not permitted any opposition bank to be created. Last of all, the State practically guaranteed the debts of the bank. These were the conditions that enabled the bank to preserve its credit.

## THE BANK OF SICILY.

The Bank of the Two Sicilies had offices, or departments, at Messina and Palermo. The Revolution of 1848, which began at Palermo, interrupted for a time the relations between the Naples and the Sicily institutions, which compelled the latter to suspend payments after having exhausted the metallic reserve and issued a large volume of *fédi di credito* with a forced currency. When the absolute power of King Ferdinand II.

was restored, a commission was appointed to verify the accounts of the Bank of Palermo, and it found assets amounting to 25,924 ducats and liabilities reaching 3,854,107 ducats. The deficit was provided for by sales of income bonds; but the Neapolitan banks remained unprotected for heavy amounts owing by the Sicilian bankers. The events of 1848 led to the separation of Sicily, administratively, from the Continent. The two offices of Palermo and Messina became known as the “Royal Bank of the King’s dominions beyond the Straits.” The general management of this bank was assigned to a college, composed of one director, three governors and a president, and the president and governors of the old Messina Bank. The State engaged to pay an annual subvention of 36,813 ducats, to be raised to 39,668 ducats if the bank would, as promised to the King, add discount transactions to the open account service. Therefore, out of the old Bank of the Two Sicilies came two new institutions, the Bank of Naples and the Bank of Sicily.



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## CHAPTER II.

### BANKING UNDER THE UNIFICATION OF THE KINGDOM.

#### NATIONAL BANK OF THE KINGDOM OF ITALY.

WE have now arrived at the period of the unification of the Kingdom of Italy. For this period, we take, as our principal sources of information, the work of Signor G. B. Salvioni, the Report on Banking Inspection, and Parliamentary documents.

From the beginning of the unification of Italy, one bank took a commanding position—the Banco Nazionale del Regno d'Italie (National Bank of the Kingdom of Italy). It had its origin in the fusion of two banks created by letters patent of March 16, 1844, and October 18, 1847, at Genoa and Turin. They were chartered for twenty years, and were authorized to operate as banks of issue and to perform discounting transactions, take deposits, and transact current accounts. They had each the same by-laws and regulations. In 1849, they agreed to unite. The Government consented, and the resulting institution took the name of National Bank of the Sardinian States. Its privilege was to run thirty years, and its main office was at Genoa, with a branch at Turin. On July 11, 1852, its capital was raised from 4,000,000 to 32,000,000 lire, and it was empowered to introduce branches in the whole of Sardinia. After the Conquest of Lombardy, in 1859, the Sardinian National Bank was granted authority to extend its business to that country. It opened a branch at Milan and expanded the capital to 40,000,000 lire. Presently, the Duchies of Parma and Modena, and the Papal States, were annexed to the new Kingdom of Italy. In the State of Parma there was in existence a bank of issue of quite modest pretensions, and in the Papal States the Bank of the Four Legations, established in 1857. These two banks readily permitted themselves to be absorbed by the National Bank, which, by a decree of February 24, 1861, had its scope extended to Central Italy. Upon the annexation of the Neapolitan States it opened branches in Naples and Palermo, with the right to start others in the Neapolitan and Sicilian provinces. In 1865, it inaugurated a branch in Florence; but, in spite of all endeavors, it could not persuade the National Bank of Tuscany to join with it. At that time, the National Bank of the Sardinian States, which had changed its name to National Bank of the Kingdom of Italy, had 100,000,000 lire capital. The triumphant war of Prussia against Austria gave Italy possession of Venetia in 1866. The National Bank immediately established itself in Venice, taking over a chartered bank, the Stabilimento Mercantile Veneto, which had existed since 1853. Thus the National Bank reached out for a monopoly; but two credit institutions, the National Bank of Tuscany and the Tuscan Bank of Credit for the Industry and Commerce of Italy, still refused to succumb to it.

## THE BANKS OF TUSCANY.

Tuscany was always a hospitable region for the growth of banking. The oldest Tuscan bank of issue at the time of Italy's unification was the National Bank of Tuscany, founded in 1816 by an act of *manu propria* of the Grand Duke. Dissolved in 1826, it was replaced by a stock company, which obtained the right of issue for ten years on a tripled capital. The new capital of 1,000,000 Tuscan livres increased later to 1,125,000 livres. The concession was renewed at the end of each ten years until 1858. Besides this Florentine concern, there was a Leghorn Bank, created in 1837, that possessed a capital of 2,000,000 Tuscan livres and had power to issue bank notes for thrice that amount, on the condition that they should not be more than thrice the metallic coin stock. The right of issue was to expire December 31, 1858, at the same time with that of the Bank of Florence, so that the Government might effect a consolidation of the two if it so desired. Less important banks had sprung up—the Bank of Sienna in 1841, Arezzo in 1846, Pisa in 1847, and Lucca in 1850; and at the beginning of 1859 Tuscany consequently had six banks. The Tuscan Government deemed it useful to have a more powerful institution by merging together the Banks of Florence and Leghorn and giving the new bank authority to conduct branches throughout the Duchy. Permission was accorded the other existing banks to become branches of the new establishment, but they were not required to do so. Before this arrangement could take effect, the Grand Duchy was overturned and Tuscany became an Italian province. A decree of the Provisional Government, in 1860, ordered a fusion of the Banks of Florence and Leghorn under the new title of National Bank of Tuscany, and designated the smaller banks as branches. The National Bank of Tuscany did not, however, have the field to itself. On March 12, 1860, a competitor appeared, taking the rather formal name of Tuscan Bank of Credit for the Industry and Commerce of Italy. It nominally had 40,000,000 lire of capital, but really only 5,000,000. The wide range of its by-laws indicated that it purposed engaging in great undertakings, but it had little development and opened no branches. Therefore, at the period of Italian unity there were five banks of issue—the National Bank, the two Tuscan banks, the Bank of Naples, and the Bank of Sicily.

## THE BANKS AND THE UNIFICATION DRAMA—FORCED CURRENCY.

The banks were soon to play an important part in the unification drama. On May 1, 1866, a royal decree provided for the forced circulation of the notes of the National Bank of the Kingdom of Italy, and imposed upon the bank obligation to loan the State 250,000,000 lire, to meet the expenses of the impending campaign against Austria. The bank notes, cash certificates, orders, etc., of the other banks of issue were to be received as legal tender by individuals and the public offices, and their redemption was to be accomplished in National Bank paper. As the War of 1866 had given Italy possession of Venetia, so the Franco-Prussian War gave her the residue of the Papal States and terminated the work of unification. In Rome, the Italian Government found in operation a Bank of the Pontifical States, created in 1833, and holding an absolute monopoly of the right of issue and of all banking business. Reorganized in 1850, its capital had been fixed at 1,000,000 Roman écus (5,375,000 francs); but it began

business with a subscribed capital of 600,000 écus, in the hope that the remaining 400,000 écus would be taken up later. Its affairs were badly conducted. It did not redeem its paper at sight, and gave only time obligations for it. On November 4, 1866, an investigation demonstrated that the bank's capital was gone, and that the difference between assets and liabilities was more than 7,000,000. A decree by the Papal Government declaring the bank notes to be under State guaranty became necessary, but repayments were made only at the rate of 6000 écus per day, and no holder of bank notes could receive more than twenty écus. At the end of 1869, the circulation amounted to 30,000,000 and the coin stock 11,000,000. The Italian Government, upon entering Rome, recognized the legal currency of the Papal State Bank's notes within the province of Rome, reformed the by-laws by decree of December 2, 1870, and gave the institution the name of Roman Bank, which has since acquired such unenviable notoriety.

## SYNDICATE OF BANKS OF ISSUE.

For the sake of chronological order, we have interrupted our recital touching the forced currency, in order to explain the appearance of a sixth bank of issue. We now proceed to consider the consequences of the paper money régime.

By the decree of May 1, 1866, a peculiar and favored position was made for the National Bank of the Kingdom of Italy, since the other banks had to redeem their notes with the notes of the National Bank. This arrangement was oppressive for the other establishments, because the National Bank was not bound to redeem its own paper in coin, and acrimonious reflections were called forth, especially on the part of the Bank of Naples. Conditions remained on that basis for eight years, until modified by the law of April 30, 1874. The Government, which had borrowed 300,000,000 lire in notes from the National Bank on April 19, 1872, sought, in 1874, to borrow an additional amount of 1,000,000,000 lire. Not being able to raise such a sum from the National Bank alone, it organized a syndicate of banks of issue, composed of the National Bank of the Kingdom of Italy, National Bank of Tuscany, Tuscan Bank of Credit, Roman Bank, Bank of Naples, and Bank of Sicily. The six banks were to put at the disposal of the Treasury 1,000,000,000 lire in syndicate bank notes, which should have forced currency, be printed on white ground, and be of the denominations of  $\frac{1}{2}$ , 1, 2, 5, 10, 20, 100, 250 and 1000 lire. The syndicate banks were to be jointly responsible for the total of the syndicate bank notes, and individually in proportion to their capital and *patrimoine*. The State was to give the banks a sufficient amount in registered consols to guarantee the syndicate bank notes. Independently of the syndicate paper, each bank could issue its own notes to an amount not exceeding thrice its metallic coin stock, or thrice its capital. The separate notes of each bank were to be legal tender in the provinces where the bank, its branches, and its exchange bureaus were located. Redemption had to be made either in specie or syndicate notes. With regard to the notes of other banks held by each bank, they were to be settled by exchange and clearings (*Riscon strata*). For this purpose, on every Thursday all the banks, their branches, and their agencies remitted to one another the bank notes, cleared them, and made good the balances in syndicate paper, or acknowledged them by receipts in duplicate. The exchange vouchers and one of the originals of each receipt were sent to Rome, so as to arrive there on Monday, or Rome was advised by

telegraph. By this process, the agents of the banks in Rome were kept informed of the condition of each establishment. After verifications and clearings, the balances were made good on Monday, with four days' interest, or by means of seven days' orders, bearing interest from the previous Thursday, the interest being figured in each case at the discount rate of the creditor bank. If, accidentally, there should be an accumulation of notes, the debtor bank could make special arrangements for clearance.

The forced currency of the notes was to endure two years, expiring May 22, 1876. But on March 18, 1876, Signor Depretis and Signor Majorana Calatabiano proposed to Parliament an extension to 1877; and further postponements were made up to June 30, 1881.

## DISSOLUTION OF THE SYNDICATE.

The law of April 7, 1881, which provided for abolishing the forced currency after June 30th, dissolved the bank syndicate. The syndicate notes in circulation were considered a Government debt and remained legal tender in the whole kingdom, but were redeemable in coin on presentation. Such notes as reached the public offices were canceled, excepting the five-lire scrip, which were withdrawn only to the amount of 105,400,000 lire, and the ten-lire, which were kept in circulation. The excepted notes were to be redeemed from the surplus of the budgets. In order to compass the re-establishment of free currency, the Government contracted a loan of 644,000,000 lire, of which 400,000,000 lire at least was payable in gold. Of this amount 340,000,000 lire was deposited with the Department of Deposits and Consignments to guarantee the State's paper. The Act of April 7, 1881, specified December 31, 1889, as the date of expiration of the privilege of issue, and retained the legal-tender quality, which lasted until the expiration of the charters.

## A NEW SOURCE OF TROUBLE.

We now come to an unfortunate period in the history of the Italian banks. The rupture of the commercial treaty with France and the settlements for Italian securities held in great quantities in France gave Italy much embarrassment. Up to that time, the balances of her exports into France had permitted her to settle without remittances of cash for the coupons of her bonds held in that country. But after the French holders had disposed of the Italian bonds (which were largely bought up in Germany), and the two countries had enacted prohibitive customs tariffs against each other, Italy could no longer adjust her debts by such methods. Profiting by the stipulations of the Latin Monetary Union, she sent to the French bankers five-franc pieces and drew bills of exchange on them, which she forwarded to the German creditors. These bills of exchange were drafts on Germany, or gold drafts. As long as Italy had five-franc pieces she suffered no serious difficulties; but this resource was finally exhausted, whereupon her fractional coins disappeared into France. In the course of time, therefore, the Italian circulation was deprived entirely of metallic money, even of ordinary coin needed for every-day trade. Italy found herself reduced to the necessity of buying back and paying in gold for the coin that had gone to her monetary allies.

At the same time, when Italy was distressed by these various troubles arising from unfavorable foreign balances, she had to pass through one of the worst of crises, the consequences of which still burden her severely.

## A BUILDING CRISIS.

The Government, anxious to cultivate a high estimate of the country's vitality, had given marked encouragement to building operations in Naples, Rome, and other cities that were being rehabilitated. Several important associations had been set on foot for real-estate enterprises. The National Bank of the Kingdom had added to its ordinary business the real-estate mortgage service, which was also practised by other banks, particularly those of Naples and Sicily. These undertakings had appealed extensively to foreign capital. As matters grew more involved, and Italian credit became a subject of criticism, lenders became apprehensive and withdrew their money. A conspicuous Roman real-estate association, the Squilino Enterprise, found itself, by the end of 1887, in threatening circumstances. Its obligations, to the amount of 37,500,000 lire, were in the portfolios of public and private banks. Perceiving itself on the verge of ruin, it applied to its creditors, who, under the auspices of the Bank of Naples, formed a syndicate to supply it for one year with a sum equivalent to its indebtedness. The National Bank, as a creditor of the Enterprise for 4,000,000 lire, agreed, at the urgent solicitation of the Government, to loan an additional 10,000,000 lire. After the Squilino Enterprise had been saved, the National Bank had to come to the relief of the Tiber Bank, whose assets and liabilities it took in charge for liquidation under pressure from the Government. This was in 1889. The advances aggregated more than 59,000,000 lire. Next it went to the rescue of the Italian Mortgage Bank Society with an advance of 28,000,000 lire, the Naples Building Association, which consumed 16,000,000 lire more, and some other concerns of lesser consequence. The equivalents given for these various advances consisted chiefly of houses that were hard to sell or even to rent, and, at the present time, the indebtedness owing to the former National Bank, which has passed to the Bank of Italy, is far from settlement. Finally, as a further example of how little the Government cared for sparing the resources of the banks, Signor Crispi forced the National Bank to make a loan of 4,000,000 lire to the Negus of Abyssinia on the simple signature of his envoy, Makonen. A single statistical instance will suffice to illustrate the great gravity of the situation of the banks: On January 10, 1893, the amount of their outstanding doubtful debts reached 60,000,000 lire.

## EXTENSIONS OF THE BANKS' CONCESSIONS.

According to the Act of April 7, 1881, the concessions of all the banks were to expire on December 31, 1889. The Government was disinclined to attract attention to the subject—the more so because Italy was still practically under the forced currency system, disguised by the euphemism of legal tender. It permitted the privileges to run out, and extended the legal tender until the close of 1889; then, December 25, 1889, another law made a further extension to the end of 1891, impliedly involving prolongation of the bank charters for the same period.

Meanwhile Signor Crispi elaborated a plan of bank reorganization, which was given to committee in the Chamber on May 28, 1890, without being debated upon. Notwithstanding the rumors that began to spread as to serious irregularities in the conduct of the Roman Bank, which led to a Government inquiry, whose findings have never been made public, the concessions of the banks were renewed for 1892.

## INVESTIGATION AND STRANGE DISCOVERIES.

On December 20, 1892, the Government proposed another extension for three months. An Opposition Deputy, Signor Colajonni, embraced the occasion to charge the Roman Bank with malfeasance. He declared, specifically, that a bond of 4,000,000 lire had disappeared from the bank's portfolio; that the bank had a surreptitious circulation of 25,000,000 lire; that the most of the discounted paper was in the form of renewals, and that the administrators of the bank had abused the privileges of their position to obtain for themselves large loans. He concluded by demanding that his accusations be referred to a Parliamentary commission for investigation. The President of the Ministerial Council, Signor Giolitti, remonstrated energetically against the proposal, which he declared was insulting to the Ministry, and promised to have a thorough and searching executive examination made. The Chamber sided with the Ministry by a large majority. On January 10, 1893, the six banks were visited by inspectors. Very damaging disclosures followed. At the Bank of Naples it was discovered that there was a deficit of 2,450,000 lire in the coin stock. The Roman Bank had fraudulently issued bank notes bearing the old series. The report of Senator Finali, president of the inspecting commission, placed the fraudulent circulation of the Roman Bank at 41,000,000 lire, and the amount proved finally to be much more. The management attempted to cover up the frauds by jugglings of the debits and credits of accounts current. Besides the revelations about the Roman Bank, it was shown that all the banks had invested a considerable portion of their resources in mortgages, real estate, and the like. The amounts thus tied up were:

	LIRE.
National Bank	142,000,000
Bank of Naples	28,000,000
National Bank of Tuscany	7,000,000
Tuscan Bank of Credit	1,000,000
Roman Bank	18,000,000
Bank of Sicily	3,000,000
Total	199,000,000

Senator Finali's report concluded with these words: "Very bad and disastrous is the condition of the Roman Bank. The best of all is the situation of the Tuscan Bank of Credit, which has limited itself to a narrower sphere, although according to the programme of its organization it could, and even should, have branched out through the whole of Italy. The other four institutions—the National Bank of Tuscany, the National Bank of the Kingdom of Italy, the Bank of Sicily, and the Bank of Naples—are more or less affected by immediate needs, tying-up of funds, doubtful debts, and losses." A feature of Senator Finali's report that was regarded with general

incredulity was the declaration that little or no evidence had been found to connect public men with the interests of the banks. At the session of March 21st, the Chamber voted to appoint an inquiry commission, consisting of seven members, to determine political and moral responsibilities. Prosecutions were begun against the director of the Roman Bank, Tanlongo, and a Deputy, De Zerbi. The latter committed suicide in prison. A storm of indignation was raised by the bank scandals and the accumulated proofs that the foremost men in politics had been corrupted by the banks. At this day, after the lapse of two years, Italy still suffers from the misdeeds of the banking institutions.

## REORGANIZATION OF THE BANKS.

The Roman Bank, as soon as its frauds were disclosed, was put into liquidation and the Government assumed responsibility for its bank notes. The legal-tender function of the paper was extended to June 30th, and afterward to December 31, 1893, and a plan of thorough reorganization for the banks was prepared, which was adopted on March 22, 1893. This plan directed that there should be a consolidation of the National Bank of the Kingdom, the National Bank of Tuscany, and the Tuscan Bank of Credit, and that the new establishment should be designated the Bank of Italy.

The Bank of Italy was to take over all the liabilities of the Roman Bank as established by the inspection of January 10th, and also profit by all the assets. The privilege of issue was granted to the Bank of Italy and the Banks of Naples and of Sicily for a term of twenty years, to date from the promulgation of the act. The notes of the Bank of Italy and the Bank of Sicily were to be legal tender in the provinces where these institutions had offices; the notes of the Bank of Naples enjoying only private currency. The banks were required to dispose, within ten years, of all their existing real estate and mortgage loans, at the rate of one-fifth every two years. If they should be unable to effect the conversion of such assets into cash as provided, they were to apply resources to the purpose as follows: the Banks of Naples and of Sicily all their profits, and the Bank of Italy the non-called-in portion of its capital. The Bank of Italy was to annually set apart from its profits 2,500,000 lire as a sinking fund to settle the losses occasioned by the liquidation of the Roman Bank. These losses, estimated at 50,000,000 lire, were covered by a deposit of consols. Each year the Bank had to diminish the 50,000,000 lire total by the application of 2,500,000 lire from its profits.

Signor Cocco Ortà reported to the Chamber on June 20, 1893, upon the project. He approved the plans of the Government. The report said: "Although your committee has among its members men who are partisans of the free-banking idea and also men who believe in the principle of a single privileged and carefully controlled bank, and although the proposed solution does not conform to the ideal of either side, the committee nevertheless, by a large majority, recognizes the expediency and advantage of respecting accomplished facts and modifying as little as possible, and only in a manner compatible with the general interest, the existing status. The prevailing motive of the bill being thus approved, it remains only to fix upon such improvements as may be necessary or possible. It must be borne in mind, however, that any improvements are to make their way slowly and gradually, like all progress; and while

it is never difficult to benefit definitely by experience, it is not always given to legislators to put into practice scientific theories.”

The debate was protracted, tempestuous, and rather confused. Numerous amendments to the bill were offered, some of which were adopted and others rejected.

## THE CONSOLIDATED “BANK OF ITALY”

Finally, August 10, 1893, the bill was passed and became law. We present an analysis of the provisions of the act.

The National Bank of the Kingdom of Italy, the National Bank of Tuscany, and the Tuscan Bank of Credit were consolidated under the name of “The Bank of Italy,” which was to preserve all the offices of the old establishments as branches. The authorized capital of the Bank of Italy was limited to 300,000,000 lire, divided into 300,000 shares of a face value of 1000 lire. The paid-up capital of the three banks, 176,000,000 lire, was to be raised to 210,000,000 lire within six months after the taking effect of the law. The right to issue bank notes was granted to the Bank of Italy, and also the Banks of Naples and of Sicily, for a period of twenty years from the taking effect of the law.

The maximum circulations were to be:

The Bank of Italy	800,000,000 lire.
The Bank of Naples	242,000,000 lire.
The Bank of Sicily	55,000,000 lire.
Total	1,097,000,000 lire.

Each year the circulation was to be proportionately reduced so as to bring it down in fourteen years to 864,000,000, thus distributed:

Bank of Italy	630,000,000 lire.
Bank of Naples	190,000,000 lire.
Bank of Sicily	44,000,000 lire.
Total	864,000,000

Any bank having, at the end of fourteen years, a circulation in excess of its legal limitation, was required to reduce it to the proper limit within three months thereafter. The circulation might, however, surpass the prescribed limit if represented by metallic values in gold bullion and advances made to the State. The notes were to be redeemable at sight in Rome and certain other named cities. They were to be legal tender for five years in provinces having bureaus charged with their redemption. Throughout the legal-tender period, the rate of discount was to be the same at all the banks, not to be changed without authority from the Government. The banks were permitted to do discounting at one per cent below the official rate on all paper presented by the popular banks, discount banks, and mortgage banks; but these specially favored discounts were not to exceed—



70,000,000 lire in the Bank of Italy.

21,000,000 lire in the Bank of Naples.

4,500,000 lire in the Bank of Sicily.

The banks were obliged to mutually receive in payment their several bank notes. The metallic reserve of the banks was to be brought up to 40 per cent. of the circulation, 33 per cent. of the reserve was to be in metallic money, and the balance in bills of exchange on foreign countries bearing first-class signatures; at least three-fourths of the metallic part of the reserve was to be in gold. The State was to print the bank notes, and the banks were to sign them, so that neither the State nor the banks could produce a completed bill. The circulation tax was fixed at one per cent., calculated on the average sum by which the circulation should exceed the reserve. At the end of two years it was to be adjusted at one-fifth the discount rate, but in no case was to go above one per cent. The excess of bills above the fixed limit or the prescribed proportion was then to be liable to a tax of double the rate of discount. The liabilities of the banks, represented by bills to order, cheques, letters of credit, etc., were to be secured by a special reserve of forty per cent of their total, to be constituted the same as the reserve securing the circulation. The transactions of the banks were confined to discounts and advances on securities, precious metals, silks, and warrants on liquors in storage. The Bank of Naples was authorized to operate as a Mont de Piété (doing a pawn business).

They were authorized to buy and sell, for cash, commercial paper on foreign countries, and to open current accounts at interest or without interest; but the interest-bearing accounts were not to exceed 130,000,000 lire at the Bank of Italy, 40,000,000 lire at the Bank of Naples, 12,000,000 lire at the Bank of Sicily.

The rate of interest allowed on deposited funds was not to be more than half the discount rate. The banks could undertake the provincial collections of the direct tax. They were obliged to make to the Treasury ordinary and extraordinary advances in the same manner as the old institutions. The Bank of Italy, Bank of Naples, and Bank of Sicily were bound to settle within ten years, at the rate of one-fifth yearly, the various accounts of absorbed banks. Transactions balanced by the reserves were considered as settled. The Banks of Naples and of Sicily were to keep all their reserves for this liquidation, except a sum not to exceed ten per cent. of the profits, which was to be applied to works of charity. As for the Bank of Italy, if at the end of two years the settlements should not have been according to the required proportion, it was to call on its shareholders for funds sufficient to make up the necessary amount of settlement; but the increase of capital was not to give rise to an increase of circulation. Any establishment not accomplishing settlements on the specified basis was to lose in circulation four times the sum not settled.

## LIQUIDATION OF THE ROMAN BANK.

The principal question for solution was the liquidation of the Roman Bank. It was manifest that the Government was under very serious responsibility to the holders of

the bank notes and the other creditors of that institution. The public knew that there had been a Government inspection of the bank, whose findings had never been published, and that the Government had appointed Senator Tanlongo as its director, notwithstanding information about his conduct. Added to this moral responsibility, was an actual responsibility. It was, of course, impossible to impose a loss of 60,000,000 lire upon the holders of the Roman Bank's fraudulent paper, and it was imperative that this loss should be borne by others than the people, who, under the legal-tender law, had been obliged to take the paper without having any means of assuring themselves as to its value. The Government, unwilling to take the burden upon itself, conceived the idea of shifting it to the new Bank of Italy. Although the State undertook the liquidation of the Roman Bank, the work was delegated to the Bank of Italy, which was charged with the duty of retiring the Roman Bank's paper and substituting its own. The Treasury deposited 40,000,000 lire of bonds to cover the circulation which the Bank of Italy would have to issue for the redemption of the notes of the Roman Bank. These bonds from the Treasury were by no means a guaranty for the Bank, but they served to circumvent the law fixing the amount of circulation with reference to the reserve. The Bank of Italy was required to appropriate from its profits yearly 2,000,000 lire to go toward the liquidation of the Roman Bank in order to wipe out gradually the losses. If the yearly quota of 2,000,000 lire should make up a total larger than the amount of the losses, the surplus (which the State at first designed to enjoy for itself) was to be added to the reserve fund of the Bank.

## THE BANKS SINCE THE CONSOLIDATION.

The act which we have analyzed was very severely criticised in Italy. In their picturesque language, the people said that the Government had bound the Bank of Italy to the corpse of the Roman Bank, and that the dead would poison the living. Up to the present, these pessimistic opinions have not been justified. Yet it cannot be said that the financial situation has really improved. The restrictions placed on paper circulation were unable to survive the first effort for their removal. On January 23, 1894, Signor Sonnino, Minister of the Treasury, in a report to the King, said that the legislators, in fixing a limit for the circulation and imposing severe penalties upon the banks overstepping it, did not take into consideration that, in times of panic among the depositors of savings-banks, those establishments, holders of first-class securities, would be unable to find any help at the banks of issue, since the latter would have their hands tied by the prohibitions of the law. The Minister added that it was needful to repeal the provisions of the law limiting interest-bearing deposits and circulation. He therefore proposed that the section of the act indicating the legal relation between the metallic reserve and the circulation should be changed so as to allow an increased circulation of 90,000,000 lire for the Bank of Italy, 28,000,000 lire for the Bank of Naples, and 7,000,000 lire for the Bank of Sicily. The section obligating the banks to reduce their circulation by three-fourths of the interest-bearing current accounts in excess of 136,000,000 lire for the Bank of Italy, 40,000,000 for the Bank of Naples, and 12,000,000 for the Bank of Sicily, should be repealed. The extraordinary tax levied on banks of issue should be reduced, as well as the normal tax of two-thirds the discount rate for the bank notes above the limits fixed by law. The proposals of Signor Sonnino were sanctioned by a royal decree issued January 23, 1894. It thus happened

that less than a month after the taking effect of a law which had been in course of evolution for seven years, it became necessary to modify it in one of its most essential points—*i. e.*, to enlarge the maximum of circulation, for the restriction of which such strenuous efforts had been made. Circumstances naturally brought about other alterations in a measure which had been adopted without adequate regard for fundamentals. The requirement that the banks should dispose of their real-estate investments at the rate of one-fifth every two years was ruinous in its practical workings; for these investments consisted, for the most part, of houses and lots that would have suffered in price if precipitately sold. Accordingly, the Minister sought to render this feature less troublesome by prolonging the term of settlement from ten to fifteen years. He entered into a contract with the Bank of Italy which, as communicated to the King on October 30, 1894, provided as follows: “The Bank of Italy has engaged itself to set aside from its profits a sufficient sum each year—4,000,000 lire in 1894, 5,000,000 lire in 1895, and 6,000,000 lire each year thereafter—to provide, by the compound interest on these sums, for the settlement of real-estate investments and the liquidation of the Roman Bank. It has agreed not to distribute any dividend higher than 40 lire per year, and all profits above the dividend shall go to the reserve. It has also engaged to call on the shareholders for an assessment of 100 lire per share, and to write off 30,000,000 lire of the paid-up capital, in order to provide for eventual losses and for the taking out of an amount corresponding to the aggregate of real estate and to the transactions not in conformity with the law of 1893.”

To these requirements, so very onerous for the Bank, but quite justifiable and tending to good management, was added another heavy obligation. The Bank of Italy was charged with the task of conducting the complete liquidation of the Roman Bank at its own risk and peril. “This liquidation,” said Signor Sonnino, “must of necessity leave a loss of some 10,000,000 lire, which would fall, directly or indirectly, on the State if the Bank of Italy were not charged therewith.” By way of compensation for this burden, the Minister undertook to give to the Bank special advantages. “The Government,” said he, “considers that a recompense for the Bank would be provided, and at the same time an organic reform of great importance would be accomplished, by committing to the Bank of Italy the service of the Treasury in the provinces. The transfer of that service to our great credit institution, and the consequent extension of its organization through all the provinces, would not only lend it larger strength and procure for it sure profits, but would also save for the State 1,200,000 lire; which is not to be lost sight of in the present position of our finances.” It is rather difficult to understand how the provincial revenue service done to-day gratuitously for the State by the Bank of Italy, whose management formerly cost the State 1,200,000 lire a year, can be advantageous to the Bank; and, taking everything into account, it appears to be but a price paid, and paid dearly, for the right of issue.

The embarrassments of Italy in 1893 and 1894 were considerable. They were especially due to the rise in exchange, which, after the disappearance of the five-franc pieces, had caused the drainage of the small coin. Italy had to buy back her fractional coins from France, Switzerland, and Belgium, lock them in the Treasury vaults, and issue upon their security scrip of small denominations. This transaction will be referred to again in another place.

## THE STATE AGAIN EMBARRASSES THE BANKS.

Signor Sonnino, Minister of the Treasury, reported to the King on February 24, 1894, that the monetary situation was getting worse; that the exchange of notes at the banks had almost entirely ceased; that the Treasury exchanged very few; and that it was requisite to effect a reorganization of the circulation. For that purpose, he advocated a new issue of scrip to the amount of 600,000,000 lire in denominations of five, ten, and twenty-five lire. As security, 200,000,000 lire of gold, belonging to the banks, was placed at the State's disposal, and held in the vaults as reserve. The 200,000,000 thus taken from the banks was replaced by State notes. The State notes were to be reckoned in the cash stock of the banks the same as metallic funds; and the banks were permitted to issue the same amount of notes as before. Again, the State was debtor to the banks for a sum of 68,000,000 lire, loaned at the time of the creation of the tobacco monopoly to enable it to buy up the merchandise. The State paid interest on this 68,000,000. For returning to the Bank its own scrip in exchange for this advance, the State claimed the right to cease paying interest on this account. The banks were required by the Minister to furnish 22,500,000 of gold to provide for the advance of 68,000,000. The foregoing extremely complicated plan will be understood from the following explanations. It is the rule in Italy that the circulation shall not exceed thrice the gold on hand. Therefore, if the Government takes 200,000,000 lire in gold out of the banks, it can issue 600,000,000 of paper, and remain within the rule. But it goes entirely outside the rule when it authorizes the banks to count the State's scrip as metallic value. The State's paper, in the latter case, represents one-third the amount in gold; and the banks' notes stand for one-third the value of the State's notes: consequently, the notes of the banks are worth only their ninth part in gold. Signor Sonnino, the author of this combination, has had the courage to tell the truth, and to plainly proclaim the forced currency of the State's scrip. "In view of the considerations that I have pointed out," said he, "it is incumbent on us to dismiss fiction for truth. It cannot but be permitted that the Treasury administration shall be exposed to protests because of non-observance of the law relating to the exchange of bank notes." And he formally asked for the suppression of the redemption requirement so far as State paper was concerned.

Such peculiar arrangements show how extremely difficult are the economic conditions in which Italy is placed—conditions that improve but slowly. The exchange remains high, and public distrust of the banks of issue has by no means been extinguished. It is fair to add, however, that up to date, the Government has not put into practice the plan of levying upon the coin stock of the banks.

## ORGANIZATION OF THE BANK OF ITALY.

The Bank of Italy is a stock company founded entirely with capital furnished by stockholders. The Banks of Naples and of Sicily have a capital that they style "patrimony"; that is, the property of nobody. It is a unique fact in the world's economy that there exist two establishments which play an important part in the country which they serve, and yet are *res nullius*.

The present organization of the Bank of Italy is derived from the by-laws of December 19, 1893. The objects of the institution are to transact banking business and to issue bank notes under conditions prescribed by law. The main office is at Rome. There are branches in all the chief places of the provinces. The duration of the company is for twenty years, running from January 1, 1894. The *stock capital*, as previously explained, is 300,000,000 lire, in shares 300,000 in number, and of 1000 lire par value, of which 700 lire have been paid in. In reality, 800 lire per share have been called; but the capital is undervalued by 30,000,000 lire, as already explained, 100 lire per share having been devoted to make up for losses. The *shares* are registered. Ownership is acquired by transfer upon the books of the Bank. The Bank recognizes but one owner for each share. The shareholders, in general, are represented by the owners of twenty shares, who have possessed them for upwards of three months. Shareholders have one vote for every twenty shares up to 200; above 200 an additional vote is allowed for every fifty. No single shareholder can have or accumulate more than twenty votes. The members of the Bank Assembly may be represented by proxies. The *Assembly* meets annually, in the month of March. Extraordinary sessions may be called by resolution of the Superior Council or at the demand of the Comptrollers or shareholders. Shareholders demanding the calling of the Assembly must own, in the aggregate, at least 20,000 shares. The Assembly receives the report of the year's transactions, and appoints the Comptrollers (of whom we shall speak farther on), the administrators of the branches (who are called Regents), and the Censors (who are intrusted with the supervision).

The *Regents* elect the Superior Council, and each district seat annually delegates for that purpose three of its Regents. The *Superior Council* chooses its officers, consisting of a President, Vice-President, and Secretary. It holds its meetings at least once a month, in Rome. All matters affecting the Bank are submitted to this Council, especially those appertaining to the issue and withdrawal of bank notes, the fixing of the rate for discounts and loans, the declaring of dividends, the verification of balance-sheets, appointments and dismissals of employees, etc. The Superior Council selects a committee of six members, which, in co-operation with the President of the Council and the Director-General, exercises a more direct supervision over the Bank's business, particularly touching subjects of dispute and extraordinary discounts.

The *Comptrollers*, designated by the Assembly of Shareholders, exercise, either directly or through the Censors, control over the administration, with a view to having the rules and regulations faithfully observed. They examine the balance-sheets and give their advice as to the amount of the dividends. The *Censors* supervise the district seats, and exact from the Directors such information as they deem useful for the discharge of their duties. They enter the results of their observations in a special book and communicate to the Censors a report upon their supervision. The *General Management* is thus constituted: One Director-General, two Vice-Directors-General, one Secretary. All are appointed by the Superior Council, but the nominations of the Director-General and Vice-Directors-General must be approved by the Government. The Director and the two Vice-Directors form a *Directing Committee*, which considers all concerns. The Director sits in the Superior Council and has a consulting vote in that body. He has the management of the Bank's affairs subject to the authority of the Superior Council.

The administration of the *District Seats* has great importance in the Bank of Italy, as these establishments supply the members of the Superior Council. Each district seat is managed by a council of at least eight Regents, and at most twelve Censors, with a Director in executive control. The Regents and Censors are appointed by the General Assembly of Shareholders for a term of six years. Half the number is renewed each three years. The Regents' Council has charge of the administration of the seat, and sees that the orders of the Superior Council are carried out. For the examination of commercial paper it employs the assistance of a *Discount Council* of ten or twenty members, chosen from a double list presented by the Director. Those *branches that are less important* than the district seats are administered each by a Director and supervised by five Censors. A Discount Council gives advice regarding the paper to be admitted at the branch.

The Bank, besides, has *Correspondents*, who undertake to transmit to the nearest office paper presented for discount, and to attend to the collection of matured paper.

## ORGANIZATION OF THE BANK OF NAPLES.

The organization of the Banks of Naples and of Sicily differs widely from that of the Bank of Italy. Often remodeled, it was changed to its present form by a decree of October 15, 1895, whereby the new by-laws were confirmed. As these establishments have no shareholders, but only creditors, it was necessary, in each instance, to intrust their interests to a combination of local elements. We append a brief statement of the constitution of the Bank of Naples:

The administration of the Bank of Naples is under the management of a Director-General and a Council of Administration, subject to the supervision of the General Council.

The *Director-General* is appointed by royal decree, upon the nomination of the Minister of the Treasury, who advises with the Ministerial Council. He represents the Bank in dealings with third parties, and sees to the carrying out of the rules and decisions of the General Council and the Council of Administration. He has a consulting vote in these councils. He manages the general affairs of the Bank; proposes to the Council of Administration the appointment and discharge of the employees and representatives of the Bank; examines and approves the Bank's accounts; signs the correspondence and cheques; indorses commercial paper, and proposes all measures that he deems useful for the welfare of the institution. In general, he performs all the duties of current administration that are not expressly reserved for the General Council and the Council of Administration. He is, however, formally prohibited from granting discounts or advances.

The *General Council* consists of the Syndic (Mayor) of Naples, the President of the Provincial Council of Naples, the President of the Chamber of Commerce of Naples, and of three delegates, one selected by the Commercial Council, one by the Provincial Council, and one by the Chamber of Commerce of Naples. Besides, there are two delegates from Bari (one representing the Chamber of Commerce and one the Provincial Council), delegates from each of the Provincial Councils of the Neapolitan

provinces to the number of fourteen, and delegates from the chambers of commerce of all the provinces where the Bank has offices.

Two *Councillors of Administration* are appointed by the King. The elective members of the General Council are renewed each two years. Members of the General Council receive no pay, excepting allowance for actual expenses.

The *General Council* meets at Naples annually, some time during the first three months. The session cannot last longer than fifteen days, but on the request of eight members it may be prolonged ten days. It may be summoned in extraordinary session by the Minister of the Treasury, or in compliance with a demand addressed to the Minister of the Treasury by the Council of Administration, or by the President of the General Council, with the approval of eight members of that body. This Council has supervision over the Bank's management. It examines and passes upon the accounts of the preceding business year, upon the report of the two auditors chosen from among the members of the Council. It discusses and passes upon the report as to the Bank's transactions, votes on questions regarding the establishment or abolition of branches, approves the office regulations, and deliberates upon operations and upon the sale or exchange of the patrimonial possessions of the Bank. It votes on proposed applications to the Government for modifications of the by-laws. Annually, it selects from its membership three delegates and one alternate to sit in the Council of Administration.

The *Council of Administration* is made up of the Director-General, who presides; the three elected delegates and their alternates, and two Councillors of Administration appointed by the King. The latter receive a fixed salary of 6000 lire. The delegates from the General Council hold office for one year, and may be re-elected. They are paid traveling expenses and a daily recompense of twenty lire. This Council meets weekly in regular session. It deliberates as to the notes and cheques of the Bank, determines the conditions under which transactions shall be conducted, and fixes the rate of discount and of interest on loans, subject to Government approval. It regulates the employment of ready funds and the investment of the reserve, and decides about the open credits at each office and their use in the various branches of the business. It prepares the matters to be submitted to the Government in keeping with the resolutions of the General Council. It proposes to the latter the regulations of the service, amounts of salary to be paid employees, appoints and discharges these, and determines upon the creation or abandonment of branches. It approves contracts and authorizes the various transactions in the patrimonial property, provided the sales do not exceed 30,000 lire; others being referred to the General Council, except in urgent cases, when the Council of Administration may decide by unanimous action, subject to subsequent approval by the General Council.

The Director-General is assisted by a *Secretary-General* named by the Minister of the Treasury, upon the recommendation of the Council of Administration. The Secretary-General is specially charged with the office management.

Each *Branch Office* of the Bank has a Discount Council, consisting of eight members at least and twelve at most, who are named by the Council of Administration upon

recommendation by the local Directors. Two of the Discount Councillors, acting with the Director, form a *Discount Committee*, which decides as to the admission of proffered paper, and is also intrusted with the duty of opening and closing the vaults.

Members of the Chamber of Deputies and Senate are forbidden to occupy any office in connection with the Bank, either salaried or unsalaried.

The *District Branches* of the Bank are opened or abolished by royal decree, rendered at the instance of the Minister of the Treasury, after deliberation by the Council of Administration and approval by the General Council. They are managed by Directors under the supervision of the central administration. *The Directors of the District Branches* receive their appointments from the Minister of the Treasury, upon nomination by the Council of Administration. *The Directors of the Minor Branches* are appointed by the Council of Administration. The Directors represent their bureaus in transactions with third parties, sign the correspondence and cheques, and execute the instructions of the general management so far as the sums placed at their disposal are concerned. They hold the keys to the vaults and exercise supervision over the cash and commercial paper, rendering accounts concerning the same to the general management. They also control the employees.

The administrative organization of the Bank of Sicily is entirely similar to that of the Bank of Naples. As a matter of course, the delegates from the councils and chambers of commerce of the Sicilian provinces have functions analogous to those of the Neapolitan provincial delegates at the Bank of Naples. The only differences between the two banks are in their respective transactions.

## TRANSACTIONS OF THE ISSUE BANKS.

The transactions of the Italian banks of issue were narrowly regulated by the Act of August 10, 1893. Aside from certain special transactions reserved for the Banks of Naples and of Sicily, the chief departments of business are identical in the three establishments. The present regulations for the banks of issue have been in effect only since January 1, 1894. So far as the matter is of pertinent interest, we shall give the statistics for the last ten years of the old banks and the 1894 statistics of the Bank of Italy, Bank of Naples, and Bank of Sicily.

*Discounts.*—The banks are authorized to discount paper having no longer than four months to run, as follows: (a) Bills of exchange and drafts to order bearing at least two signatures of persons of well-known solvency; (b) Treasury bonds; (c) merchandise warrants issued by general warehouse companies legally incorporated; (d) coupons of securities that have been taken as guaranty for advances.



*Discounts of the Banks of Issue (in Millions and Hundred Thousands of Lire).*

YEARS.	National Bank.	Bank of Naples.	National Bank of Tuscany.	Tuscan Bank of Credit.	Roman Bank.	Bank of Sicily.	Total.
1884	1,620.2	342.5	164.6	15.6	114.2	89.3	2,355.4
1885	2,206.6	597.3	264.8	16.2	151.9	194.0	3,430.8
1886	2,702.8	736.7	260.1	21.1	222.8	296.2	4,239.7
1887	2,996.3	978.7	381.3	23.1	270.7	300.9	4,951.0
1888	2,738.6	926.1	342.5	30.6	249.7	262.6	4,550.1
1889	2,829.8	878.2	336.2	30.0	220.4	205.6	4,500.2
1890	2,613.5	799.7	347.0	29.1	200.1	181.5	4,170.9
1891	2,107.2	801.1	414.2	20.1	226.7	215.9	3,785.2
1892	1,947.2	598.1	447.2	13.2	268.3	189.0	3,463.0
1893	2,200.4	580.1	458.1	11.7	83.3	206.9	3,540.5

In 1894 the discounts amounted—

LIRE.

At the Bank of Italy to 1,578,900,000

At the Bank of Naples to 511,000,000

At the Bank of Sicily to 244,800,000

Total 2,334,700,000

As the Italian banks do not redeem their notes in metallic values, they are at no pains to protect their coin stock by raising the discount rate. They require only to keep an eye on their circulation, and see that it does not go above the legal limit. The rate of discount is not so high as might be looked for in view of the bad state of exchange. It is remarkably stable—as will be seen from the following comparisons—and is uniform for all the banks:

*Bank Rates of Interest.*

	Number of Variations.	Maximum.	Minimum.	Average.
1890 0		6	6	6.00
1891 1		6	5½	5.78
1892 1		5½	5	5.20
1893 1		6	5	5.18
1894 2		6	5	5.74

We have seen that by the Act of August 10, 1893, the banks may make discounts at one per cent. below the official rate—provided the yearly total shall not exceed 95,500,000 lire—on paper presented by the popular banks and the mortgage banks, and also on warehouse certificates. A decree issued in the beginning of November, 1895, authorized banks whose circulation did not surpass the legal limit to discount, at one and one-half per cent. below the official figure, paper having no longer than three months to run, on condition that these transactions shall not embrace renewals. Such paper must be kept on separate account.

*Advances.*—The banks have the right to make advances, for six months at most: (a) On Italian consols and Treasury bonds, and on securities guaranteed by the State; (b) on bonds of the mortgage banks; (c) on securities, payable in gold, issued or guaranteed by foreign governments. Advances on consols and Treasury bonds at long maturity may be made up to four-fifths of their current market value. Treasury bonds at short maturity may be taken at their face value. The advances on other securities cannot exceed three-fourths of their value on 'change, and in no case three-fourths of their face value. In addition, the following may be accepted as collateral for advances: (a) National and foreign gold and silver moneys for their legal value, and gold bullion; silver bars for two-thirds of their current price; (b) raw and worked silk in twist and woof; warehouse warrants on sulphur and other merchandise for two-thirds the value; (c) warrants on liquors for half their value.

*Advances (in Millions and Hundred Thousands of Lire).*

YEARS.	National Bank.	Bank of Naples.	National Bank of Tuscany.	Tuscan Bank of Credit.	Roman Bank.	Bank of Sicily.	Total.
1884	78.3	68.1	2.1	31.7	1.1	11.5	192.8
1885	83.0	96.6	1.9	11.1	5.0	11.1	207.7
1886	94.2	64.5	0.9	14.5	1.2	22.9	198.2
1887	117.1	58.9	0.9	26.0	1.3	26.0	230.2
1888	79.7	63.8	1.3	18.7	0.5	22.2	186.2
1889	75.1	58.3	1.1	15.3	0.1	21.1	171.0
1890	84.2	57.9	1.1	9.5	0.4	20.2	173.3
1891	84.3	58.2	15.0	11.4	2.6	36.3	207.8
1892	75.8	50.7	13.5	6.8	0.3	30.4	177.5
1893	81.6	53.4	6.5	2.7	0.2	15.5	159.9

In 1894 the advances amounted to the following:

LIRE.

At the Bank of Italy	126,900,000
At the Bank of Naples	65,900,000
At the Bank of Sicily	16,300,000
Total	209,100,000

The Bank of Naples is privileged to operate as a Mont de Piété and to loan on gold and silver bullion, diamonds, precious stones and pearls, metals, and articles of merchandise for which the Council of Administration makes up a list each year. The acknowledgments are made to bearer, even if a name or any other indication of ownership appears. The rate of advances on securities is generally the same as the discount rate. The rate of advances on silk is rather changeable and depends on the amount of the yield. In general the Bank of Sicily charges a higher interest than the Bank of Italy. The Bank of Naples makes few advances on silk. The rate for other advances is the same, or one-half to one per cent. above the discount rate.

*Current Accounts.*—The banks open current accounts. Some are interest-bearing, others are not. If the interest-bearing accounts exceed 130,000,000 lire for the Bank of Italy, 40,000,000 lire for the Bank of Naples, and 12,000,000 lire for the Bank of Sicily, the bank note circulation must be reduced three-fourths of the excess, although, as we have shown, the limit has been enlarged by the decree of January 23, 1894. The maximum of interest allowable on current accounts is half the discount rate. From January 1, 1897, the maximum will be lowered to one-third the rate of discount. Independently of current accounts, the southern banks continue the old apodissary service and issue against security orders and certificates thus designated: (1) *Vaglia cambiari* and *assegni bancari*, transferable by indorsement, and used principally to make transfers of funds from one place to another; (2) *fèdi di credito*, receipts for sums above 50 lire, transferable by indorsement; (3) *polizzini*, receipts for sums under 50 lire, transferable by indorsement; (4) *polizze notate*, receipts which by successive payments have become current accounts (*madre fèdi*); (5) lastly, drafts on foreign countries to the order of third parties.

The Bank of Naples maintains a *savings-bank*, which has a patrimony of its own, distinct from that of the Bank, which the creditors of the Bank have no claim to. The entire patrimony of the Bank is a guaranty of the obligations of the savings institution to third parties. The sums deposited are invested in securities of the State or guaranteed by the State, but the savings-bank can invest one-fifth of its funds on interest-bearing accounts current, upon condition that the rate of such interest be no lower than half of the rate allowed the depositors of the savings-bank.

*Deposits and Withdrawals of  
Savings at the Bank of Naples.*

Deposits. Withdrawals.	
LIRE.	LIRE.
1884 14,500,000	11,800,000
1885 15,900,000	13,300,000
1886 17,000,000	13,100,000
1887 15,500,000	14,400,000
1888 17,800,000	15,700,000
1889 14,900,000	15,900,000
1890 16,000,000	16,600,000
1891 15,700,000	15,500,000
1892 15,200,000	15,000,000
1893 14,400,000	16,600,000

*Movement of Current Accounts Without Interest (in Millions and Hundred Thousands of Lire).*

YEARS.	NATIONAL BANK.		BANK OF NAPLES.		BANK OF SICILY.	
	Paid in.	Paid Out.	Paid In.	Paid Out.	Paid In.	Paid Out.
1884	2,997.8	2,998.1	174.9	174.6	24.5	24.6
1885	2,822.7	2,828.5	193.6	195.2	25.0	25.0
1886	3,079.2	3,077.4	194.6	194.8	26.2	26.4
1887	3,168.0	3,170.0	201.0	202.1	21.8	22.1
1888	2,952.6	2,952.2	165.8	163.8	17.5	17.5
1889	2,881.0	2,880.8	220.3	220.5	26.0	26.3
1890	2,549.2	2,550.9	161.5	161.3	22.0	21.9
1891	2,094.2	2,095.8	153.5	155.4	21.9	22.0
1892	1,899.2	1,900.7	140.8	134.8	27.2	27.1
1893	2,263.7	2,255.2	135.0	140.9	22.0	22.1

The movement of current accounts without interest was, in 1894:

	Paid In.	Paid Out.
At the Bank of Italy	2,494,500,000	2,496,100,000
At the Bank of Naples	161,300,000	160,300,000
At the Bank of Sicily	16,800,000	16,700,000

The Bank of Italy does not furnish statistics of current accounts at interest. The following are the statistics of such accounts for the Banks of Naples and of Sicily:

*Movement of Interest-bearing Current Accounts (in Millions and Hundred Thousands of Lire).*

YEARS.	BANK OF NAPLES.		BANK OF SICILY.	
	Paid In.	Paid Out.	Paid In.	Paid Out.
1885	122.3	109.9	0.7	0.6
1886	173.4	176.6	16.7	10.7
1887	136.8	136.4	55.1	52.8
1888	128.6	125.4	52.7	51.5
1889	172.6	163.2	49.8	47.9
1890	131.0	138.6	66.6	65.8
1891	159.0	151.8	70.9	70.2
1892	169.6	168.6	60.5	61.0
1893	156.0	156.1	44.6	46.0
1894	258.8	246.8	64.7	61.8

*The apodissary service* of the Banks of Naples and of Sicily, as just pointed out, consists in the issue of registered receipts, which are transferable by indorsement, and constitute a special circulation. The statement below shows the issues and payments of these orders:

*In Millions and Hundred Thousands of Lire.*

YEARS.	BANK OF NAPLES.		BANK OF SICILY.	
	Issued.	Paid.	Issued.	Paid.
1884	900.0	887.0	206.5	201.3
1885	1,035.2	1,010.4	209.5	212.7
1886	1,165.2	1,164.5	195.4	198.8
1887	1,235.4	1,215.2	151.0	155.8
1888	1,210.3	1,225.4	135.6	138.4
1889	1,603.7	1,588.3	139.7	139.2
1890	1,356.5	1,395.2	123.8	122.4
1891	1,276.8	1,277.8	118.7	120.3
1892	1,130.6	1,135.1	115.7	116.0
1893	983.7	1,016.8	104.1	105.1
1894	940.8	934.2	97.3	98.1

*Transactions of the Mont de Piété operated by the Bank of Naples.*

YEARS.	Engagements of Pledges.	Renewals.	Disengagements.	Unredeemed Pledges.
	LIRE.	LIRE.	LIRE.	LIRE.
1884	8,800,000	7,500,000	8,300,000	500,000
1885	9,400,000	7,300,000	9,100,000	600,000
1886	9,600,000	5,800,000	10,000,000	600,000
1887	8,800,000	6,300,000	8,600,000	500,000
1888	10,300,000	6,600,000	8,900,000	300,000
1889	11,000,000	7,300,000	9,300,000	400,000
1890	11,200,000	8,400,000	18,100,000	500,000
1891	10,500,000	8,800,000	18,600,000	700,000
1892	9,900,000	9,000,000	18,100,000	700,000
1893	9,600,000	8,600,000	18,100,000	600,000
1894	16,600,000	8,100,000	21,100,000	600,000

*Exchange Operations.*—The banks buy and sell for cash, and for their own account, drafts, bills of exchange, and cheques on foreign countries; and they undertake for third parties the collection of commercial paper where they have offices or correspondents. The Bank of Sicily, in addition, conducts an accident insurance business.

*Exchange Operations of National Bank.*

Sent abroad. LIRE. Drawn on abroad. LIRE.

1884	69,800,000	87,700,000
1885	168,100,000	188,700,000
1886	123,200,000	131,700,000
1887	247,900,000	250,900,000
1888	138,100,000	136,800,000
1889	234,300,000	231,900,000
1890	238,800,000	224,400,000
1891	285,900,000	286,900,000
1892	309,700,000	292,100,000
1893	513,800,000	525,400,000

*Condition of Deposits, December 31st (in Millions and Thousands of Lire).*

YEARS.	National Bank.	Bank of Naples.	National Bank of Tuscany.	Tuscan Bank of Credit.	Roman Bank.	Bank of Sicily.	Total.
1884	329.7	87.5	18.5	15.3	6.6	12.3	469.9
1885	386.1	111.0	22.8	17.3	6.2	16.9	564.3
1886	412.2	102.1	33.0	9.5	7.3	14.7	578.8
1887	461.5	119.5	29.0	11.2	15.5	16.8	650.5
1888	498.1	145.7	32.9	4.8	11.3	16.1	713.9
1889	638.3	157.1	33.9	7.1	17.5	15.4	869.3
1890	556.9	163.1	50.5	8.2	22.5	21.7	822.9
1891	638.3	177.1	72.3	7.9	22.1	36.4	954.1
1892	713.1	182.6	83.0	6.6	34.1	38.0	1,057.4
1893	738.6	146.3	66.9	6.5	13.4	34.0	1,005.7

On December 31, 1894, the free deposits amounted—

LIRE.

At the Bank of Italy to	782,200,000
At the Bank of Naples to	168,600,000
At the Bank of Sicily to	37,500,000
Total	988,300,000

In 1894, the Bank of Italy sent abroad 330,800,000 lire, and drew on foreign countries for 326,500,000 lire. The banks accept on trust voluntary deposits of securities and documents, bullion, gold and silver money, jewels, and other valuables.

## MANAGEMENT OF CIRCULATION AND COIN.

Italy was under a forced currency régime from May 1, 1866, to April 7, 1881, which, indeed, has never been really abandoned, as there has never been any redemption, in specie over the counters, of either the bank or the State note issues. This compulsory feature of the currency is cloaked under the disguise of legal tender, but it operates to-day as actively as ever.

The Act of August 10, 1893, intended as a preventive of frauds like those perpetrated by the Roman Bank, subjected the circulation of the banks to most stringent regulations. The note issues cannot exceed thrice the capital, and must be protected by a metallic reserve of forty per cent. whereof three-fourths must be in gold.

This latter proviso runs counter to the spirit of the Latin Monetary Union, which was established to secure an equal treatment for gold and silver in the contracting States. Moreover, it is difficult of enforcement; and, at various times, the banks have been obliged to refuse deposits of silver five-franc pieces and fractional coins—which, however, have legal circulation in France—and to accept them only in payment. Like other nations of the Latin Union, Italy has sent into France large amounts of silver of her own coinage, and has felt the embarrassment of the rise in exchange only after the exhaustion of her silver supply. But if the Latin Union was able to delay the rise in exchange, it has equally created difficulties for Italy, in the matter of her fractional coinage, by preventing her from minting according to her needs, and by depriving her of profits that she would have realized by purchasing silver at the market price, and putting it in circulation for double value. At present, by virtue of the decree of February 24, 1894, the banks stand in peril of having but a very scant coin stock, since the Treasury (as before related) has power to lay hands on 200,000,000 of their gold; in the event of which their notes would be secured not by metal but by State scrip.

The Government has, rather fictitiously, redeemed certain loans made to it by the banks, and rid itself of interest obligations on that account. It may, in view of the circumstances, be questioned, whether the bank paper offers any advantages over a system of State scrip, and whether it would not be simpler and more logical for the State to issue the bulk of the paper currency, assuming the responsibility for the mistakes that may be committed, than to shield itself behind the banks, which can offer no resistance. We subjoin statistics relating to the currency issues of the banks.

*Metallic Stock of the Italian Banks on December 31st (in Millions and Hundred Thousands of Lire).*

YEARS.	National Bank.	Bank of Naples.	National Bank of Tuscany.	Tuscan Bank of Credit.	Roman Bank.	Bank of Sicily.
1884	196.0	66.1	18.5	5.0	17.9	23.9
1885	290.6	74.5	21.2	5.0	15.2	22.6
1886	340.3	77.1	20.9	5.0	14.7	22.0
1887	348.3	85.9	26.1	5.1	20.6	22.0
1888	322.2	115.5	31.7	5.2	20.1	30.0
1889	335.9	114.7	40.2	5.0	24.9	34.5
1890	354.3	103.1	42.4	5.1	22.7	39.1
1891	225.5	103.2	44.8	6.1	25.2	37.0
1892	222.4	103.8	44.8	6.1	25.5	36.7
1893	230.1	100.7	44.0	6.1		36.7

On December 30, 1894, the coin stock of the banks of issue was:

LIRE.

At the Bank of Italy 360,600,000

At the Bank of Naples 116,000,000

At the Bank of Sicily 36,700,000

composed of the following elements:

	Gold. LIRE.	Silver. LIRE.	Total. LIRE.
Bank of Italy	292,700,000	67,900,000	360,600,000
Bank of Naples	105,500,000	10,500,000	116,000,000
Bank of Sicily	35,200,000	1,500,000	36,700,000
Total	433,400,000	79,900,000	513,300,000

To this reserve must be added 22,500,000 lire of foreign securities payable in gold, which the Bank of Italy held. But as 200,000,000 lire of these stocks could be tied up by the Treasury, the ready gold stock is reduced to 183,100,000 lire. The circulation is, as we have stated, rigorously limited by law. It was natural that legislation should take the most elaborate precautions to avoid recurrence of the conditions that led to the destruction of the Roman Bank. However, there is great difficulty in undertaking to confine a circulation within arbitrary bounds; since in practice the bounds are not determined by the capital or by the metallic reserve, but by the needs of the public. At first, the Government was compelled to relax the restrictions, whereby it had intended to keep the circulation within control. This was made necessary by the circumstances of the savings-banks, threatened by unforeseen withdrawals. What is of most serious import in this connection is that the State has deemed it proper to decide in principle in favor of an issue of 600,000,000 lire of scrip with forced currency, whereof 200,000,000 lire are to become a substitute for the metallic reserve of the banks, and 400,000,000 lire are to be thrown into circulation—an arrangement which, if carried out, cannot fail to terribly confuse the credit of the banks with the credit of the State. The circulation of the issuing banks, from 1884 to 1893, compares as follows:

*Circulation of the Banks on December 31st (in Millions and Hundred Thousands of Lire).*

YEARS.	National Bank.	Bank of Naples.	National Bank of Tuscany.	Tuscan Bank of Credit.	Roman Bank.	Bank of Sicily.
1884	554.1	178.8	66.1	14.3	47.5	38.2
1885	569.5	207.0	71.0	14.8	43.6	42.6
1886	611.4	231.9	81.7	13.5	44.9	48.4
1887	626.4	210.6	84.7	13.4	60.7	49.0
1888	599.1	259.4	89.2	13.1	67.9	46.1
1889	602.3	273.9	91.8	14.9	73.4	50.8
1890	630.6	275.2	91.2	14.8	64.8	49.8
1891	601.5	265.6	101.5	16.1	72.7	64.2
1892	573.1	265.8	105.0	17.1	111.7	65.8
1893	768.4	261.2	104.5	16.5		61.9



On December 31, 1894, the circulation of the three banks was as follows:

	Bank of Italy.	Bank of Naples.	Bank of Sicily.
50 lire notes	225,469,750	76,354,600.00	10,725,400
100 lire notes	281,715,500	86,139,400.00	11,931,700
200 lire notes	1,580,600	4,766,200.00	6,272,800
500 lire notes	149,030,000	40,047,000.00	13,378,000
1000 lire notes	168,494,000	38,832,000.00	10,761,000
Bank notes to withdraw from circulation	167,044	345,182.50	142,481
Totals	826,456,894	246,484,382.50	53,211,381

In Italy, as well as in the majority of European countries, the 100 and 1000 lire notes (or their equivalents) are in preponderance.

## CLEARINGS OF BANK NOTES.

In our historical account of the Italian banks, we have shown how the clearances of the notes of the different banks of issue were effected. The decree of February 27, 1894, modified the former mode of procedure. The clearances of the bank notes and the apodissary notes now take place on the 10th, 20th, and last day of each month. Each office establishes, on those dates, the amount of its holdings of the paper of the other banks, and notifies their representatives accordingly. The notes and other values are exchanged between the offices and correspondents of the different banks. Balance statements are forwarded to the central establishments, and carried on interest-bearing account at a rate which cannot exceed three-fifths of the discount rate. The current accounts are settled on June 30th and December 31st. The balances are paid part in cash or Government scrip and part in commercial paper at fifteen days' maturity, taken out of the paper held by the debtor banks; or else in Italian consols on the basis of the average quotation of five days following the settlement.

## CRÉDIT FONCIER OPERATIONS OF THE BANKS.

The Italian banks did a land loan business up to the enactment of the law of August 10, 1893. An act of December 21, 1884, authorized the Government to grant, by royal decree, to companies or institutions having a paid-in capital of at least 10,000,000 lire the privilege of doing a land loan business. Such companies or institutions had the right to issue, corresponding to loans made, mortgage bonds equal to ten times the capital paid in. The National Bank of the Kingdom laid claim to the benefits of the law, instancing the precedents of the Bank of Austro-Hungary, the Bank of Greece, the Scandinavian banks, and the Banks of Naples and of Sicily, which latter were empowered by the Act of June 14, 1866, confirmed by the Act of December 21, 1884, to carry on transactions in land loans. These transactions were intended to grant loans, repayable gradually, on the security of first mortgages on buildings up to half their value; to acquire by transfer or subrogation mortgages or liens under the same conditions, and to transform them into loans redeemable in installments; to make

advances on current account, secured by mortgages on the above-stated terms, and to issue mortgage bonds for an amount corresponding to the sums loaned. The interest of the bonds, or mortgage certificates, was fixed at 4, 4½, or 5 per cent. The direct loans made were in bonds, and the loans for current account were in specie. The redeemable loans could not run for less than ten years or longer than for fifty years. To conduct these *crédit foncier* operations the National Bank established a special section on the plan of the Bank of Austro-Hungary and assigned to this division a capital of 25,000,000 lire. The Banks of Naples and of Sicily made direct mortgage loans.

*Yearly Amounts  
of Mortgage  
Loans on  
December 31st of  
the National  
Bank.*

LIRE.

1885 3,000,000  
1886 56,100,000  
1887 123,000,000  
1888 165,700,000  
1889 218,600,000  
1890 250,200,000  
1891 245,100,000  
1892 280,400,000  
1893 284,200,000

No statistics of mortgage loans in force have been issued by the Banks of Naples and Sicily, and the aggregate amounts (180,900,000 and 29,000,000 lire, respectively, on December 31, 1892) were made known only by means of the inspection of 1893. We give below the condition, on December 31st, of the mortgage bonds issued as counterpart of the mortgage loans, for the National Bank and the Bank of Naples. The Bank of Sicily affords no information.

National Bank. Bank of Naples.

LIRE.

LIRE.

1886 41,700,000	97,500,000
1887 108,200,000	107,000,000
1888 152,100,000	149,700,000
1889 208,900,000	183,900,000
1890 236,700,000	186,200,000
1891 244,600,000	181,900,000
1892 280,400,000	169,000,000
1893 301,200,000	162,300,000

The Act of August 10, 1893, explicitly forbade the banks of issue to continue their mortgage loan dealings, and very wisely; for it always is dangerous to give an

establishment whose life depends on the ready availability of its resources temptation to tie them up in long obligations.

## COMPULSORY LIQUIDATIONS.

The Act of August 10, 1893, besides prohibiting further mortgage loans by the banks, decreed that the unauthorized real-estate transactions and investments should be liquidated within ten years. In the case of the Bank of Italy, the period was extended to fifteen years. The investigation of 1893 showed the investments to have been as follows:

	LIRE.
Available assets	172,342,936
Immobile assets	199,756,620
Running paper	133,390,567
Mortgage loans (in current account)	55,032,057
Total	560,522,180

This statement shows the amount of obligations to be realized upon by the banks; and to it must be added the 60,000,000 of fraudulent paper issued by the Roman Bank. It is certain that these figures represent important assets, and that the banks will recover a considerable share of the sums tied up in these items; but it is nevertheless a heavy load they have to carry, which must hamper them greatly. According to the balance-sheet of October 20, 1895, the settlements on immobile accounts still to be made were:

	LIRE.
Bank of Italy	355,702,112
Bank of Naples	145,590,705
Bank of Sicily	18,347,205
Total	519,640,022

It is difficult to foresee how the banks may come out of this embarrassing situation and what losses they may finally have to suffer. Their capital appears to be seriously compromised.

## RELATIONS BETWEEN THE BANKS AND THE STATE.

The Italian banks are under very exacting legal supervision. The State subjects them to both ordinary and extraordinary inspection. By a decree of October 1, 1859, approving the by-laws of the National Bank, that institution was required to put at the disposal of the State 18,000,000 lire, of which 6,000,000 was payable on demand and the remainder after a month. Interest on advances was fixed at three per cent. Upon the increase of the Bank's capital to 60,000,000 lire, on June 29, 1865, the decree sanctioning the increase directed that the Bank should be prepared to advance to the State the difference between the 18,000,000 lire and two-fifths of the value of the

shares issued. In a preceding chapter, it has been related how the National Bank granted a loan of 250,000,000 lire to the State in 1866, when the forced currency was established, and how that loan was raised to 300,000,000 by the agreement of March 4, 1872. It was distributed among the six banks of issue by the formation of the syndicate of 1874. At present the State reserves the right to claim from the three banks advances defined as statutory, which may amount to 125,000,000 lire, at a maximum interest rate of three per cent. per annum. The Bank of Italy must furnish an aggregate of 90,000,000 lire, the Bank of Naples 28,000,000 lire, and the Bank of Sicily 7,000,000. On December 31, 1894, the indebtedness of the State to the banks on account of statutory loans amounted to—

LIRE.

Bank of Italy	59,500,000
Bank of Naples	14,000,000
Bank of Sicily	2,000,000
Total	75,500,000

The banks act for the account of the State in the matter of provincial collections. They amass the *funds of the tax receivers*, issuing receipts to them and to the tax-payers. The local directors or sub-directors represent the banks in this service. The bank representatives cannot permit delays in the payment of dues and taxes. They are required to superintend the bookkeeping. They must proceed peremptorily against receivers in arrear. If a demand for funds remains uncomplied with, the securities of the derelict receiver must be sold within five days after the notification; and if the amount raised does not suffice to cover his debt, the director of the bank must employ against him all the resources provided by the law. The non-compliance with the bank's demand must be communicated to the prefect, who issues an order of execution, the only formality that is necessary for the bank to observe. The banks receive for the collection service remuneration fixed by the Minister of the Treasury. In 1894, the following amounts of tax funds were handled by the banks:

Receipts. LIRE. Payments. LIRE.

At the Bank of Italy	243,594,754	242,754,590
At the Bank of Naples	80,922,010	80,805,870
At the Bank of Sicily	26,046,822	25,957,111
Total	350,563,586	349,517,571

The Bank of Italy has had charge of the *State's Treasury service* since February 1, 1895. In all the provinces, it receives the payments for account of the State and its departments, and makes the payments to its creditors.

This service is gratuitous. As a guaranty for its faithfulness, the Bank has deposited a security of 50,000,000 lire in Government bonds, and bonds guaranteed by the Government, which is to be increased to 90,000,000 lire in six years. The State agrees, except in extraordinary cases, to leave in the Bank a permanent balance of 30,000,000 lire. When the balance goes above 40,000,000 lire, the Bank pays interest on the excess at 1½ per cent. If it goes below 10,000,000 lire, the State pays interest

on the shortage at the same rate, and the Treasury must furnish the Bank, on the 10th, 20th, or last day of the month, a sum sufficient to make up the 30,000,000 lire. The Bank must hold for the disposal of the Treasury the gold and silver received for the Treasury's account. No statistics relating to the Treasury service have yet been published. Finally, the banks pay the coupons of the Italian Government debt.

The *taxes* levied on the banks are very heavy. We give them in detail.

*On the Bank of Italy.*

	LIRE.
Tax on general property	1,575,296
Tax on the circulation	5,536,397
Tax on the negotiation of the shares	288,505
Tax on the verification of weights and measures	9,655
Stamp tax	19,297
State control	57,600
Tax on factories and lots	116,688
Tax for the Chambers of Commerce and the Communal Chambers	7,764
Total	7,611,202
On the Bank of Naples, Total	2,029,767
On the Bank of Sicily, Total	538,482
Total for the three banks	10,179,451

## ANNUAL STATEMENTS.

Annually, the Italian banks publish the statements of their operations, going conscientiously into detail, and with accompanying tables that in many cases might well serve as statistical models to other banks. Also, a condensed balance-sheet is published every ten days in the "Gazzetta Ufficiale del Regno." The table on page 192 is a specimen of these ten-day reports.

The explanations we have given of the transactions of the bank facilitate an understanding of the foregoing balance-sheet. Nevertheless, a few additional remarks may be useful. The first item giving the maximum circulation as regulated by the law of August 10, 1893, is simply a matter of record.

*Reserve and cash.*—The reserve embodies the lawful gold coins except those which are tied up for account of the Treasury; the gold bullion and the gold coins which are not legal tender, always excepting the amounts tied up for account of the Treasury; the State scrip, which represents the gold tied up for the Treasury, commercial paper on foreign countries, payable in gold; five-franc pieces and fractional coin. The cash item includes the State scrip and cash certificates of the State issued against fractional coin, the bank notes and certificates of the other banks, and nickel and copper coin.

*Portfolio* (bills receivable).—Includes stock of bills of exchange and other commercial paper held by the bank, also coupons of securities which have been admitted to discount.

*Advances.*—Current loans on securities and merchandise.

*Ordinary Treasury advance.*—Drafts by the Treasury upon the sums which the banks must hold at its disposal.

*Securities.*—This item includes the securities owned by the bank; (*a*) for their reserve fund; (*b*) for the extraordinary reserve for which the law of August 10, 1893, provides; (*c*) for the reserve to provide against the final

		BANK OF ITALY.	BANK OF NAPLES.	BANK OF S
		Situation October 10th.	Situation October 10th.	Situation Oc
Maximum circulation for commercial purposes allowed by law		800,000,000	242,000,000	55,000,000
ASSETS.				
Reserve and cash	{ Reserve LIRE.	368,091,751	116,045,993	36,695,278
		52	50	00
	{ Total cash and reserve	383,165,536	126,623,539	3
		65	17	5
Portfolio.	{ Commercial paper and bank orders	183,347,713	52,672,157	25,530,098
		48 }	76 }	12 }
	{ Other discounts	184,549,293	53,655,768	2
		57	66	983,610 90 1
			09 }	}
Advances		21,844,948 94	26,420,256	5
			52	5
Ordinary Treasury advance		58,000,000 00		2
				0

	{ in possession of the bank on account of the limitation of Article 12 of the Law of August 10, 1893, modified by Article 32 of the Law of August 8, 1895, No. 486	75,000,000 00 }	16,454,881 30 }	4,800,000 00 }
	{ General security for use in case of overstepping the above-mentioned securities, or securities limitations guaranteed by the State directly	12,742,577 88 }	}	2,290,020 20 }
Securities.	{ For employment of the sums set aside for the liquidations, according to Articles 2 and 3 of the agreement of October 30, 1894, confirmed in conjunction with Article 28 of the Law of August 8, 1895, as mentioned above	99,695,253 80	16,454,881 30	7 1
	{ Public funds and securities for the Pension or Provident Fund.	6,588,150 00 }	}	731,667 99 }
			5,364,525 92 }	



Credits	21,909,631 99	14,505,076 58	1 3
Shareholders (not paid in)	60,000,000 00		
Investments, disallowed by the Law of August 10, 1893 (Immobilizations to be liquidated)	355,370,113 85	145,237,210 42	1 4
Doubtful accounts of the running year (profit and loss)	1,679,859 19	1,231,994 95	4
Office buildings	15,883,951 04	3,071,262 68	6
Miscellaneous accounts	213,719,915 07	10,957,075 52	1 5
State service	137,270 83	325,691 28	9 9
General expenses of the current year, to be settled at the end of the year	9,449,164 83	4,190,874 91	1 7
Total	1,425,404,939 76	402,673,631 99	1 9
Mortgage bond service of the institution	214,819,500 00	158,125,000 00	3 0
Deposits	1,265,069,132 83	213,145,152 83	3 1
Grand total	2,905,293,572 59	773,943,784 82	1 1

LIABILITIES.

			270,000,000 00 }		65,000,000 00 }		12,000,000 00 }	
Capital and Reserve Fund.	{ Capital Reserve Fund.	{ Ordinary	42,742,591 18 }	312,742,591 18	6,500,000 00 }	71,500,000 00	6,100,000 00 }	1 0
		{ Extraordinary }			}		}	

	{ For commercial purposes (Article 2 of the Law of Aug. 10, '93).	714,269,236 24 }	228,920,905 96 }	35,644,743 17 }
	{ For commercial purposes as per the ratio, according to the codicil to the Law of July 22, 1894, No. 339		}	}
	{ For Treasury account		58,000,000 00 }	
Circulation.	{ Covered entirely by reserve	808,365,838 50	36,096,602 26 }	239,224,658 00
	{ Within the limits of Art. 2 of the Law of Aug. 10, 1893			}
	{ Uncovered.			
	{ Exceeding the above limits		}	
Current accounts and other accounts payable on demand		67,385,303 56	35,434,697 70	2 5
Current accounts and other accounts payable on term		150,843,231 40	43,519,781 26	1 5
Miscellaneous accounts		23,014,165 20	5,486,007 62	1 9
State service		41,580,995 98	2,406,059 31	1 7
Fund set aside in accordance with the terms of Art. 2 of the agreement of Oct. 30, 1894, confirmed by Art. 28 of the Law of Aug. 8, 1895, No. 486		6,588,150 00		7
Profits of the current year, to be settled at the end of the year		14,884,663 94	5,102,428 07	1 7
Total		1,425,404,939 76	402,673,631 99	1 9
Mortgage bond service of the institution		214,819,500 00	158,125,000 00	3 0
Deposits		1,265,069,132 83	213,145,152 83	3 1
Grand total		2,905,293,572 59	773,943,784 82	1 1

losses of the Bank of Italy in the liquidation of the Roman Bank and for the losses which all banks will have to incur on the settlement of their tied-up investments; (d) the pension fund for the employees of the bank.

*Credits*.—Items of regular account current.

*Shareholders*.—Sums due by the shareholders on their shares.

*Immobilizations*.—This item comprises all sums which must either be converted into current funds, or paid off according to the terms of the law of August 10, 1893.

*Profit and loss for the year*.—The law of August 10, 1893, prescribes that doubtful accounts of each six months shall be carried on profit and loss account; they figure there until December 31st of the current year, when they are balanced out of the profits of the year.

*Office buildings*.—The houses belonging to the banks, and used for their own accommodation.

*Miscellaneous accounts*.—Various items and the liquidation account of the Roman Bank.

*State service*.—Amounts owed by the State for transfers of funds.

*General expenses of the current year*.—The two following items represent the current account of the *crédit foncier* service and open deposits. The banks of issue cannot any longer make mortgage loans, but they have not been in a position to draw out their funds immediately, and therefore this item is carried as a running account on the debit and credit side. The open deposits are carried only as a memorandum on the balance-sheet; they appear for the same figure both in the assets and liabilities.

Among the *liabilities* we see:

*Capital and reserve fund*.—This item calls for no comment; the capital of the Bank of Italy has been supplied by shareholders and is their property, while the so-called capital of the Banks of Naples and of Sicily is the product of gifts, alms, and the accumulated profits, and legally belongs to nobody, truly a unique situation in the world of banking.

*Circulation*.—This item has four subdivisions; circulation for commercial account means the bank notes issued to satisfy discounts, advances on securities, etc., and their amount must not exceed 800 millions. The supplementary circulation authorized by royal decree of January 23, 1894, which became law on July 22, 1894, comes under the same head. The next item comprises the paper money issued for advances to the Treasury, which is exempt from circulation tax by virtue of the law of August 10, 1893. The entirely covered circulation is the issue which the banks are authorized to put out above the legal limitation, on condition that the issue be entirely represented by hard money or gold bullion on hand. The law of August 10, 1893, fixes the relation of the capital and metallic reserve to the circulation, and it taxes the bank notes above

the limit at the double of the rate of discount, but as the circulation may surpass one of the two limits, or both, a distinction is made.

*Accounts current and Accounts payable at sight.*—This item groups the drafts and cheques to order, the “apodissary” documents, and the current accounts at interest and without interest, payable on demand.

*Accounts current and Accounts payable on term.*—Current accounts at interest and savings accounts payable after notice of withdrawal to the banks.

*Miscellaneous accounts.*—Minor accounts, containing dividends due, residue of profits of former business years, etc.

*Divers services for State account.*—This is the current account and other credit accounts of the Treasury; it will be remembered that this account must not fall permanently below 30,000,000 lire.

*Fund set aside according to Article 2 of the agreement of October 30, 1894,* is the counterpart of the item of securities figuring in the assets, and which provides for losses to arise in the liquidations.

*Profits of the current year.*—This item shows the profits since the beginning of the half-year up to the date of the balance-sheet.

Finally, we have the two accounts of the *mortgage service* and *deposits*, which we commented upon in our allusions to the assets.

## CONCLUSION.

The Italian banks of issue have reorganized under the most discouraging circumstances. They have to contend with general distrust. Italy must certainly calculate upon having to encounter most difficult obstacles. She has abused the facilities of the credit establishments to the point of extreme danger, and undoubtedly she would have found it of the greatest advantage to have established a new bank, independent of the State, yet under its strict supervision; instead of leaving the right of issue in the hands of suspected establishments, which bear the brunt of faults of which they are perhaps not entirely guilty, but which they had not the courage to avoid. The very groundwork of the banks shows often a strange lack of understanding of the problems to be treated. The restrictions imposed upon the circulation and the extravagant taxes with which it is burdened weaken the banks and thwart the beneficial effect which they exercise in other countries. The legal-tender quality of the paper money is a mere euphemism, as Italy is under a forced currency rule, which means that the notes are a non-convertible paper money like the scrip of Greece or of the Argentine Republic.

The State has not as yet made use of its prerogative to levy upon the gold of the banks and to give them its own scrip therefor. This State scrip would allow the banks to issue bank notes of their own to triple the sum of the State’s paper; but this license is a

very grave one. It is inflation pure and simple; an amplification of paper money issued by banks which, at this day, have neither capital nor reserves left, at least not in readiness to be used or to be realized upon. The banks struggle as best they can against the situation which faces them; but they are overwhelmed by taxes and entangled in the limitations of a too narrow circulation; they have allowed their own credit to be merged with the Government's credit; and, above all, enfeebled and demoralized by their past, they cannot exercise that regulatory action upon the coin and scrip circulation which is the fundamental mission of banks of issue.

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## CHAPTER III.

### ITALIAN CO-OPERATIVE BANKS.

#### EMBODIMENT OF THE POPULAR IDEAL OF BANKING.

THOUGH Italy has not solved happily the problem of banks of issue, she has at least comprehended the ideal of popular organization for banking purposes. In this, she is largely indebted to the energetic and persevering initiative of Sig. Luigi Luzzatti. Sig. Ettore Levi, in his "Manual of Popular Banks," traces the history of popular credit in Italy as follows: "Popular credit and usury are two terms which for a long time have marched side by side. Credit granted upon the sole guaranty of honesty and labor had seemed to be an impossibility. Credit for the artisan or the merchant on a small scale, however honest and intelligent he might be, existed only in the form of pawn business at the Mont de Piété. Some attempts at personal credit were made in former days." Sig. Luzzatti cites some remarkable attempts at popular credit made by mediæval guilds—above all, by the English guilds; but their rates of interest were so usurious that the loan was more of a drag than an advantage. The "cassière" of Venice are another form of co-operative credit; but they also smack more of usury than providence. To Germany really belongs the credit of having first established popular credit on scientific principles. Socialists always and everywhere preach ardently the theory of gratuitous credit; and the Parliament of Frankfort O. M., in 1848, had to take up this question which the workingmen, incited by the Socialists, agitated in numerous meetings. The dissolution of the Parliament interrupted the work of the commission appointed for the study of the question; but it did not stop the Socialistic clamor under the leadership of the famous Lassalle.

#### THE SCHULZE MOVEMENT.

Against the Socialistic hue and cry arose an antagonist in the person of a humble and obscure justice of the peace of Delitzsch, Herr Schulze; and he became the founder of popular credit. Excluding, from the start, the help from the State and private charity, which would have made the honest workman the recipient of alms, two solutions were left for Schulze's choice; association of capitalists to make loans to small manufacturers and artisans, or association of the very parties who needed to borrow. Capitalistic association would have had a tendency to transform itself either into a charitable institution or fall into the groove of an ordinary bank. Schulze wanted to avoid both these possibilities. What he aimed at was that the workingman should be the instrument of his own elevation. Before obtaining credit the artisan had to show that he deserved it; and Schulze built his system on the assumption that in legal and peaceful alliance of all minor forces lay the potency of co-operation and the solution of the problem. By associating men who alone could have offered no guaranties of confidence, Schulze made up a fraternal union which would receive savings and easily obtain credit. The association itself is not dependent upon the results obtained

for the participants; it gives loans to them upon the surety of a union of individuals—workers and honest men; and this moral guaranty is backed by a capital formed out of the savings of the parties associated. “The capital so created,” said Schulze, “is the only one to protect the artisan. It would be absolutely vain to grant him loans or give him the means of work, such as some reformers have in view; such gifts, like the inheritance left to a prodigal, would soon vanish. Above all, workingmen must be imbued with the sentiment of order, providence, and good administration; this alone can preserve and increase the acquired capital, be it loaned or given. The co-operative societies which have prospered are those that have made up their own capital by the heroic setting aside of part of their daily wages. Those to whom the Government made loans in 1848 have soon broken up.”

The initiative of Schulze has produced marvelous results; Lassalle’s ideas have fallen to the ground by the non-success of the Utopia of gratuitous credit. The popular banks have met with success and are continually extending. Loans under the patronage of the Government, of communities, or from public charity lack success and prove themselves vastly inferior to the popular banks of Schulze. The ideas of the illustrious German economist found in Sig. Luzzatti an indefatigable champion; and he justly deserves the title of founder of the popular banks of Italy.

The question of workingmen’s credit was agitated in Italy at the Congress of the Workingmen’s Societies held at Vercelli in 1858 and at the Congress of Novi in 1859. The Congress of Milan, in 1859, voted upon certain propositions of Boldrini, the advocate. He, while keeping gratuitous credit service out of the question, adopted on a large scale Lassalle’s ideas. Lassalle held that the workingman could not establish associations of credit by his savings and that the sole guaranty which he could give was his honesty. Boldrini’s plan, on the contrary, was to establish a bank with a capital of registered shares or shares to bearer; a bank with the power to make loans to workingmen for 100 lire and upwards. He sustained the principle that labor and probity were sufficient to obtain credit; that it was a cruel irony to ask borrowers for a savings fund which they could not obtain, that credit should be granted largely by the banks to all who were the step-children of fortune and whose only wealth was honesty. According to Boldrini, the German banks which exacted savings besides honesty were too timid and could not go to the core of the question by reaching those who possessed nothing and could not possess anything. Boldrini and some others began to put their ideas into practice by elaborating, in 1863, the regulations of the Labor Credit Society of Milan, and the municipality of that city appointed a Commission of Inquiry relating to the project. At that time, Sig. Luzzatti, a man of but 23 years, but who had already made a name for himself by an important book, “The Diffusion of Credit in Italy,” in which he explained and commented upon Schulze-Delitzsch’s doctrine, gave a series of lectures in contradiction of Boldrini’s ideas. He maintained co-operation and mutuality and pleaded for popular banks on the German plan. Sig. Luzzatti kept up a vigorous campaign, and in May, 1865, at the Turin Congress, he could not only declare victory in the disputed territory, but he had also achieved success in Lombardy by the aid of some friends. The Lodi Bank was in operation; the Milan Bank began transactions with the support of the Associazione Generale degli Operai (General Workingmen’s Association) after the Municipal Council of Milan had declared that Boldrini’s plan was practically not feasible. The

good work of Sig. Luzzatti has been energetically carried on. Since 1865, the popular banks multiplied in Lombardy, Venetia, the Romagna, and Piedmont, and to-day these institutions are numerous and flourishing.

## PROGRESS OF THE POPULAR BANKS.

In the first years of their existence the popular banks had to fight a stubborn battle against an institution which was far removed from their scope. The Banco del Popolo of Florence had been established in 1865 with the intention to give credit to the classes which were less favored by fortune. The Banco del Popolo wanted to cover the whole of Italy, by means of numerous branches and agencies, and, to use the words of Alvisi, its founder, "the association should not be divided into workingmen and employers; for all workers were part and parcel of the people, and the bank should open the fountains of credit to all workers, from workingman to banker." With this purpose in view, the Banco del Popolo, organized on the same plan as all other credit associations, took in a variety of transactions, such as deposits, savings, loans, and life insurance. Thus it had nothing in common with the German and Italian popular banks, which are simply associations by which artisans, farmers, small manufacturers, and all who have no access to the great banking establishments join forces and invest their savings for the foundation of a local and autonomous credit institution which provides for their own needs. The Banco del Popolo bore the germs of ruin in its bosom, as soon as it started to develop its programme, which was badly adapted to popular credit; Sig. Luzzatti had foreseen that the development and downfall of this bank would be a complete and very grave disaster. By its untimely rivalry it had delayed the spread of the popular banks.

## ORGANIZATION OF POPULAR BANKS.

The popular banks are independent establishments, each having its own by-laws, which are adapted to local circumstances, although a common spirit pervades all of them. Sig. Ettore Levi has suggested the following model, to be modified to meet special cases.

At — a co-operative joint credit association is established under the firm name of Popular Co-operative Bank of —.

The purpose of the bank is to supply credit to its associates on the basis of mutual responsibility and of savings. It is established for ninety-nine years from the date of the constituting act, subject to extension. Its business office will be at —. By resolution of its General Assembly, agencies may be established in the immediate province and in neighboring provinces. The establishment and administration of the branches will be conducted with a view to transforming them into independent banks. The ground capital of the association will consist of (*a*) — shares, subscribed by the associates, of the value of — each; (*b*) reserve, — lire; (*c*) special funds to be procured for specific transactions.

The association may take up loans, to be guaranteed by the association's capital for the purpose of increasing transactions. Parties wishing to join the association must



make written application to the Council of Administration and declare their willingness to submit to the rules and regulations, by-laws, and resolutions of the society. For the transfer of shares application must be made by either the heir or assignee, even if they be members of the society. If such applications are made by parties who are not yet members, they must be signed by two members, who attest to the honor of the petitioner. Co-operative and mutual aid societies can become members of the association as a body, and as such they are to have all the rights and duties of the other associates, but their delegates are not eligible to offices in the association. Parties under guardianship, or otherwise incapacitated by law, also bankrupts, are excluded from membership. No transfer of shares can be effected in favor of such parties, except by court adjudication; and, in such case, the holder enjoys no rights but participation in the profits. The Council deliberates upon the admission of applications of new associates and of old members who buy new shares. A Council of Experts (*probiviri*) acts as appellate tribunal from the decisions of the Council of Administration.

New members incur the following obligations: (a) They must pay up their shares within three months in fixed assessments and pay an initiation fee; (b) they must acquire at least one share; (c) they must be responsible to the amount of their shares for all obligations of the society. They enjoy the following rights: (a) To obtain loans within the limits and according to the rules of the by-laws; (b) they can vote in the General Assemblies if they have paid the initiation fee, if they have been members of the association for three months, and if they have paid up at least half of one share; (c) they become part owners in the ground capital, and participate in the profits in the proportion of their holdings of shares. No one can own more shares than the amount provided for in the by-laws. However, if such excess should come about through inheritance or court adjudication, the holder would only become a beneficiary in the profits on the excess of shares, and would have to dispose of such surplus within a year. If the shareholder refuses to carry out this rule, payment of dividend is suspended, the association sells the shares *ex-officio*, and holds the proceeds at the disposal of the interested party.

The Council can debar the following parties from the society: (a) Those who, without valid excuse, are in arrear by three assessments on the shares for which they subscribed; (b) those against whom the society had to proceed in law to compel them to fulfill their obligations; (c) parties convicted of felony; (d) parties who have committed acts which the Council deems dishonorable. Against all such decisions appeal can be made to the Council of Experts (*probiviri*). Shares of parties debarred under the terms of articles *b*, *c*, and *d* are repaid. If a member dies, it is within the province of the society to compel the heir to sell his shares, if he is not himself a member or has not made application to become one. The society recognizes only one owner for each share. The shares are registered and personal; they can only be transferred, or given as collateral with the consent of the Council of Administration. The Council can grant loans on the shares; and may sell the shares of members who are delinquent in their obligations to the society.

The following statement shows the progress of the popular banks from 1876 to 1893:

*Number of Popular Banks and Members; Amount of Capital and Reserves.*

YEARS. No. of Banks. No. of Members. PATRIMONY. Capital and Reserve.

LIRE.

1876	82	77,340	45,138,000
1878	97	88,959	49,093,000
1880	123	102,279	50,610,000
1882	139	114,072	57,852,000
1883	250	139,949	64,172,000
1886	516	259,204	91,847,000
1887	608	318,979	104,109,000
1893	730	405,341	118,228,000

*Social Status of the Members of Popular Banks.*

1876 Per cent. 1893 Per cent.

Farmers on a large scale	6.40	6.56
Farmers on a small scale	16.80	24.12
Farm hands	3.20	4.66
Large manufacturers and merchants	4.40	4.77
Small manufacturers and merchants	32.15	25.25
Artisans	7.25	8.11
Schoolmasters and clerks	16.65	18.66
Miscellaneous	13.15	7.67

The associations are worked: (a) By meetings of the members; (b) by the Council of Administration; (c) by the director and the employees; (d) by the Auditing Committee; (e) by the Discount Committee; (f) by the Committee of Experts (*probiviri*).

The members hold ordinary and extraordinary meetings, which, if legally constituted, represent the members; the resolutions of these meetings are binding for all business provided for in the by-laws. The meetings approve the annual balance, and elect the officers. The Council of Administration consists of a president, vice-president, and a certain number of councilors, one-third of whom alternate each year. The members of the Council are unsalaried, and the president can obtain no loans from the society. The Council votes the expenses of the administration, establishes the formal balances and the profit and loss account, and fixes the rate of interest for assets and liabilities. It attends to all details of the general management. For special business it can delegate its powers to one or several members of the Council, or to the bank's employees. The Council appoints a director, who has charge of the general administration under the supervision of the Council. There are five comptrollers—three regulars and two deputies; their services are unsalaried. They see that the by-laws, regulations, and resolutions are carried out.

The Discount Committee consists of the Council of Administration and associate members, whom the Assembly appoints; they alternate in their functions. While they are on duty, they can neither obtain discounts nor vote upon business in which they

are personally interested. No loan or discount can be granted without the approval of the Discount Committee. The Expert Committee consists of three members whom the General Assembly appoints. They act as umpires in all differences which may arise in the association, and in all cases where friendly conciliation is required.

## TRANSACTIONS OF THE POPULAR BANKS.

The popular credit associations discount commercial paper, warehouse warrants, workingmen's liens, invoices, public works vouchers, Treasury checks, and pay vouchers of provinces and cities. The discount is deducted in advance; it is charged for five days at least on home paper, and ten days for out-of-town paper. The associations give loans on honor, without collateral. These loans are made to persons of either sex who have no resources whatever, but whose reputation for honesty and thrift is good. Such parties must have a trade or shop; they are presumed to be able to repay the loan, and, as a rule, the condition is made that they must be able to write. Such loans must not be above 100 lire, and are made for sixty weeks as the utmost limit. The repayments are made in weekly installments, although in some cases monthly payments may be allowed by the administration, which fixes the date at which repayment must begin. The loans are granted upon the recommendation of two persons who are acquainted with the borrower, and who vouch for his honesty and ability to repay the loan. Loans on honor originate an account current. The amount of the loan is carried on the debit, and the payments on the credit side.

Such is the method of the Popular Bank of Bologna; the rules of the other banks vary only in minor points from these.

The banks operate also farm loans; *i. e.*, loans on collateral of products of the soil (grain, fodder, etc.), which are stored in its own warehouses, or in places which it designates. The borrower must pay the storage charges for keep and insurance, etc., besides the interest on the loan. Loans on standing crops are made by means of bills of exchange, but the borrower must prove that he is insured against hail and fire. In no case can these loans run for more than one year. The banks also make loans on Government bonds, or securities guaranteed by the State, also on mortgage bonds up to four-fifths of their value. These loans are made for six months; they can be renewed. If the market value of the collateral should fall ten per cent., the borrower must either repay a part of the advance or increase the collateral. The loans may also lead to the opening of current accounts, and, in such case, the borrowers draw against the credit opened in their favor by means of cheques. Open loan credits are allowed to stand for two years.

The following statistics will illustrate the status and operations of this class of banks.

*Amounts of Loans  
and Discounts.*

LIRE.

1880 422,830,892  
1881 515,813,987  
1882 609,768,120  
1886 1,147,570,915  
1893 992,448,400

The loans and advances made in 1893 amounted to 432,723,905 lire; discounts to 559,724,495 lire. The loans were of the following categories:

Up to 100 lire	6.74 per cent.
From 101 to 200 lire	10.30 per cent.
From 201 to 500 lire	19.37 per cent.
From 501 to 1,000 lire	21.14 per cent.
From 1001 to 5,000 lire	29.00 per cent.
From 5001 to 10,000 lire	7.90 per cent.
Above 10,000 lire	5.55 per cent.

*Commercial Paper and Loans and Advances at  
the end of Year.*

YEARS. Commercial Paper. Loans and Advances.

	LIRE.	LIRE.
1870	25,534,000	6,299,000
1875	85,730,000	18,096,000
1880	121,539,000	21,149,000
1885	209,130,000	29,518,000
1886	266,926,000	30,753,000
1887	285,312,000	36,008,000
1888	281,714,000	39,473,000
1889	272,988,000	35,224,000
1890	257,652,000	38,472,000
1891	253,748,000	31,413,000
1892	246,973,000	27,770,000
1893	236,976,000	31,700,000
1894	214,490,000	29,423,000

*Loans "on honor" in 1893.*

	Number.	Amount.
		LIRE.
Loans running on January 1, 1893	6,423	for 354,177
Loans granted during the year	8,149	for 621,471
Total	14,572	for 975,648
Loans settled during the year	8,512	for 621,426
Situation on December 31, 1893	6,060	for 354,222

*Rates of Discount and Interest for 1893.*

	Maximum.	Minimum.
Discounts	4½-10 per cent.	4½-10 per cent.
Loans	1½-16 per cent.	1½-10 per cent.
Advances	4½-12 per cent.	4½-12 per cent.
Interest on debits of current accounts in force	2-10 per cent.	1½-9 per cent.
Interest on credits of current accounts in force	2-9 per cent.	1½-9 per cent.

Discounts, farm loans, and open advance accounts are granted only to members of the associations; commercial paper offered for discount must bear at least two signatures of persons well known to be solvent. The notes must not have above six months to run. In the case of warehouse warrants, the merchandise acts in lieu of the second signature.

The banks receive deposits of cash on open account. The depositor can draw upon his credit by cheques; they give out savings-bank books in the names of individuals, and to bearer, and issue interest-bearing bonds. They can make payments and receive moneys free of charge for their members, and charge a commission to non-members; they can issue drafts on the various places of the kingdom and undertake the collection of commercial paper. In certain cases, they even undertake the collection of municipal taxes.

## CURRENT ACCOUNTS, SAVINGS DEPOSITS, AND INTEREST-BEARING BONDS ON DECEMBER 31ST.

LIRE.

1871 49,472,000  
1875 113,565,000  
1880 179,898,000  
1885 326,923,000  
1886 398,515,000  
1887 427,617,000  
1888 439,030,000  
1889 425,100,000  
1890 422,089,000  
1891 416,531,000  
1892 421,391,000  
1893 357,723,000  
1894 372,164,000

On December 31, 1894, the deposits in force were distributed as follows:

	LIRE.
Current accounts	123,028,000
Savings deposits	206,825,000
Interest-bearing bonds	42,311,000
Total	372,164,000

The banks receive for safe-keeping securities, jewelry, and documents, for which they are not responsible in cases of *force majeure*. They attend to collection of interest and dividends on securities which are payable in the kingdom, and undertake to have matured securities redeemed. On December 31, 1893, the free deposits amounted to 112,235,011 lire. The net profits are distributed as follows: 70 per cent. to the associates *pro rata* of the shares which they own; 20 per cent. into the reserve fund, and 10 per cent. left at the disposal of the Council of Administration for gratuities to employees and for charitable purposes. The reserve fund is made up by the assessment on the profits which we just mentioned, further from initiation fees, from the payments of new shareholders in order to acquire a share in the reserve, and from extraordinary profits.

When the reserve reaches one-half of the stock capital, assessments on the profits cease; if it falls below half of the capital, assessments are made anew until the proposed level is again attained.

*Profit and Loss Account, per 1000 Lire.*

YEARS.	Gross Profits.	Interest on Debts.	Staff.	Miscellaneous Expenses.	Tax on Personal Property.	Miscellaneous Taxes.	Losses Charged Out.	Total of Expenses.	Net Profits.
1880	7,320		984	770	964	135	217	3,070	4,250
1881	13,416	5,225	997	797	846	195	1,036	9,096	4,320
1882	14,487	6,264	1,131	884	997	202	287	9,765	4,722
1886	25,090	11,159	2,314	1,866	1,648	178	437	17,602	7,488
1893	30,744	13,908	3,357	2,815	2,397	419	1,334	24,230	6,514

*Proportion of Net Profits to the Paid-in Capital and the Patrimony.*

YEARS.	Net Profit on Each 100 Lire of Paid-in Capital.	Net Profit on Each 100 Lire of Patrimony (Capital and Reserve).
1880	11.53	8.88
1881	11.66	9.00
1882	11.80	9.04
1886	11.32	8.81
1893	8.28	6.27

*Proportion of Dividends to Paid-in Capital and Patrimony.*

YEARS.	Dividends per 100 Lire of Paid-in Capital.	Dividends per 100 Lire of Patrimony (Capital and Reserve).
1880	9.49	7.30
1881	9.48	7.31
1882	9.44	7.23
1886	8.26	6.40
1893	6.63	4.97

The popular banks carry a relatively large amount of public bonds and industrial securities, as shown by the following figures: In 1870, 3,474,000; 1875, 29,783,000; 1880, 50,323,000; 1885, 87,514,000; 1890, 115,997,000; 1894, 136,002,000.

The balance-sheet of the popular banks for December 31, 1893, has been summarized in the statistics published by the Ministry of Agriculture, Industry, and Commerce, and we give it below:

## ASSETS.

	LIRE.
Cash on hand	18,571,230
Loans (ordinary, on honor and farm)	120,851,252
Discounts	116,645,425
Advances on securities, merchandise, etc.	31,759,858
Loans on mortgages	15,152,642
Doubtful commercial paper and credits	15,390,134
Credits in account current	28,152,727
Credits with popular banks and correspondents	21,061,446
Miscellaneous credits	28,453,936
Public bonds and industrial securities	139,551,363
Furniture and general expenses	2,234,338
Buildings	11,827,562
Commercial paper for collection from third parties	7,462,313
Safe deposits	112,235,011
Sureties held	50,740,138
Discount of interest-bearing bonds in circulation	697,116
Total	720,789,491

## LIABILITIES.

	LIRE.
Paid-in capital	89,949,527
Reserve fund	28,278,349
Current accounts, at interest and without interest	91,150,985
Savings deposits	218,237,166
Interest-bearing bonds in circulation	48,334,708
Acceptances	6,133,220
Debts owed to corresponding banks	37,698,838
Dividends payable	1,360,822
Miscellaneous debts	21,101,204
Commercial paper held for collection from other banks	2,446,581
Sureties held	50,740,138
Employees' Provident Fund	1,578,781
Rediscounts	5,030,501
Profit and loss	6,513,660
Total	720,789,491

This statement may be condensed into a few lines.



## ASSETS.

	LIRE.
Cash on hand	18,571,230
Loans, discounts, and advances	269,259,535
Public bonds and industrial securities	139,551,363
Miscellaneous	293,407,363

## LIABILITIES.

	LIRE.
Patrimony (capital and reserve)	118,227,876
Deposits of all kinds	357,722,859
Miscellaneous	238,325,096

The preceding statistics prove that the popular banks' service is rather costly. Being obliged to pay a high rate of interest on their current accounts as well as on savings deposits, and also being subject to very heavy taxes, they must necessarily charge borrowers high rates of interest. Nevertheless, they have been a powerful agency in the extermination of usury, at least in Upper Italy. The term "usury" is not applied to the loaning at heavy interest, but to the system in which the debtor cannot free himself by any means; when by a skillful game of renewals and costs the borrower is held for long years in the grip of his creditor.

The popular banks are not charitable institutions; only in their loans on honor do they appear to approach that purpose. Yet it must be considered that even these loans without collateral are made to workingmen who, although poor, can obtain the loan only after serious investigation. Seldom are professional charity-seekers or dishonest parties able to obtain money through imposition; and it may safely be said that these loans may be regarded in the light of a regular business form of personal credit. In brief, they are loans against character.

We have explained how the banks grant credit on farm interests. There they meet with serious difficulties; not so much in their current loans, but in advances for soil improvements, for purchases of agricultural implements, seeds and fertilizers, etc. According to the statistics of 1893, this form of operations is handled by fourteen banks and their amount has been insignificant.

	LIRE.
The loans in force on January 1, 1893, were	169,801
During the year advances were granted to the amount of	65,934
Total	235,735
Loans paid back	66,723
Leaving a balance on December 31, 1893, of	169,012

Although the agricultural loans generally enjoy a favored rate of interest, yet the conditions for obtaining capital were hard in 1893; the rate was seven and one-half per cent. in one bank; one only lent at from three to five per cent.; in the others the rate was four and one-half, five, and six per cent. The drawback on agricultural loans

lies in the length of the term which must be allowed for repayment and in the fact that the banks can only convert their demand loans into long-term investments after previous notice of a few days. This would throw them into the error which cost the Australian banks so dearly. They can only bring their capital and reserves into play, or employ the procedure at the banks of the province of Treviso; *i. e.*, issue special bonds at fixed maturity, in order to raise the means necessary for long-term loans. Long-term bonds, though, offer but slight temptation to capitalists unless a remunerative interest is offered; and naturally the borrower must pay this interest, and somewhat more, for running business expense, for insurance of risk, and for the bank's profit. The perpetual cry is that, for the so inappropriately styled agricultural credit, capital cannot be found at the low rates charged merchants and manufacturers, and that the cultivation of the soil becomes less lucrative from year to year. These difficulties have been overcome rather satisfactorily by the Scotch banks; and the Italian popular banks have made meritorious efforts to reach a solution of the problem; but complete success has apparently not yet been attained.

## COLLAPSE OF THE ITALIAN CRÉDIT MOBILIER.

In our treatment of banks of issue, we spoke of the rescue of the banks which had to be undertaken by the National Bank of the Kingdom of Italy, and which caused so much embarrassment. At the moment when the new Bank Act was to take effect, two establishments of the first rank suspended payments; namely, the Società Generale di Credito Mobiliare Italiano and the Banca Generale. This was a considerable event, which affected the whole of Italy. It is therefore proper to consider in fuller detail its circumstances. The facts that follow are based upon an excellent paper in the "Giornale degli Economisti," by Professor Maffeo Pantaleoni, who had the direction of the Credito Mobiliare liquidation.

The Credito Mobiliare, established in 1863, had a capital of 75,000,000 lire subscribed, of which 60,000,000 lire had been paid in. It conducted ten branches, or agencies, had absorbed seven banks, and was more intimately identified than any other credit institution with the political and financial interests of Italy. It was, indeed, at the forefront of banks, and ranked with the National Bank. The Banca Generale was a house of more modest pretensions, with a capital of 30,000,000 lire, wholly paid in. It had three branches, and four other banks had been consolidated with it. Its reputation in Italy and abroad was of a high order. Both the Credito Mobiliare and the Banca Generale were organized with a view to creating and fostering private industrial and commercial enterprises, and to placing securities on the market. They were originally neither deposit nor discount banks. The Banca Generale had launched the branch railways, the San Giovanni iron-works, the metallic construction enterprise of Naples, the Builders' Aid Society, the Venetian Company, the Building Society for the streets of Giulia and Picca in Genoa, and the Agricultural Credit Institution of Latium. Jointly with the Credito Mobiliare, it was interested in the sanitary improvement enterprise in Naples and the steel-works of Terni, and it bore the same relation to the Mediterranean railway system as the Credito Mobiliare sustained to the Adriatic. The Credito Mobiliare, besides its connection with the sanitary improvements in Naples, the Terni steel-works, the Builders' Aid Society, and the Adriatic railways, had under its special charge the Company for the Purchase and Sale

of Real Estate, the Piambono iron-works, the Cirio Agricultural Export Company, the storage warehouses of Bari and Pouilles, several branch railways, etc.

According to its by-laws, the objects of the Credito Mobiliare were: (1) To subscribe to Government, provincial, and municipal loans; (2) to subscribe to foreign government loans; (3) to buy and sell, for cash and on time, public securities, shares and bonds of all kinds issued by industrial and credit concerns; margin operations, however, were prohibited; (4) to promote all kinds of enterprises, such as railways, roads, canals, factories, mines, docks, illumination, development of the soil, improvements, irrigation, draining, and, in general, everything appertaining to the public utility; (5) to undertake the consolidation and transformation into stock companies of commercial concerns, and to issue their shares and bonds; (6) to bid for the privileges of collecting all kinds of public revenues and undertaking public works, and to carry out the resulting contracts and sublet them subject to the approval of the Government; (7) to issue, under authority from the Government, bonds for an amount equal to the values on hand representative of the above-enumerated transactions; (8) to sell, carry on time, and hold in trust public obligations, shares, and bonds, and to make advances on such securities; (9) To sell and buy merchandise and provisions for its own account and for third parties, to make advances on merchandise, provisions, crops, real estate, buildings, and other objects of value, and to open credits on current account; (10) to undertake for other companies and individuals payments, collections, and all other transactions; (11) to receive metallic deposits and securities, and to open current accounts in this connection; (12) to discount bills of exchange or drafts to order provided with two signatures at six months' maturity or longer.

Although the regulations authorized the Credito Mobiliare to take deposits, the management showed little inclination for such business, but discreetly preferred to operate in a sort of trust capacity, issuing bonds secured by collateral of good quality; the former to mature at the same time as the latter. Thus the character of a deposit bank, whose resources might disappear with the smallest panic, was measurably avoided. This conservative policy enabled the Credito Mobiliare to pass safely through the crisis of 1866, during which it had to pay out 16,000,000 lire on 23,000,000 lire of deposits. But, when the management changed, the bank sought actively to recover its deposits. This was not due to any deterioration of the management, but to a conviction that it was needful to convert the institution into an ordinary bank. Unfortunately, the Credito Mobiliare was not successful in employing its call deposits; and soon after the beginning of 1892 it found itself in a perilous position. It had to choose between two courses—first, to go into liquidation, or second, to continue the business with the deposits, the resources that could be raised abroad, and its great credit, until it could recover out of its profits the capital that had been impaired, mainly by the losses in the sanitary improvements of Naples. It preferred the latter way, although it was the more hazardous. As steps toward relief from its troubles, the Credito Mobiliare increased its capital by 25,000,000 lire, with 20,000,000 lire to be paid in (which yielded about 13,000,000 lire), made new appeals for deposits, had contracts awarded to it for collecting the taxes in a great number of localities, and added to its agencies. Tax collection, as managed in Italy, is very risky business for a bank, since it involves hypothecation to the Government of all the collector's property and the advancing of past due taxes. The latter requirement

compels the collecting establishment to keep a portion of its resources inactive, and no use can be made of the ready funds derived from the services, lest they may not be at hand when they have to be paid into the Treasury. These dangers did not cause the Credito Mobiliare to pause; for it found an opportunity to create, by means of its tax-gathering department, a clientage of depositors for itself, whereof it stood in need. But it did not long enjoy the benefits of the new deposits clientele. When the people came to know of the scandals of the banks of issue they were panic-stricken, and hastened to withdraw their deposits from the private banks. After three months of endeavor to outlast the "run," the Credit Mobiliare, on November 29, 1893, stopped its payments. The banks of issue did not even attempt to avert the calamity, and this establishment, which had done so much honor to Italian finance, was permanently ruined. Italy has seldom sustained a harder blow, and she is still far from recovery. We copy from Professor Maffeo Pantaleoni's paper the most interesting figures of the balance-sheet of the Credito Mobiliare.

*Statistics of the Credito Mobiliare (in Thousands of Lire).*

YEARS.	Values on Hand, Bills Receivable, on Hand, etc.	Securities on Hand.	Coin on Hand.	Debtors' Account.	Current Accounts.	Creditors.	Reserve.	Gross Profits.	Net Profits.
				lire.	lire.	lire.			
1863	26,083	6,337	2,184		13,142,000		259,000	6,178,000	2,049,000
1865	42,829	4,460	1,973	12,313	22,325,000		366,000	4,413,000	2,512,000
1870	54,766	4,546	7,240	29,732	54,302,000	6,697,000	673,000	7,615,000	4,816,000
1875	58,162	8,256	7,642	50,320	94,220,000	7,349,000	4,639,000	8,480,000	4,557,000
1880	53,874	13,648	12,371	44,551	79,907,000	20,094,000	7,733,000	6,542,000	4,883,000
1885	72,905	5,412	12,033	29,502	81,150,000	3,111,000	11,725,000	7,220,000	5,587,000
1886	76,543	8,685	4,258	26,998	93,461,000	4,518,000	12,680,000	7,537,000	5,587,000
1887	90,668	21,543	3,389	31,819	103,694,000	111,986,000	13,687,000	7,646,000	5,483,000
1888	89,683	14,392	13,197	37,235	113,221,000	30,876,000	13,748,000	7,047,000	4,576,000
1889	78,254	14,320	7,744	33,929	92,965,000	30,052,000	13,811,000	7,041,000	4,666,000
1890	74,009	7,157	10,186	35,161	65,897,000	39,215,000	7,065,000	4,777,000	2,630,000
1891	82,438	16,190	9,228	53,272	94,400,000	6,514,000	205,000	8,660,000	2,400,000
1892	87,940	18,004	7,507	70,840	107,492,000	6,680,000	210,000	7,876,000	2,877,000

*Variations in Capital.*

1863 50 millions; 28,000,000 paid in.  
1864 50 millions; 36,423,000 paid in.  
1865 50 millions; 39,820,000 paid in.  
1866 50 millions; 39,875,000 paid in.  
1867 50 millions; 39,874,000 paid in.  
1868 50 millions; 39,882,000 paid in.  
1869 40 millions; all paid in.  
1892 75 millions; 59,404,000 paid in.

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## CHAPTER IV.

### THE BANKERS OF FLORENCE.

#### ORIGIN OF FLORENTINE BANKING.

COMMANDATORE PERUZZI, descendant of an illustrious family of Florentine bankers, in an excellent book (unfortunately become exceedingly scarce), from which we shall borrow frequently in the following pages, alludes to the period of the thirteenth and fourteenth centuries when Florence was under a democratic form of government as the “Guelph century.” That era extended from 1266 to 1328. During those sixty-three years, the Tuscan language and literature were brought to their acme by Dante, Petrarch, and Boccaccio, and painting was advanced to high development by Cimabue and Giotto. The activities of the Republic were not confined to literature and the fine arts. This was equally the Golden Age of commerce and banking. The spinning and weaving of wool and silk, ancient Tuscan industries, engaged at that time two hundred shops, which gave work to 30,000 people. In the economy of the Republic, the trades had a very significant place. They were divided into seven “major trades,” allied to the liberal arts, and fourteen minor trades, or new professions and avocations. Each trade had its own chiefs, administration, banner, and tribunal. The trade tribunals sat in judgment with entire independence of one another. Among the major trades were those of money-changer and banker. The Florentine money-changers seem to have practised their calling at first in Rome; which, as a place of pilgrimage, received moneys of all the countries of the world. The changers bought these moneys and dealt in them. They became, later, bankers of the Holy See, had correspondents in various nations, and acquired large fortunes by gathering the Peter’s pence and transmitting them to their destination. With them originated the genuine exchange business; for it is easy to comprehend what facilities were enjoyed by the Pope’s bankers everywhere, and what opportunities they accordingly had for profitable traffic.

#### FLORENTINE BANKERS IN ENGLAND.

The agents of the Florentine bankers appeared in England during the reign of John (1199), where they were intrusted with the collection of money for the Pope. As they transacted their business with great probity, they were regarded with much consideration by all classes, and, to their misfortune, they attracted kingly favor. Henry II. had recourse to them when the English barons refused him the funds necessary for equipping an army to assert the rights of his son Edward to the crown of Sicily and Apulia. But the expedition was not dispatched, and it was not until 1266 that the enterprise was taken up again, under the auspices of the French and the house of Anjou. It does not appear that the Italian bankers charged interest for this loan to the King of England. They were to be recompensed out of the seignorage of the Royal Mint, and by recommendations of them to other sovereigns. In 1306, Edward I. gave

to the Company Frescobaldi £10,000 sterling as compensation for the delay in repaying a sum borrowed long before, and appointed Amerigo Frescobaldi English Commissioner at Bordeaux. Edward II., in 1315, requested the favor of the Pope for two brothers of Amerigo Frescobaldi in an important trial that they had pending before the Roman tribunal. Everywhere in the history of those times are found traces of the business done by the Florentine bankers with the English monarchs. By the end of the twelfth century, sixty-nine banking houses of Florence were operating in England. These concerns did not limit their dealings to money matters, but bought for the accounts of Florence mercantile firms English wool to supply the Italian industries.

Edward I. was succeeded in 1307 by his son Edward II. The new king was much distressed by the claims of his father's creditors and by the obligations that he himself had contracted—the whole amounting to £118,000 sterling. The most of this large indebtedness was paid back to the Florentine bankers—the Frescobaldis, Bardis, Ballandis, and others. The English people viewed with great exasperation the delivery of so much money into the hands of foreigners, and in consequence the bankers ran serious risks. Time failed to appease the popular hatred, and several years later the house of Bardi in London was pillaged and burned by the mob. This violent spirit excited decided distrust and fear among the bankers, who showed themselves far less willing to loan to Edward II. than they had been to his predecessor. Gradually the number of Italian houses doing business in England was reduced, until under Edward III. only the Bardis and the Peruzzis remained to represent the sixty-nine institutions of the reign of Edward I.

## FLORENTINE BANKERS IN FRANCE.

France also sustained close and friendly connections with the Florentine Republic. About the end of the eleventh century, the merchants of Florence began to participate in the fairs of the Champagne, buying raw wool and selling stuffs. Settlements were made through the bankers, who were alternately well treated and persecuted by the French kings. In 1277, Philip III., under pretext of obeying the condemnation of usury promulgated by Pope Gregory X. at the Council of Lyons, threatened to expel the Italian lenders and merchants from his dominions, but the majority of them obtained permission to remain in consideration of the payment of 120,000 gold florins. In 1291, Philip the Handsome caused all the Italian merchants to be arrested, giving as his reason that he wished to extirpate usury from his kingdom. Again a compounding arrangement restored to them the liberty of their profession. In 1337, Philip IV., requiring means to maintain the war against Edward III. of England, resorted to the same tactics, and would not release the prisoners until they had agreed to pay a huge ransom. Subsequently, in 1334, this same king granted to the famous Duke of Athens, who had been exiled from Florence, the right to visit reprisals upon the Florentines resident in France, which were to be continued until they should pay him what he claimed from the Republic. All the representations and protests made by Florence were without avail, and the Tuscans, having no right of citizenship in France, left the country, losing all they owned.

## THE BANKERS OF FLORENCE.

The broad scope of relations with foreign countries naturally called into being numerous banks in Florence. They were directed by skillful and experienced men, whose ability and wealth, as a matter of course, gave them important influence upon public affairs. The bankers not only excelled in the art of providing for the needs of the Treasury, but understood how to negotiate alliances, and became, in emergencies, excellent generals. With the growing activity of commerce and industry, the revenues of Florence did not suffice for public needs, and, at the advice of the bankers, resort was had to loans. These were introduced in 1336 as a result of expensive wars, and were greatly enlarged after the terrible plague of 1348. The first loans were granted by the associated Peruzzis, Bardis, Scalas, and Acciajolisi. To secure them, the Government designated certain merchants or members of the principal banking houses as collectors of the salt tax—a process that certainly minimized the risks incurred by the lenders under the previous system of forced loans. In 1348, all the old and new indebtedness of the Republic was consolidated into a general debt, with perpetual interest at five per cent. Here we have the earliest example of attempts at consolidation of the public debt. The investment served chiefly for the dowry of daughters. Careful parents bought income bonds and left them to capitalize at compound interest for fifteen years or more, so as to have resources of some magnitude when the children should be ready to marry.

After the downfall of the democratic government, Florence had to pay fifteen per cent. for money, and on condition that thrice the capital received should be paid back. The Republic, apparently, had not legislated on the rate of interest, but had held to the rules laid down by the Emperor Justinian, who fixed rates of four per cent. for persons of rank, eight per cent. for merchants, eleven per cent. for grain-dealers and sellers of provisions, and six per cent. for the people at large. The preaching friars were at pains to demonstrate that usury, so prevalent in all nations, was illicit gain, not sanctioned by the Church. They succeeded only too well, and interest, which before the tyranny of the Duke of Athens was at eight per cent., and toward 1340 had fallen to five per cent., rose in 1359 to twenty per cent. About 1495, Florence, as a means of coming to the relief of the less fortunate classes, opened a Mont de Piété, or establishment for loans on pledges, authorized by Papal decree. The Mont de Piété charged interest representing its general expenses, and sold the pledges in case of non-redemption. Operations were begun with the insignificant capital of 2891 crowns, which was augmented rapidly by charitable gifts and deposits. In 1530 it had reached 38,000 crowns. If the Mont de Piété did not stop usury, it rendered its effects less hurtful to the poor. The institution experienced numerous vicissitudes. Public authority intervened several times to regulate its capital—that is, to plunder it of a portion of its resources.

## COMMERCIAL ASSOCIATIONS.

One of the most remarkable examples of Florentine genius, after the recovery of liberty, was the system of commercial associations; which, by uniting intellectual forces and by their activity, achieved grand results. They were originally recruited

from the families and kin of merchants; but other citizens were not slow to perceive their advantages and join in them. The association spirit showed such progress that, according to Villani, 80 companies were in existence in 1338, and 108 some years later. The associated merchants earned vast wealth, and their prosperity enabled them to lay out money for expenses on an enormous scale to advance the national interests everywhere, and to establish relations with the most remote countries.

Signor Peruzzi has found in the archives of his family various association documents of the Peruzzi Company. The oldest bears the date of 1300. It provides for the creation of the banking house of “Filippo d’Amideo Peruzzi and Associates,” composed of Giotto, Tommaso, Arnolfo, Rinieri, and Filippo, paying in 45,000 florins; Filippo d’Amideo, who for his sons Guido, Amideo, and Peruzzo, paid in 26,000 florins; Ranco Raugi, 10,000 florins; Gherardo Barancelli, 13,000 florins; Catalino di Mangia degl’Infangati, 7000 florins; Gianni di Manetto Ponci, 5000 florins; Bencivenni Folchi, 4000 florins; Cione dei Bonaccorsi, 3000 florins; Gieri Lottieri Silimanni, 3000 florins; Giovanni Villani Stoldi, 2000 florins—altogether, 124,000 florins, or about 3,500,000 francs. Of this capital 1000 florins was set aside to be used in charity. The profits were to be distributed *pro rata* on the basis of investment, and each partner paying in funds to the company in addition to capital was entitled to interest at eight per cent. The company was to liquidate every two years, but after each liquidation was to be reconstituted. The records show that, in 1308, it was dissolved with a loss of 40,000 florins on loans made to the Courts of France, England, and Rome, and to the Order of St. John of Jerusalem. But upon reorganization better business was done, and from 1308 to 1310, forty per cent. profit was realized.

## MANAGEMENT OF THE COMPANIES.

It is probable that one or several of the associates had authority to sign jointly for all and directed the affairs of the house. The two persons mentioned as directors of the Peruzzi bank are Filippo d’Amideo (who appears to have been the chief) and Tommaso d’Arnolfo, his nephew or cousin. The concern had sixteen branches—in London, Avignon, Rhodes, Cyprus, Tunis, and different cities of Italy, most of which were managed by associates or relatives of its heads. The intercommunication of the various establishments was maintained by factors, or couriers, who were constantly traveling from one to the other. These representatives were provided by the bank with funds and recommendations, and as proof of identity each wore a bronze medal displaying the company’s coat of arms.

Owing to this branch business, the bankers of Florence had very curious and most exhaustive compilations of information respecting the usages and conditions of foreign lands. A certain Balducci Pegoletti, in a “Merchants’ Manual,” details precise rules for exchanges, and indicates particular periods of expectable rise and fall in the money standard in foreign parts. Thus, he says, money is dear in Venice from May to September, because the galleys go to the Levant then; in Florence it is cheap from September to January, because the country people pay their land rents during that time. Similar data are given concerning weights and measures. For instance, a contaro



of Cyprus equals 660 Florentine pounds, and the equivalent of a Florentine pound of silver at Cyprus is one marc four ounces and three sterlins.

The costs of merchandise transportation are carefully set forth. To transport wool bought in London cost twelve pence the bale; the cargo charge to Libourne, in France, was two sous sterling, and from Libourne to Montpellier, by wagon, about two pounds fifteen sous. At Montpellier the charge for hostelry and for forwarding to Aigues-Mortes was two sous one penny per bale, or four sous one penny per load. At Aigues-Mortes the consignment and shipping charges, including duty and gratuities, were one sou four pence per bale, or two sous eight pence per load. So it was calculated that the cost of sending a cargo of wool from London to Aigues-Mortes was nine gold florins.

The courier routes were marked out in most painstaking detail. The following is the itinerary for a journey to China: "First, from Tana to Azov and Gitracan (Astrakhan) by ox-cart takes twenty-five days. On the route are found many gendarmes, and it needs some money for them. From there, it requires ten or twelve days of wagon ride with horse teams to reach Sara, or Sarai (Saraïtchikowskaïa). From Sara to Saraconco, a town on the Jaik, or Ural, River, eight days by water. From there to Urgenzi, or Urguenz, twenty days by wagon drawn by camels. This town is on the Ghien River, or Oxus of the ancients. Thence to Oltrav, thirty-eight to forty days. From Oltrav to Armalecco (probably Tashkend), forty-five days. From Armalecco to Camexu, seventy days with asses. From there to the Kara Muren (Hoang-Ho), fifty days on horseback. Leaving the Kara Muren, the traders may go to Cassai, to exchange the silver money that they have brought for paper money. From Cassai to Cambalu, or Cambalecco, which is the capital of Catoy, thirty days."

The instructions to travelers specify with minuteness the kinds and quantities of provisions that should be taken, the expenses that would have to be paid, the charges for hiring boats, horses, donkeys, and camels, the values of moneys, and the dangers of the routes. The manual reads like a modern travelers' guide. Their exact knowledge of foreign countries gave the Italian merchants and bankers an indisputable superiority over those of other nations. Even at the present day, few houses are equipped to furnish their agents with such complete and exact information.

## DOWNFALL OF THE FLORENTINE BANKERS.

The good fortune of the bankers of Florence came to an end by 1340. In 1330, Edward III. ascended the throne of England. He manifested a favorable disposition toward the foreign merchants. The two Italian houses of Bardi and Peruzzi, with branches in London, became bankers to Edward III., succeeding the Frescobaldis, who had performed the same offices for Edward II. They filled the royal coffers with generous hands, and although repayments did not take place with perfect regularity, the noble character of the English sovereign reassured the lenders against all anxiety.

England was then waging a war with France, which absorbed all the resources of the State, and left nothing for its creditors. King Edward, on May 6, 1339, issued an edict suspending all settlements of indebtedness, including that owing to his well-beloved

Bardis and Peruzzis. It can readily be conceived what a terrible consequence this action had in a commercial city, and in a mercantile republic. The two companies stricken were the wealthiest of Florence, and were known as the mercantile pillars of Christendom. Villani states that the King of England owed them 900,000 florins, and that the King of Sicily was indebted to each in the amount of 100,000 florins. This money was worth a kingdom. The Peruzzi archives say that in 1339 Bonifazio di Tommaso Peruzzi went to London on the company's business, but could obtain no satisfaction, and that he died (probably from grief) in October, 1340. The entire mercantile community of the city suffered from the disaster, and the decadence of the Republic began.

After the English naval victory of Ecluse the spirits of the Florentine bankers revived. They hoped that in the joy of triumph Edward III. would remember that he owed his successes to the financial assistance which had been given him. The King was willing to repay the loans, but Parliament resisted. The bankers attempted to struggle against ill fortune, but in the existing position of their affairs were unable to support commerce and industry on the former scale. Usury reappeared. The democratic government was naturally blamed by the populace for the public calamities, and, moreover, it had lost all energy. Accordingly, in 1342, Gauthier de Brienne, Duke of Athens, who had conducted himself well as lieutenant to the Duke of Calabria in 1326, was called to the head of the State. This was the immediate outcome of the commercial crisis, and it precipitated incalculable ills. All classes had reposed great expectations in the new government. The aristocracy relied on it to sustain them against the people, the bankers hoped that it would aid in renewing their prosperity, the masses welcomed it as the long-awaited instrumentality for shaking off the yokes of the rich bourgeois that weighed heavily upon them. These pleasing expectations were mere illusions. A crushing and pitiless despotism affected Florence, and when, by a vigorous impulse, she reconquered her liberty, it was only to become a prey to civil discord and a victim of catastrophes of every kind.

The Florentine Republic had fallen from the summit of affluence to the depths of distress. During the administration of the Duke of Athens bankruptcies had multiplied. In the month of January, 1345, the Bardis and Peruzzis, who had stood their ground until then, stopped payments, dragging down in their ruin their fellow-citizens and the foreigners who had trusted them with the money wherewith the loans to the English and Sicilian kings were made. The failures also wrought destruction to numerous other companies and individual merchants. Among the more important concerns whose extinction history records were the houses of Acciajoli, Bonaccorsi, Cocchi, Antellesi, Corsini, Uzzano, and Perendoli. This period is one of the darkest in the annals of Florence. The Bardis paid seventy per cent. to their creditors, the Peruzzis much less. The bankrupts were treated with severity. All their property was taken away and turned over to the creditors, but in 1347 the Bardis and Peruzzis obtained a settlement. This cataclysm did not, however, exterminate all the bankers of Florence. A banker was destined to erect the monarchy in Tuscany a century later.

## THE MEDICI.

Giovanno di Bicci dei Medici had made large profits in banking transactions, principally during the Council of Constance. His bank was in the service of the Pope, on which score he enjoyed immense business credit throughout the world. His alacrity in aiding with his purse those who needed relief, his caressing ways with the people, and his moderate bearing in times of partisan excitement, won for him general esteem, and his reputation grew apace. When the people revolted on account of oppressive taxation, his intervention brought about a lessening of the burdens. The rich and the citizens conferred upon him the dignity of *Gonfalonière*, and he discharged the duties of this station in the most honorable manner. Both his credit and his authority were inherited by his two sons, Cosmo and Lorenzo. Cosmo interested himself in public affairs with ardor, and obtained a numerous following. He was very popular with the exiles, to whom he sent, through bills of exchange, the succor that they required for their families and friends; and also with the *condottieri* (leaders of mercenaries), who deposited their savings with him or asked him for advances.

His great influence aroused the jealousy of the Albizzi family, who had him condemned to banishment, but he was recalled a year afterward, and, in turn, the Albizzis were exiled. From that time Cosmo became the real master of Florence, although he did not abandon his commercial and financial business. He was the proprietor of all the alum mines of Italy; he prosecuted trade with India by way of Alexandria; and there was no city in which he did not have a banking office. He loaned important sums to the King of England and the Duke of Burgundy, and died after having exercised for thirty years an enlightened dictatorship over his country that contributed to its greatness. His son, Pietro de Medici, succeeded him, receiving the cordial support of the great families of Florence, which were under obligations to the father. But as his fortune was cut in two by bad management, excessive expenses, and his inability to attend personally to his business, he called in his moneys from borrowers, designing to invest them in lands. An acute crisis ensued, and the failures attending it were laid at the door of Pietro de Medici. He was deprived of the title of *Gonfalonière*, which was bestowed upon Nicolas Soderini. The fortunes of the Medicis were not, however, at an end. Pietro's sons, Lorenzo and Guiliano, seized the reigns of power. A conspiracy was plotted by the Pozzis, bankers of the Holy See, and related to the Medicis by blood, and Guiliano was assassinated. Lorenzo de Medici thereupon became sole ruler of Florence. He gave up all his commercial and banking interests, and with him terminates the financial history of the family. On the other hand, the Medicis did not at all lose their business shrewdness, and they still knew quite well how to lay out their money remuneratively. Fernando de Medici, Grand Duke of Tuscany, in 1596 loaned 300,000 crowns to Henry IV. of France, in exchange for the privilege of collecting certain taxes. Sully repaid the 300,000 crowns and annulled the lease. From the facts given, the general character of Florentine banking will be pretty well understood.

Thanks to the offices that they operated in most of the large cities, the bankers had a monopoly of exchange transactions, which were rather mysterious and hardly comprehensible to persons not versed in trade economy. Money exchange is but a phase of business in coinage. They opened credits for merchants and manufacturers,

and despite the ecclesiastical disapprobation, they took exorbitant interest. They received funds on deposit and made them thrive. Keeping this end in view, they were not afraid to lend the deposits to sovereigns. But in that epoch public debt and negotiable securities were almost unknown, so that depositors in the banks were not aware how their funds were employed. They kept watch only on the bank that had received their savings, and were not creditors of the borrowing State. In these circumstances of what may be termed confidential responsibility we must look for the causes of the downfall of the powerful Bardi and Peruzzi houses. The mistakes made in the fourteenth century, with the excuse of ignorance, have been reproduced in our time, and even at a quite recent date. The collapse of the *Crédit Agricole* in France, and that of the house of Baring Brothers in England, were superinduced by a cause absolutely analogous to that which ruined the Florentine bankers—the insolvency of the States to which loans were given.

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## CHAPTER V.

### BANKS AND BANKERS IN SICILY.

#### THE MONEY-CHANGERS.

CONSCIENTIOUS researches among the archives of the Sicilian banks have been made by Professor Vito Cusumano, and from his thorough knowledge of the subject, especially in its older aspects, he has compiled an admirable "History of the Banks of Sicily," to which we shall be indebted for some of the facts presented in this section of the treatise on Italian banking.

Money-changing in Sicily appears to date back to very early times. The Arabian geographer Ibn Hawqual saw the money-changers' industry in full operation in Palermo in 977 ad "The most of the markets," he says, "are between the Mosque of Ibn Siglab and the new quarter. The changers and druggists are established outside the city." From that period the word *bankerius*, as synonymous with *campor* or *cambiator*, has been in use in Sicily. In the fourteenth century the two professions of changer and banker were always united, as, indeed, they were in continental Italy. The changers or bankers were subject to special regulation. They were public officials, and in their capacity as such were required to certify, free of charge, the weights of moneys. They made charges only on exchange transactions.

The oldest law relating to bankers appears in the "Customs of Palermo," under the head "Jura Municipalia," and is entitled "*De forma et modo distributionis novæ denarorium monetæ*." It prohibits the sale of old moneys except by changers, who are licensed to exchange, weigh, and distribute the new money in the entire kingdom. The most frequent transactions were exchanges of new for old, good for mutilated, and domestic for foreign coin, and *vice versâ*.

#### "THE KING'S EXCHANGE."

The high profits yielded by this trade engaged the attention of the kings. The business of money-changing was made a royal right, and an institution styled the "King's Exchange" was in operation during the thirteenth and fourteenth centuries, which soon found imitation in England and Piedmont. The King's Exchange was not, however, an absolute monopoly, for in certain cities private persons were permitted to exchange moneys on condition of procuring a license and paying a tax. In others, on the contrary, the privilege was sold to the highest bidder for the benefit of the Crown. By severe restrictions, the money-changers were kept within bounds. A decree of 1351 provided heavy penalties for all guilty of clipping, scratching, or otherwise mutilating coins, required the changers and bankers to use exact scales and make just weights, and prohibited the employment of defective weights. It instructed bankers to take out no more than three pence commission for light-weight carolins exchanged for fractional pieces, but allowed four pence in case customers desired full-weight silver

carolins. Bankers were forbidden to keep on their premises any counterfeit money or coin not bearing the royal stamp. This decree is curious because of its expressed toleration of coins that had suffered loss of weight from use. Carolins that had not lost much were accepted by the changers, but if their value had been considerably reduced they were cut up. The limit of weight-loss allowed was about 6½ per cent. There is no reference in this measure to exchanges of foreign moneys. It is probable, however, that much foreign coin came to Sicily for exchange in the thirteenth and fourteenth centuries through the merchants of Genoa, Pisa, Venice, and Florence. Until 1438 no law existed regulating the exchange rate for foreign money. In that year, it was provided that the bankers should not retain more than one grain for a pistole or more than eight pence for a half-pistole. The decree of 1351 was followed by many other laws intended to control the money-changing traffic. All the measures of the fifteenth and sixteenth centuries that fixed the values of new coinages specified at the same time the legal rate of exchange for foreign silver money with the Sicilian. The frequency of variations in the values of coin, the large volume of counterfeit money, and the necessity for withdrawing light-weight circulation gave the changers an indispensable status in the economy of the country.

## BANKING PROPER IN SICILY.

The large number of banks founded in Sicily in the thirteenth, fourteenth, and fifteenth centuries is accounted for by various favoring circumstances—such as the liberty granted every citizen or foreigner to open a public bank in Palermo or elsewhere, the privileges enjoyed by the inhabitants of Palermo, the permission given aliens to acquire full rights and all consequent advantages in the city after a year's residence, the favors and immunities conceded to foreign merchants, and the commercial prosperity of Sicily. Data concerning the bankers of the thirteenth century are meagre, but information is very much more satisfactory for the fourteenth century, when the deposit system was introduced. During that period, seventeen banks existed, thirteen of them in Palermo, not counting the branches of the bankers of Italy, some of which—especially those of the Bardis and Peruzzis—were important. The bankers and changers of Palermo had their establishments in the street now known as *de la Loggia*. The notaries were in the same quarter, and notarial documents were legalized and attested by the bankers.

The bankers were much in favor. Their profession was deemed most honorable, and they held the principal offices in the cities where they lived. Like the bankers of Florence, they had among their clients the sovereigns of Europe, who often manifested gratitude for services rendered by granting them rewards and privileges. The province of banker had an official character. The opening of a bank was attended with much solemnity. To engage in the business a royal license was necessary, and the banker had to pay a sum as security to the chief magistrate and furnish the pretorian court with a solvent bondsman (frequently another banker). No bank could be established with less than 15,000 crowns of capital, called “the bank's column” or “pillar”; and a supplementary guaranty of 15,000 crowns by a bondsman not associated in the bank was required. After these formalities had been complied with, the municipal magistrate opened the bank, the ceremonial being heralded by the trumpet of the town-crier. The following is the official notification of the installation

of the Bank Innocenzo Rizzo at Trapani, September 14, 1577: "Notice is given to each and every citizen and stranger, residing in the kingdom or out of the kingdom, that the most High and Excellent Lord Viceroy has granted license, by virtue of his Vice-regal powers, to the worthy Innocenzo Rizzo to open and to keep a public bank in this city, and to transact business the same as other bankers of the kingdom. Upon receiving this authorization the worthy Rizzo has given security of 10,000 crowns and the additional bond in conformity to the decree of the Viceroy, as appears in the records of the Honorable Lord Sheriff of this city. Be it known to all that the worthy Rizzo at present keeps a public bank, with which all who wish may do business, as with other banks that the worthy Rizzo may see fit to open. And for universal instruction this proclamation is made." In a similar manner, the municipal authority announced the dissolution or failure of a bank.

## LEGAL REGULATION OF BANKING.

The law governing banking was very exacting. It indicated with particularity the amount of gold, silver, or copper coin that could be given in each payment. Such precautions show that the banks and the changers did substantially the same kinds of business, dealing principally in money. The accounts of the Sicilian banks were kept in "double entry," and with high intelligence. In this connection, it may be remarked that double-entry bookkeeping, familiarity with which was spread in the seventeenth century by the celebrated Bruges mathematician Simon Stevin, was invented in 1348 by the Benedictine monk Angelo Senisio, of the Monastery of St. Martino della Scala, in Palermo. In the municipal library of Palermo is preserved a manuscript of 1398, entitled "Book of Commercial Arithmetic and of Geometry," by an anonymous author, who demonstrates that the technique of exchange, commerce, and banking was quite well developed at that period. A chapter of this volume is devoted to the keeping of current accounts by single and double entry. The bankers' books were authoritative in judicial proceedings, and were accepted the same as notarial documents. The accounts of liquidated or failed banks were scrupulously kept by conservators, or administrators, appointed by the authorities; and from this circumstance our knowledge of Italian banking is much more complete than that of French.

## THE BANKS AND THE GRAIN TRADE.

We have already considered the trade in precious metals. The bankers had another line of business much more important—that in grain. They seem to have acted principally for the account of the authorities, who in times of dearth called on the banks to facilitate the importation of cereal products. In 1479, the banker Giovanni Costanzo bought 6000 measures of wheat on the order and for the account of the Senate. He rendered incalculable services to that body in grain dealings. There are numerous records of security furnished by the bankers for grain purchases in behalf of the city of Palermo. Independently of such enterprises for the public welfare, the bankers carried on a grain business with individuals. They had agents and representatives in the interior of the island, who bought, sold, imported, and exported cereals. To this traffic they subsequently added transactions in silk, linen, and woolen

materials, maintaining for that purpose offices throughout the world. The bankers of Venice operated in the same manner in drugs and spices. This merchandising department of the banks, as will be readily understood, was but an accessory branch. Their specialty was really the purchase and sale of bills of exchange—a most complicated branch of business. The banker had to calculate the relative worth of Sicilian and foreign moneys, the higher value of the best money which determined the exchange rate, and finally the interest on capital. To indicate the profits realized, it is sufficient to say that the gains made by a Sicilian banker from his drafts on a Naples banker did not fall below thirteen per cent.

## DEPOSITS AND ACCOUNTS CURRENT.

The most important office of the bankers, distinguishing them sharply from the money-changers, was the reception of deposits of funds. Incidentally to their deposit business, the banks made transfers and issued trust certificates, deposit and credit vouchers, and call orders. Bank deposits in Sicily go back to the first half of the fourteenth century. The banks not only took personal deposits, but had the keeping of the funds of the courts. The deposits of various kinds increased in the fifteenth century, as a result of the ever-growing number of bankers and the safety that they offered to depositors. Even the lower classes kept bank accounts. In 1513, when the failure of the bank of the Battista Lombardi heirs occurred, the municipality devoted a rather important amount for payment of deposits less than ten ounces (127.50 francs), to soothe the common people, who threatened to rebel. Like steps were taken in 1530 at the time of the downfall of the banks of Giovanni Sanchez and Benedetto Ram.

The deposits that flowed into the banks came from widely varied sources. The funds of minors and widows were received; sums in litigation; guaranty funds of the accepted bidders for public contracts; duties; revenues from the purchase of domains; inheritances through testamentary disposition or by judicial decision; the current cash of merchants and manufacturers, etc. The bankers kept current accounts in other banks. The Public Treasury deposited its receipts with them, and they disbursed the sums due the State's creditors. In 1550 the city of Palermo created a municipal bank, called the Tavola, but gave it no preference in the matter of deposits of public money. The State revenues were placed in the banks, which served as Government receiving and disbursing institutions, the same as cash agencies for individuals, and the deposits were drawn upon by orders—exactly the procedure observed to-day in nearly all countries.

## NATURE OF THE DEPOSITS.

The bank deposits may be classified as follows: Deposits of valuables in trust, deposits of court funds in trust, conditional deposits, and open deposits on current account—the last-mentioned being the most important. It does not appear that interest was allowed at the first, for such a practice would have incurred the censure of the Church; while, on the other hand, it cannot be asserted that interest was not in vogue by the end of the sixteenth and the beginning of the seventeenth centuries; for certain documents of that time allude to an interest of five per cent. granted on deposits.



Deposits were seizable, excepting those in the Tavola of Palermo. The banks employed the deposits for their own business; only taking care to keep on hand sufficient resources to cover withdrawals. Moreover, they were not required to return to depositors the identical coins paid in, but only their equivalent. Bank payments and payments through banks had their origin in Sicily in the same era when deposits began. Such transactions were probably the chief services rendered by the credit institutions. To take the place of the manifold moneys in circulation they substituted for transfer purposes a unique fiat money, whose face value and quality were unquestioned. By such transfers they economized the use of metallic money and imparted great security to transactions, since the remnants of payments were attested by their books, which were court records.

## USES MADE OF DEPOSITS.

The funds on deposit were used for loans to individuals, to the royal court, to the Senate of Palermo, and other administrations, on short or long terms, with or without collateral or mortgage. The interest forthcoming from these transactions ranged from five to fifteen per cent. Civil loans, which were very common in the fourteenth century, were contracted before a notary, and were always made of record with the words, *gratis et pro bono amore* (gratuitously and for good will), in order to comply with the requirements of the Church; but commercial loans, variously secured, gave rise at times to very high interest charges. Loans to the royal court and the Senate of Palermo were numerous in the fifteenth century. Certain advances were made direct by the bankers to the State and municipal treasuries. They were at long maturity and were protected by mortgages on buildings or by the assignment of some departments of the public revenues. The interest was between a minimum of five per cent. and a maximum of fifteen per cent. Other loans were contracted on bills of exchange signed by the city or the State, with privilege of renewal. These were simple discounts. Finally, credits were opened for merchants, usually secured by collateral or mortgages.

## CERTIFICATES OF DEPOSIT—THEIR IMPORTANT USE AS CURRENCY.

In connection with the banks of Naples, we shall speak of the famous open-credit business, which was as common in Sicily as in continental Italy. It led to the issuance of securities of diverse character.

At the beginning of banking, the bankers gave no receipts to depositors. They contented themselves with inscribing the amounts of deposits in their books, and the confidence they enjoyed was such that these book records were satisfactory to the public. In the first years of the fifteenth century, however, the bankers began to issue deposit receipts, called *apodixa*, wherefrom, by corruption, are derived the words *podisa*, *polisa*, and *polizza* (policy). This was the origin of the “policy” of insurance vernacular. The receipts were repayable on call and “to bearer.” They were consequently equivalents of the modern bank notes, and circulated like the paper money of to-day.

Another form of bank orders was the *certificatio banci*, a receipt certifying the existence of a deposit in a bank. It was issued chiefly to certify deposits made or held by order of court. The *certificatio banci* was followed by the *fède di partita di banco* (trust certificate), which may be regarded as an improvement. It was employed exclusively for deposits for the courts. These different receipts and certificates of the fifteenth century were issued on loose paper, bearing neither the signature nor the stamp of the bank, nor even the date, but indicating merely the book and folio where the deposit was entered. In the sixteenth century such papers were always signed by the bankers. They were of large importance, having a notarial character, since the banker noted upon them the purpose of the deposit and cited all public acts applicable to it. The *partita di banco* was the original and the *fède* was the duplicate.

From the *fède di partita di banco* was evolved, naturally, the certificate of deposit (*fède di deposito*); and from it the credit certificate (*fède di credito*), whereby the banker declared his books to show a fixed amount for the account of a depositor. All these undated and unsigned instruments apparently served principally in lawsuits as proof of facts alleged by one or the other party. They were based in every case upon the *madre fède*, or account current kept with the banker. Most of them were used in lieu of money, and were accepted as ready cash. In addition to such more or less perfect substitutes for coin, we find the *ditta di banco* (literally, “the word of the bank”), which was a promise to pay at stated maturity. Sometimes this was issued upon a deposit; sometimes the party in whose favor it was drawn provided for its redemption only at the time of maturity. Thus it was a near analogue of the certified acceptances of modern banks. It was extensively used in Sicily. In most of the money marts, a banker was intrusted with the payment, and the creditor received the *ditta di banco* as a voucher. Often, too, the *ditta di banco* served for advances to municipalities in exchange for the transfer to the bank of branches of the revenues. The bankers gave cities time engagements that could be utilized for raising funds by discount. Occasionally they signed bills for the benefit of the lessees of the salt revenue, who paid over to them the receipts. These orders, although not payable at sight, passed as money in discharge of debt.

People have tried to perceive in them the rudimentary bank note; but that is going too far. The characteristic of the bank note is its payability at sight, whereas the *ditta di banco* was expressly redeemable at maturity. The circulating power of this paper was manifestly due to the nearness of maturity and to the advantages that it offered over the current hard money. If there had been a circulation of good quality it could not have lasted. The much-admired circumstance of the facility with which paper equivalents of money circulated in Italy is the most convincing proof of the badness of the money.

## THE POLIZZA.

Among the numerous varieties of paper in vogue among the Italian banks, the *polizza*, or trust certificate, deserves special attention, for it was the embryo of the cheque. The first *polizze* are found at the beginning of the fifteenth century in the form of orders to pay, issued by competent authority against deposits that had been placed in the bank in trust by decision of the court. Later, the Senate of Palermo, having determined to

deposit the tax receipts with the banks, drew on the bankers by pay orders. The Viceroy often employed the polizze, and found in them an excellent remedy for delays in payments; for in the event that a bank lacked wherewithal to conveniently pay at the time, accommodation for the beneficiary of the order was obtained at some other bank. Bankers used polizze for transactions among themselves, to settle their debts in various parts of the island, and to make clearances. These orders were seemingly not transferable by indorsement at the start, but an instance is recorded of a polizza transferred by that method in 1560. To draw a polizza it was necessary to have funds at the banker's, who refused to honor orders if the drawer had not sufficient credit.

## DECADENCE OF SICILIAN BANKING.

We have traced the origin and development of the banks of Sicily. Their fate proved to be no better than that of the great Florentine institutions of the Peruzzis and Bardis. In the fifteenth century, two important banks went down. In the second half of the sixteenth century those in existence disappeared almost completely. On January 28, 1514, the bank of the heirs of Battista Lombardi stopped payments. The pretor and aldermen immediately communicated with the Viceroy, who was absent from Palermo. The panic was such, and the mob that besieged the bank was so large, that a revolt was feared. The pretor (mayor) and aldermen made personal efforts to calm the people, promising that all deposits below two ounces should be paid back within a few days. They seized the books and furniture of the bankrupts and summoned experts to examine the accounts; who, having made up the balance-sheet for February 1st, showed that there was a deficit of 70,000 florins. The Viceroy ordered the appointment of receivers. They announced that the proprietors, to pacify the needy people, had handed them 1000 ounces for the payment of deposits less than ten ounces. From that time failures of banks multiplied, and, unfortunately, a number of fraudulent bankrupts appeared. The causes of the failures, although various, may be reduced to the following: the exorbitant taxes on the import and export trade; the total loss of Sicily's sphere of influence in Africa; a defective financial system; and above all, varied reasons of misgovernment, including the insatiable rapacity of the Viceroy, who had accepted innumerable bribes; and, as a still further cause, may be cited the almost absolute ruin of municipal finances and the generally bad monetary condition of Sicily. The bankers, to whom eventually all public and private business came, were doubly injured. At first, like all other citizens, they were able to bear the heavy burden of public charges; but later, from the nature of their trade, they had more to suffer than the rest of the community because of the impoverishment and falling away of their clients.

Signor Cusumano, whose work on the banks of Sicily must always be consulted, is inclined to attribute the commercial disorders that broke out in Sicily in the sixteenth century to a general cause—the disturbance of values occasioned by the abundant inflow of gold and silver from the New World; although he says that he has discovered no immediate instances in Sicily that permit him to establish the connection. It appears to us that Signor Cusumano is right; for that was an era of inflation, and it is well known that inflation is invariably attended by great excesses in speculation, which infallibly bring catastrophes. This period may be compared to the

one following the discovery of the Australian and Californian gold-fields, which brought on the terrible crisis of 1857, that paralyzed finance throughout the entire world.

In Sicily, stringent penalties were specified for persons going into bankruptcy on false pretences. Even the death penalty could be enforced. Similar punishments were visited upon all assisting bankrupts to secrete their books, moneys, chattels, etc. The laws, on the other hand, were lenient toward honest bankrupts, who could obtain the benefits of assignment. By voluntarily abandoning all their assets to creditors, unfortunate debtors could escape imprisonment. At first this clemency could be accorded only by special grace of the sovereign, but afterward the courts were authorized to bestow it. Sicily never had in force the harsh practice that prevailed in other Italian countries, known as the “stone of reproach” (*pietra del Vitupero*), whereby the bankrupt was placed upon a stone scaffold and a public reproof was addressed to him. Honest bankrupts, moreover, could secure a settlement by license from the Viceroy. But the advantages of these laws were withheld from bankers who failed after the beginning of the seventeenth century.

From the history of the Sicilian banks it is shown that their transactions and scope closely resembled those of the banks in the various parts of Italy, notably in Tuscany. In both countries we have perceived the operation of unwholesome influences, which were responsible in those ages, as they are still, for the destruction of credit establishments—the bad faith of governments and ignorance of the economic laws governing money circulation and the distribution of credit.

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## PART III.

### BANKING IN SPAIN.

#### CHAPTER I.

##### THE EARLIEST BANKS.

SPAIN shares with Italy the honor of having established the earliest banks of deposit and circulation. The Bank of Barcelona was certainly in existence in 1401, and probably at a very much earlier date. Originating from causes similar to those to which the Italian banks owe their existence, and called upon to meet the same requirements, the Bank of Barcelona must have resembled those institutions very closely; on this point, however, we are confined to conjecture, for we have no really trustworthy information concerning this bank.

From the experience of the Netherlands, Spaniards were enabled to appreciate the value of banks of issue; and, in 1617, the Cortes demanded the establishment of such an institution. Accordingly, in 1621, Philip IV. issued letters patent authorizing it; but political events intervened to prevent its establishment at that time.

##### THE BANK OF ST. CHARLES.

It was a Frenchman, François Cabarrus, who furnished to Spain her first bank of issue. Consulted by the Spanish Minister of Finance, in 1779, as to the best means of ending a monetary crisis caused by the war which France and Spain were then waging against England, Cabarrus advised the issue of State bills, to be made a legal tender, to bear interest at four per cent., and to be redeemable in twenty years. The tobacco and salt duties were pledged as a guaranty for payment of the interest and for final redemption of the bills. These notes were fairly well received by the public, but they never reached par. The idea then occurred to Cabarrus of establishing at Madrid a national bank of discount and issue. In a memorial addressed to the King, under date of October 22, 1781, he thus sets forth his plans:

“It appears to me, in the first place, that in a country in which a large part of the lands are inalienable it is expedient, and even necessary, to furnish to the wealthy a means of investment to take the place of the real estate they lack. It seems to me also that they ought to be partners in the enterprise, and not mere lenders to it, that is to say, that they ought to be allowed to reap the full benefit of their investment. I think, furthermore, that inasmuch as the aim of this company and bank is to encourage and assist the commerce and industry of the nation, it ought to scrupulously abstain from all commercial undertakings on its own behalf, so as not to injure any individual merchant. In order to identify the interests of his Majesty’s treasury with those of the bank, and at the same time to furnish to shareholders a sufficient inducement for

making the investment, the new institution ought to have the privilege of furnishing all army and navy supplies at a commission of ten per cent. The supplies would then be procured more economically and with greater certainty and promptness, and the profits, which are now shared by only three or four contractors, would be divided among a large number of citizens, thus furnishing a reasonable support for many persons without unduly enriching any. The bank must be hampered by as few restrictions as possible, for otherwise it will not gain the confidence of the public. Upon the basis of these fundamental principles, I propose to his Majesty the foundation of an institution which shall do a banking and general discount business; which shall advance money against bills of exchange, State bills, etc., at an interest of four per cent. per annum; which shall furnish all the supplies required for his Majesty's fleets and armies, or for any other branch of his service at home or abroad, at a commission of ten per cent.; which, finally, shall pay all claims against the Crown at a commission of one per cent."

This document contains some views that are very sound, especially that relating to the independence of the bank; but it takes too little account of the proper division of labor; and the proposition that the new institution furnish supplies for the army and navy was a morbid germ destined to develop. Likewise, the confusion of State affairs and the banking business involved in the proposed method of paying the debts of the Crown was a reversion to the scheme of Law, and tended to an unfortunate interdependence between the credit of the bank and that of the State. The regulations of the bank, in details covering forty articles, drafted by Cabarrus, contain little that is of interest. The royal memorandum of June 2, 1782, establishing a national bank, with general powers, under the title of the Bank of St. Charles, adopted all the propositions of Cabarrus.

Though the royal memorandum makes no mention of the circulating notes of the Bank, the right to issue such is assumed in a prospectus addressed to those whom it was desired to interest in the new institution. In this prospectus we read: "The outstanding State bills, whose existence makes the Bank necessary, have increased the difficulty of establishing it, for how can we put its notes in circulation and keep them at par like those of the Bank of England and the Discount Bank of Paris, while interest-bearing bills of the State are in circulation? How can we hope to exchange the barren notes of the Bank for the productive bills of the State?" It was to compensate for this restraint upon the circulation that Cabarrus demanded a monopoly in furnishing army and navy supplies. This bank, against which Mirabeau wrote a violent pamphlet, did not succeed in establishing a circulation, and could not find in Madrid a supply of commercial paper commensurate with its discount facilities, but it did succeed in one direction. It raised to par the State bills, or *váles*, from a discount of twenty per cent. Its capital, however, was immediately locked up by the redemption of this paper and by the purchase of shares of the Compagnie des Philippines, a sort of copy of Law's Compagnie des Indes in France. At the same time, it launched out into all kinds of undertakings contrary to its powers, including the canalization of Spain, beginning with the Guadarrama. The affairs of the Bank fell into the greatest confusion; but, by leaning upon the Treasury, which was as badly disorganized as itself, it managed to survive, and was even able in 1807 to announce, not only that its capital was intact, but that its resources were very much greater than its liabilities.

This was true on the assumption that it could realize upon its assets; but such was far from being the fact. They consisted of loans upon its own shares and upon depreciated securities, which could not be collected; of foreign credits of very doubtful value; of debts due from the State, now insolvent; of State paper, and of a small specie reserve and a few good commercial securities.

At this time the French had invaded Spain, and the whole country was one vast field of battle. At one time there were two banks, one at Madrid with King Joseph, and the other at Seville and later at Cadiz. On the return of peace, in 1814, the Bank demanded of the State repayment of 320,000,000 reals; but a decree of the Cortes, rendered on November 9, 1820, made the claim of the Bank part of the ordinary public debt. Fortunately for the Bank, the restoration of absolute power annulled all the acts of the Cortes. A report was demanded of the Bank setting forth its history and actual situation, and when this had been furnished a royal decree was issued, on February 4, 1824, ordering a liquidation of all the State debt not represented by Crown bonds. A second royal decree of the 8th of the March following ordered a reopening of the great book of the public debt, and that there be entered therein, in addition to the debt of 600,000,000 reals, a further sum of 200,000,000, half of which should be immediately delivered to the Bank, at an interest of five per cent., on condition that it could show an equal amount of interest-bearing claims in its own possession. This condition the Bank could not fulfill, and finally, in 1829, it received a subsidy of 40,000,000 reals. If there was any loss involved in this transaction the State was the victim, but the unfortunate situation of the Bank was generally attributed to the Government, and this grant of 40,000,000 reals was no more than a just indemnity.

“The Bank of St. Charles,” says Don Ramon Santillan, “created for certain purposes, some of which were foreign and others diametrically opposed to the elementary principles upon which institutions of this kind should be based, found itself from the very first involved in a network of difficulties and hindrances, which was merely drawn tighter by the efforts of the managers of the Bank to escape from it. The losses naturally resulting from a discount of Crown obligations and from the complications involved in furnishing army and navy supplies, could not fail to be further increased by speculation in the public funds of France, then in the throes of a woful revolution. The participation of the Bank, as a very heavy stockholder, in the affairs of the Compagnie des Philippines, and its losses through worthless securities, completed its ruin. Its capital of 300,000,000 reals was far too great, and it had been able to employ only a small part of it in commercial loans. An attempt was made to secure a profit out of the capital by placing it at the disposal of a treasury whose condition was growing worse every day, and, as a matter of fact, the Government kept the Bank alive until a common shipwreck, in the early part of the present century, overwhelmed all institutions, public as well as private. Since 1814, the Bank had really been dead, and it required a mighty effort of the Government to resuscitate it.”

## THE BANK OF ST. FERDINAND.

On July 19, 1829, with its indemnity of 40,000,000 reals and a right to issue new shares to the extent of 20,000,000 reals whenever it should need to do so, the Bank

was reorganized. It gave up its old name, "Bank of St. Charles," and became the "Bank of St. Ferdinand." The business of the new bank was small at first, being largely confined to speculation in public funds; but a few notes were put in circulation in Madrid, where alone the Bank was permitted to issue; though it was authorized to open offices and establish agencies wherever it chose to do so. The sluggishness of commerce and industry in Spain, and more especially the narrowness of the Bank's sphere of activity arising from its inability to circulate its notes beyond the limits of Madrid, made it impossible for the institution to gain any valuable result from its own proper business; and it could not survive except as an essentially governmental enterprise. During the first three years of the Bank's existence no special attention was paid to commercial discounts, and in its reports it groups together under one heading that important branch of its business and its dealings with the Treasury. As a matter of fact, the Bank was merely speculating in rentes and in its own shares. One peculiar fact in the situation was the reluctance of the Bank to issue notes; the Government was constantly urging it to make such issues, and it was constantly refusing. Its wish was to act merely as agent of the Treasury; to make advances to it on good security, and to utilize its capital in speculation; it did not even comprehend the utility of loans on collateral, and against being compelled to publish reports it protested in the following language, which merits a reproduction: "The vaults of the Bank ought to conceal the mystery of credit, which its books reveal alone to the initiated. To publish this mystery is to destroy its value." And yet, though it fulfilled but imperfectly the duties of a bank of issue, the Bank of St. Ferdinand rendered valuable services to Spain. The scarcity of its bills and the care with which it watched over them kept them at par with specie; moreover, it maintained correspondents abroad, through whom it negotiated the drafts of the Government upon its colonies, thus furnishing to Spain available funds in Paris and London, with which to replenish her gold supply and conduct her exchange operations.

Meanwhile the King, Ferdinand VII., had died, leaving his throne to his daughter Isabella, in derogation of the Salic law and to the prejudice of his brother, Don Carlos. The latter, supported by the Absolutists, began a war which ravaged Spain for the next six years. The Bank was compelled to make many large advances to the Government to enable it to withstand the insurrection. These loans were constantly renewed and never repaid, and the Bank of St. Ferdinand followed precisely in the footsteps of the Bank of St. Charles. Foreseeing the danger to which it was exposed, the Bank began to scrutinize the security offered by the Treasury and to restrict its credit. The Government retaliated by disowning the Bank of St. Ferdinand and raising up a formidable rival against it.

## BANK OF ISABELLA II.

A decree of January 25, 1844, established a new bank of issue, to be known as the Bank of Isabella II. The Bank of St. Ferdinand then recognized the necessity of abandoning its ancient methods and appealing to the public. It offered to discount paper and to loan more freely than in the past, and solicited the opening of accounts current. At the same time, it managed to have the limit of its circulation increased from 24,000,000 reals to 60,000,000, and it refused to accept the notes of the Bank of Isabella II. It aimed a more dangerous blow at the new institution by establishing a



clearing-house for bourse operations; a device from which the Bank of Isabella II. had hoped to reap some advantage. Two years later, however, the Bank of St. Ferdinand closed its clearing-house, because it had resulted in serious losses. The rivalry of the two banks gave a decided impetus to speculation. The Bank of Isabella II. placed all of its resources at the disposition of a small number of speculators; one of them in the course of three years obtained loans aggregating 188,000,000 reals, and another 116,000,000. Of the 1,019,000,000 reals loaned during that time, 786,000,000 were borrowed by thirty-two persons. The natural effects of such management soon made themselves felt. The crisis of 1847, which was so severe in France and England, did not leave Spain unscathed. The two banks, which had been mutually harmful, had fallen into the most deplorable condition; and the Minister of Finance, Don Ramon Santillan, was upon the point of compelling them both to go into liquidation when he quitted the Ministry.

## THE TWO BANKS CONSOLIDATED—REPEATED RECONSTRUCTIONS OF THE CONSOLIDATED INSTITUTION.

The new Minister, M. Salamanca, thought that a more convenient and speedy remedy was to be found in consolidating the two institutions. By a royal decree of February 25, 1847, the two banks were made into one, bearing the name of the older. The fusion was an act of gross injustice toward the Bank of St. Ferdinand. True, its resources were not available; but at least it had the State for chief debtor, while the assets of the Bank of Isabella II. consisted of a mere confused jumble of credits, most of them worthless. The Bank of St. Ferdinand was so completely at the mercy of the State, to which it had delivered up practically the whole of its possessions, that it did not dare to protest against the combination, but was constrained to acquiesce.

The capital of the new bank was fixed at 400,000,000 reals, half of it to be paid in in cash. It was empowered to issue notes to an amount equal to its capital, and to establish branches wherever there was no local bank of issue. Its charter was to run for twenty-five years; it was required to publish a balance-sheet at stated intervals, and was forbidden to issue any note of a less denomination than 500 reals. According to the report of the commission appointed to appraise the securities held by each bank, the assets of the Bank of St. Ferdinand amounted to 372,413,342 reals, and those of the Bank of Isabella II. to 197,197,424 reals. There was not much to be deducted from the assets of the Bank of St. Ferdinand, but against those of the other there were very considerable offsets, the result being that the new institution found itself heavily incumbered from the very first, and that, too, at a time when commercial affairs were steadily becoming more serious. The crisis which began in 1847 had been followed in France by the Revolution of 1848, which disturbed the greater part of Europe. The consequences were distinctly felt in Spain, and her financial embarrassment was greatly increased by it. The cash reserve of the Bank was growing smaller, while its circulation was increasing and the Government was demanding further loans. To complete the Bank's misfortunes, an investigation showed that it had been a victim of thefts and embezzlements to the extent of 60,000,000 reals. At this juncture, a new Finance Minister, M. Mon, determined to reorganize the Bank upon the model of the

Bank of England. By a decree of September 8, 1848, a special issue department was created, distinct from the banking department, to be managed by a council composed of officers of the State, of the Treasury, and of the Bank itself, and two merchants of Madrid. This department was empowered to issue notes to the extent of 100,000,000 reals, guaranteed by State securities and a metallic reserve of 33,000,000 reals. The Bank was required to publish a balance-sheet every week. The new department withdrew about half of the outstanding circulation and thus raised the credit of the notes. But, unfortunately, it soon began to encroach upon the banking department, and each of the two branches of the institution interfered seriously with the work of the other. Nevertheless, some progress had been realized. A monopoly of future circulation had been secured and the practice of allowing the establishment of local banks of issue in the different cities of the kingdom was abandoned in favor of a single bank.

M. Ramon Santillan, appointed governor of the Bank, made it his first duty to look carefully into its actual situation. It was not promising. The assets consisted of 53,726,922 reals in specie and collectible securities, 82,052,885 reals of Government debts, 51,613,451 reals of contested claims, and 205,083,476 reals recovery of which was extremely doubtful, the greater part of this item consisting of loans made by the Bank of Isabella II. To sum up, of a capital of 200,000,000 reals, 110,500,000 might be considered as practically lost. As a first step toward reform, M. Santillan carefully separated the collectible securities from those of doubtful value; he collected all those that were recoverable, and with the 80,000,000 reals thus secured he reduced the capital to 120,000,000 reals; the two departments of the Bank were then united. On February 18, 1852, all of these reforms were enacted into law. Shortly afterward, the Finance Minister determined to take away from the Bank the management of the public debt and the collection of provincial taxes. To this end, he established a deposit office, which undertook to pay interest to depositors, and was required to accept all moneys in the hands of the courts and all bail moneys. This bureau established branches and opened accounts current, but it never paid the interest it promised, and soon fell into discredit. It thus became necessary to have recourse again to the Bank, which advanced money to pay the arrears of interest on the foreign debt, and guaranteed various State loans. From this time forth the Bank accumulated State securities with great profit to itself, if we look merely to the gains appearing upon the face of the transaction, but greatly to the dissatisfaction of its note-holders. A day of settlement was fast approaching, and the Government, having no means with which to meet the demands of the Bank, determined to reorganize it.

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## CHAPTER II.

### THE BANK OF SPAIN.

#### ITS ORIGIN.

IN pursuance of the conditions above recited, and the determination to reorganize the embarrassed Bank, on January 28, 1856, a law was enacted providing that the institution should thenceforth be known as the "Bank of Spain"; that the franchises of the Banks of Barcelona and Cadiz should be continued for the term for which they were originally granted, and that the Bank of Spain, at the expiration of one year, should establish branches in the capital cities of nine provinces. Notwithstanding the Government's intention to confer an exclusive franchise upon the Bank, a Deputy secured the adoption of an amendment by the terms of which private banks might be established with the same privileges granted by the law to the Bank of Spain. The effect of that amendment was to confine the business of the Bank of Spain to the city of Madrid. Nevertheless, the scope of its operations was somewhat enlarged, inasmuch as it obtained permission to make loans upon the shares of manufacturing and trading corporations.

The year 1857, which was signalized by a very severe and general crisis, was a critical time for the Bank. It was fairly successful in meeting the difficulties of the year, though for a brief interval it was compelled to suspend the redemption of its notes. During the following years, periods of tranquillity and of anxiety alternated, but there is nothing of special note to be recorded, except a constant increase of the State's indebtedness to the Bank, and a gradual disappearance of Spanish silver coin; which was melted and exported in consequence of the appreciation of the white metal; which afterwards equally happened to the coins of the countries composing the Latin Union. In its embarrassment, the Government had induced the Bank to discount the obligations incurred through purchases of national property; but these assets had not a high degree of availability, and they did not constitute a strong element of the Bank's resources. In 1862, the Government conceived the plan of issuing interest-bearing mortgage notes, due at fixed dates, and payable from the proceeds of past and future sales of national property. In 1864, the Government proposed to the Bank that it undertake the issue of these mortgage notes, the payment of interest upon them, and their final redemption; it was to receive as security all the obligations of purchasers of national property, and to enforce payment of them, at a commission of one per cent. The amounts recovered, it was to hold as security for future issues of mortgage notes. The Bank agreed to undertake this service, and as a result of the contract thus formed, a statute of June 26, 1864, provided: (1) That the obligations of the purchasers of national property arising out of mortmain should be delivered to the Bank on and after July 1, 1865, to the extent of 17,000,000 reals; (2) that the Bank should issue 1,300,000,000 reals of mortgage notes, payable to bearer, transferable by indorsement, bearing interest at six per cent., to be drawn for redemption, by lot or otherwise, at the option of the Government. A fund of 200,000,000 reals was to be set

apart as security for interest payments and a semi-annual redemption; (3) that the mortgage notes should have the quality of public securities, and after their due dates should be accepted, at their face value, in all payments to public departments; (4) that the Treasury should make good to the Bank all defaulted obligations of purchasers of national property. The Bank received in settlement of its claims against the State 500,000,000 reals in mortgage notes.

In view of the closer relations thus established between the State and the Bank, the capital of the institution was thought to be too small, and, accordingly, it was increased to 200,000,000 reals. In spite of the fact that the union of Bank and State was constantly becoming closer, the Minister of Finance, on April 4, 1866, proposed, in behalf of certain English capitalists, that a bank of issue and discount be established under the name of the Banque Nationale Espagnole. The Bank, seconded by a vigorous public opinion, stoutly opposed this project, and it was abandoned; but the incident furnishes a good example of the dangers and contests to which the Bank was constantly exposed. Once assured of its franchise, however, the Bank showed itself more and more disposed to enter into closer relations with the State; accordingly, by a law of June 29, 1867, to go into effect on July 1, 1868, it was intrusted with the collection of taxes in all provinces and places where the office was vacant, and as fast as other collectorships fell vacant they were to be turned over to the Bank. The original term of the agreement was eight years, but it might be extended or renewed.

In 1868, Queen Isabella II. was dethroned. The new government evinced a friendly disposition toward the Bank, which, on its part, had been of considerable service to the Government. They maintained amicable relations, but the Bank was constantly called upon to furnish supplies to the State under one form or another.

## GRANT OF EXCLUSIVE PRIVILEGES TO THE BANK.

The year 1874 marks the starting-point of a thorough transformation and reorganization of the Bank. In a report made to President Serrano on March 19, 1874, the Minister of Finance, M. José Echegaray, expressed himself thus:

“Credit has been destroyed by misuse, the tax revenues are exhausted by mismanagement, the sale of mortmain property is at a standstill for the time being, and we must devise some new method of consolidating the floating debt, and of meeting the enormous expense of the Carlist war, which for the last two years has ravaged the greater part of our provinces. In view of this critical situation, yielding to the existing demands and immediate necessities of the strife, the undersigned minister, with the concurrence of the Council of Ministers, proposes to establish on the basis of the Bank of Spain, and with the assistance of the provincial banks, a national bank, which shall come to the rescue of the public finances without neglecting its true functions as a bank of issue. These are the three main requirements that the new institution should fulfill: (1) It should bring together the great mass of securities which, like the remnants of a national inheritance, are now scattered and placed here and there as a pledge for various undertakings, and make them a desirable investment for new and substantial capital; (2) it should establish a single system of note circulation, which, however, should be optional, and always secured by a

metallic reserve; (3) it should come effectually to the aid of commerce by immediately dispensing, as widely as possible, the advantages to be derived from its discount operations and note circulation, and by securing these advantages to the whole country as soon as the restoration of settled conditions will allow.

“It is only by such a consolidation of funds that we can hope to set in operation such forces as shall meet the demands of the existing situation and provide for the heavy burdens we are called upon to bear. A circulating medium which shall be uniform throughout the Peninsula is the sole instrument by which this end can be attained. While accomplishing the two great governmental aims to which reference has been made, we must not leave entirely out of view the third objective point, which is a very important part of the business of every bank of issue, namely, the discounting of commercial paper. If the undersigned minister proposes to substitute a uniform system of note circulation for the existing system, which may be described as provincial, he does it with no intention of establishing a compulsory note circulation, which is a very serious misfortune and the greatest of all economic calamities. He recognizes the fact that there is an irresistible law by which the demands of each market fix a limit to the number of notes to be circulated therein, and that this limit is once exceeded the inevitable result is a monetary crisis if the notes are redeemable upon demand; or, if a legal-tender law keeps them in circulation, then the general unsettlement of values will produce a crisis all the more serious, from which no branch of business will escape. Since we can neither disprove these conclusions nor leave them out of view, it follows that we must exercise the highest degree of care and prudence in demanding of the national bank the loans aggregating 500,000,000 reals, for which provision is made in Article 17 of the law hereto annexed.

“The notes of the Bank of Spain circulate to-day only in Madrid, and that city marks the limit of their issue; the undersigned minister maintains that the notes of the national bank ought to circulate throughout the Peninsula, that the uses to which they are put will be multiplied, and that provision must be made for supplying these increased demands. On the other hand, we must take care that the proposed circulation, though much larger than that we now have, be kept within proper bounds, lest we endanger the credit and the very existence of the new institution. Nevertheless, the Treasury, when occasion demands, will require of the bank advances from the 500,000,000 reals to which reference has already been made; but it will use great care in calling for the loans, and for the notes issued from time to time in pursuance of this object it will furnish securities readily convertible into cash, securities to run, not for the usual term of ninety days, but for a much shorter time, which cannot now be definitely fixed.

“In this way the new bank will prove at critical moments a valuable auxiliary in our financial affairs; it will give new life and increased rapidity of circulation to funds now unproductive. By restoring the credit of the Treasury, by undertaking with renewed energy and by novel means to put in circulation the funds accruing under the statues of mortmain, it will restore our former revenues, and will increase the power and resources of all those from whom our taxes are collected; this it will do prudently, without distinction of person, and without favor; and inasmuch as it will form a solid and substantial foundation for our financial system, there is no fear that the Treasury

will ever place its existence in jeopardy, as it has heretofore done with the Bank of Spain. This discreet alliance between the Treasury and the bank will be highly advantageous to our public finances and very profitable for the bank, and it will be most helpful to them both in time of greatest need. The extraordinary powers with which the Government is clothed as a result of the peculiar political conditions to which it owes its existence, enables it to replace the existing manifold note circulation by a uniform circulation. This is a reform of the greatest value, and one which the future will justify; but it is a general reform, and all banks of issue must yield to it. They owe their existence to a local law; another law of national application now amends the former, without repealing it, and reorganizes the banking business under the pressure of our present necessities. The undersigned minister, knowing the patriotism of the provincial banks, is confident that they will loyally accept the union into which he incites them to enter, and which may prove to be of great advantage to them. It will be his aim to devise compensations for any loss they may sustain, and to use great care in avoiding all such disturbances of the money markets as might naturally attend reforms so important and so radical. The charters of the provincial banks have now an average duration of five or six years: united with the national bank, they will have a charter of thirty years' duration. If they refuse to unite, they will certainly lose their privilege of issue, but they will not be forced into immediate liquidation; they may still exist as credit institutions, retaining the whole or a part of their capital, under one of the many authorized forms of association. If they accept the union it will be perfected slowly and cautiously, in accordance with the wish of each bank, and there will be no outside liquidating commission to disarrange the mechanism of its business or pass judgment upon its loans and securities. The provincial banks will be privileged to exchange at par all or part of their shares for those of the new bank, and also to purchase the latter for cash or take them in exchange for their outstanding claims.

“During the first four months, the national bank will reserve all of its remaining shares for such provincial banks as may elect to take more of them either in exchange for part of their specie reserve, or for valid claims belonging to them, or new funds collected for the purpose. Finally, when a total or partial union shall have been effected, each provincial bank will receive such a proportion of the profits as its shares in the new bank entitle it to. As to the liquidation mentioned in Article 4 of the decree, it must not be understood as requiring a collection of all outstanding accounts and a final winding up of the establishment, nor as preventing a renewal of any accounts then in hand. All those banks which become provincial branches of the national bank will preserve such a degree of independence as may be demanded by the peculiar commercial needs and conditions of each province, and they will be subject to no other constraint than such as may be naturally involved in their dependence upon the central bank and its supervision over them, and in the fact that it will lay down general rules for their guidance, and see that they obey the regulations and by-laws of the bank. This slight degree of subjection will be the best protection that the branch establishments could have.

“Thus, an extension of their charter, authority to reorganize as new credit institutions without the power of issuing notes; fusion without enforced liquidation, permission to renew any accounts they may have on hand; a right to exchange their shares at par; a

very large and carefully guarded measure of independence for each in its own sphere of action—such are the privileges which the State tenders to the provincial banks, demanding in return, not an abandonment of their present powers, but an exchange of them for others more general.

“The undersigned minister has thought it wise to furnish early information concerning these details (all of which are definitely agreed upon, though some of them may not be expressly set forth in the decree annexed) in order to reassure the provincial banks and the commerce depending upon them. It is settled that a national bank shall be established and a uniform circulation introduced, in spite of all obstacles; but it is also settled that this is to be done without detriment to any interest worthy of respect. If the dangers through which our native land has just passed and those which still threaten it demand a centralization of all political powers, the economic situation of the country and its finances equally demand a centralization of all our financial resources; it is only by these means that we can preserve the honor of our country and its modern ideals, now placed in serious jeopardy by an unjust and bloody war.”

This statement was accompanied by a document containing the proposed regulations of the bank, in eighteen articles, all of which were enacted into law on July 17, 1876. Unfortunately, the new bank, which, as the report of the Finance Minister shows, was founded upon national principles, was not long in becoming a mere servant of the Government. By an agreement made on August 4, 1876, it undertook, for a period of twelve years, the collection of all direct taxes, and during the first year after its organization it came into possession of 200,000,000 reals of State obligations. From this time forth, the confusion of Treasury affairs with the business of the bank constantly increased and became more harmful. In 1882, the bank was intrusted with the payment of arrearages of the public debt in Spain and abroad. Another step much more open to criticism was that which consisted in farming out to the Bank of Spain the revenues arising from the Tobacco Monopoly. True, the bank organized for this purpose a lessee company, the “Compañía Arrendataria de Tabacos”; but the bank itself was the largest shareholder in that company; it held stock of the value of 12,270,000 pesetas, paying for them not out of its capital, but with its circulating notes.

The contract between the Treasury and the bank by which the bank undertook the collection of taxes expired by limitation on June 30, 1888. It had frequently been a source of loss to the bank and it was not renewed. A law of May 12, 1888, placed the seal of approval upon another contract, in accordance with which the bank, through its main office at Madrid and its branches, was to have the custody of all the revenues under control of the Finance Minister and the Treasury; upon the security of these revenues the bank undertook to pay all claims against the Treasury. These receipts and payments made on behalf of the State formed an account current, productive of interest in favor of the bank, but not in favor of the State. By the terms of the same contract, the bank bound itself to purchase gold bullion to the value of 300,000,000 pesetas and to have it coined, the expense being shared equally between the bank and the State.

In 1891 there was a sudden change for the worse in the financial condition of Spain. The Government, heavily in debt as usual, turned once more to the bank, granting in return for the assistance it demanded, an extension of the charter (originally expiring in 1904) to 1921, and an increase of the bank's circulation to 1,500,000,000 pesetas; on its part the State demanded a permanent loan of 150,000,000 pesetas, without interest, of which 50,000,000 pesetas was to be forthcoming on July 1, 1891, 50,000,000 pesetas on July 1, 1892, and 50,000,000 pesetas on July 1, 1893. The effect of these measures was instantaneous. There was an immediate fall in Spanish exchange, not only as a result of an adverse balance in international demands, but also by reason of an intrinsic depreciation of Spanish paper; and from that date to this, Spanish exchange on foreign countries has remained below par; but this is a subject to which we shall have occasion to return farther on.

## ORGANIZATION OF THE BANK.

The Bank of Spain, whose franchise was originally granted for thirty years from March 19, 1874, now has a charter extending to December 31, 1921. It exercises its powers not only upon the Continent, but throughout the neighboring islands, including the Canaries. Its franchise is an exclusive one, for of the eighteen provincial banks in existence in 1874, eleven were absorbed by the Bank of Spain and the other seven have gone into liquidation. Though the Bank of Spain is a private institution, any theft or embezzlement of which it may be the victim is punished as a crime against the State.

Its *main office* is at Madrid, and throughout the provinces it is represented by branches, subsidiary offices, or correspondents, according to the commercial importance of the place.

*Capital.*—The capital, fixed at 100,000,000 pesetas by the decree of March 19, 1874, was increased to 150,000,000 pesetas by vote of a shareholders' meeting of December 17, 1882, approved by royal decree on the 23d of the same month. The capital is divided into 300,000 registered shares of 500 pesetas each; a share being indivisible in its relations with the Bank, which refuses to recognize more than one person as having an interest in any share. The shares may be invested with all the properties of real estate.

*Stockholders' Meetings.*—Ordinary meetings of stockholders are composed of those who have been recorded for three months as having legal or equitable title to at least fifty shares. Stockholders cannot be represented by proxy, with these exceptions: Married women, minors, corporations, and public and private associations may appear through their usual representatives, and widows and unmarried women of legal age may be represented by agents appointed for the purpose. Each member of the meeting has only one vote, without regard to the number of shares he may own or represent. Stated meetings are held at some time within the first fifteen days of March, the precise date being announced before the first of February each year by publication in the "Madrid Gazette." A report of the year's business is submitted to the meeting, accompanied by a balance-sheet and an account of profits and losses, and the members may inspect the books and documents upon which these reports are based.



The meeting passes upon the management of the Bank, chooses the members of its Administrative Council, and votes upon such propositions as may be submitted to it by the Council or by one of its own members. A special meeting of the stockholders may be convened at the request of the Administrative Council, or upon a petition setting forth the grounds upon which it is issued and signed by 100 stockholders who have been in possession of fifteen per cent. of the capital stock for more than three months last past.

*The Governor.*—The affairs of the Bank are managed by a governor, two under-governors, and the Administrative Council (*Conséjo de Gobiérno*). The governor is appointed by the King, and is at the same time head of the administration and representative of the State in its relations with the Bank. The duties of the governor are: (1) To preside over meetings of the stockholders and of the Administrative Council, and, when he so elects, over the deliberations of standing and special committees; (2) to supervise all dealings of the Bank, subject to the laws of the State, the regulations and by-laws of the Bank, and the advice of the Administrative Council; (3) to sign, in the name of the Bank, all contracts and agreements, and to manage all judicial and extrajudicial controversies to which it may be a party; (4) to sign all the correspondence of the Bank, or to authorize an under-governor to sign it; (5) to appoint, with the advice of the Administrative Council, all employees of the Bank, and to revoke any appointment, reporting the facts to the Council; (6) to nominate to the Council candidates for heads of departments; (7) to veto all discounts, loans, and other transactions determined upon by the Council or by any committee, when they appear to be contrary to law or to the rules and regulations of the Bank. If the Council persists in its view, it becomes the duty of the governor to refer the whole matter immediately to the Minister of Finance. The governor supervises and directs the work of all employees of the Bank. He acquaints himself with the standing of all business houses, and passes upon the question of loans to them. The governor and under-governors have a deliberative voice in the discussions of the Council and in those of the committees, except when their own acts are under investigation. The governor has a casting vote in the Council and in all committees except the Executive Committee. The governor cannot dispose of the funds of the Bank by drafts, discounts, loans, payments, or any other means. He cannot bind the Bank by any signature given without the consent of the Council or a committee. It is his duty to advise the Council as to the progress of the general business of the Bank, and the final result of all transactions that require to be kept secret until their completion.

*The Under-governors* are appointed by the King from names submitted by the Administrative Council. They sit in the Council under title of First and Second Under-governor, and succeed to the duties of the governor in the order of their seniority. The governor intrusts to them such of his duties as do not seem to demand his personal attention. In case of the absence or impeachment of the governor and under-governors, they are replaced by members of the Executive Committee in the order of their seniority. The governor and under-governors take an oath of office before the Administrative Council, in the usual form; promising to execute the duties of their office faithfully and loyally, to enforce the law and the rules and regulations of the Bank, and to devote their best efforts toward ensuring its prosperity. The under-governors can be removed from office upon motion of the Council or by the Minister

of Finance, acting in his official capacity, with the concurrence of the Administrative Council of the Bank and the Council of State, the accused being always entitled to a preliminary hearing. The governor must be a resident of Madrid, and he cannot leave the city without permission of the King. The governor and under-governors cannot offer bills to the Bank for discount, nor borrow of it upon collateral, nor be accepted as personal security for any debt due to it. The governor is not required to furnish a bond. The under-governors, before entering upon the duties of their office, are required to deposit fifty shares registered in their names. These are not returned to them until all of their official acts have been passed upon and approved by a stockholders' meeting.

The salary of the governor is 25,000 pesetas at least, and that of an under-governor is 12,500 pesetas, all paid by the Bank.

*The Administrative Council* is chosen by the shareholders, subject to approval of the King. No one is eligible to the Council except residents of Madrid who have owned 100 shares of the Bank's stock for three months before the date of their election. These shares are inalienable during their continuance in office and until their administration has been approved by a stockholders' meeting. The following are not eligible to the Council: Aliens, insolvents, bankrupts who have not been rehabilitated, persons who have been condemned to imprisonment or any corporal punishment, and those who owe any overdue debt to the Bank. The Council cannot contain more than one member of the same firm or special partnership, or more than one director of the same corporation, the single exception being that in favor of the directors of the *Compañía Arrendataria de Tabacos*. Neither can there sit in the same Council those related within the fourth degree by consanguinity or marriage. The councilors are eighteen in number, of whom twelve are regular and six alternate members. The latter are called upon, in the order of their seniority, to replace any regular members who may be absent. The term of office is four years; one-fourth of the members go out of office each year, but they are re-eligible.

*Attendance Fees.*—The governor, the under-governors, and the councilors are entitled to attendance fees, the total amount so payable being fixed at 375 pesetas per meeting, to be divided among those who are present. There is no other remuneration except such as may be voted by a meeting of the shareholders.

The *duties of the Administrative Council* are: (1) To determine the order and form in which the books of the Bank are to be kept; (2) to fix the amount, the number, the denomination, and the form of notes to be issued; (3) to decide how much money is to be devoted to discounts and loans, the rate of interest, and the formalities to be required of borrowers; (4) to establish branches and subsidiary bureaus and appoint their managers; (5) to supervise all the business of the Bank and its branches, and especially transfers of funds; (6) to examine the semi-annual accounts of the Bank, and determine the dividends to be paid and the amount to be added to the reserve; (7) to see that the rules and regulations of the Bank are enforced; (8) to determine the number, classification, and salaries of the employees engaged by the governor, and to nominate candidates to the places to be filled by appointment of the King; (9) to fix the dates for the regular stockholders' meetings and for such special meetings as the

by-laws provide for; (10) to appoint provincial and foreign agents and correspondents; (11) to approve the report and the statement of profits and losses submitted to the stockholders at their stated meetings; (12) to bring before those meetings all questions requiring their attention; (13) to draft the Bank's by-laws, and to amend them in such manner as may meet the approbation of the Government.

Aside from their duty as a body, the councilors may, individually, proffer such advice and make such suggestions as seem to them likely to further the interests of the Bank. The Council holds a stated meeting each week, and may be called together in special meeting by the governor as often as necessary. The Council is divided into four committees—an Executive Committee, a Committee on Branches, an Administrative Committee, and an Auditing Committee. The Executive Committee and the Committee on Branches consist of three members each, chosen by the Council, renewable by thirds every four months, and indefinitely re-eligible. The Council also appoints an alternate to replace any absent member of these committees. The other committees consist of three members each, chosen from month to month. It is the duty of the Executive Committee to examine paper offered for discount, pass upon requests for loans on collateral, and to supervise all contracts and undertakings directly connected with transfers of specie or securities. The Committee on Branches superintends the management and the transactions of the various branches of the Bank. The Administrative Committee attends to the management of the different departments of the Bank, the printing of the notes, the expenditures of the Bank, and its suits at law. The Auditing Committee inspects all the accounts of the Bank, and looks to the safe-keeping of its funds and securities. The Administrative Council is empowered to appoint special committees in case of need. The committees are heard upon all questions coming before the Council, except in matters requiring haste, and they give advice upon all propositions submitted to them by the governor; they may also initiate such measures as seem to them expedient or for the best interests of the Bank.

*Branches and Subordinate Offices.*—The Bank, with the approval of the Government, may establish branches or subordinate offices wherever the needs of commerce or industry seem to require them. They are an integral part of the Bank itself, and can only undertake such business and establish such relations among themselves as are authorized by the Council. The administration of each branch includes a manager and a number of directors to be fixed by the Administrative Council, provided, however, that there shall in no case be more than eight regular directors and four alternates. The number, classification, and salaries of all employees are also determined by the Administrative Council.

*The Manager* is appointed for three years by the Council, subject to approval of the King, and is re-eligible; he furnishes security for the proper performance of his duties, consisting of shares of the Bank. The manager is the chief executive officer of the branch; he opens the correspondence and executes the orders of the governor.

*The Directors* are appointed for three years by the Administrative Council, are re-eligible, and are required to furnish security. Whenever any branch has at least thirty registered stockholders, each having been in possession for more than three months of

at least ten shares, they are called together in a stockholders' meeting, the manager of the branch presiding, and they draw up a list of candidates for the directorship, containing three times as many names as there are directors to be chosen; this list is submitted to the Administrative Council, which chooses directors from among the names upon it.

The manager and the directors make up the *Governing Council* of the branch, determining all questions over which the regulations of the Bank give them jurisdiction and all such as are submitted to them by the Administrative Council. The Governing Council appoints an Executive Commission, having the same duties with regard to the business of the branch that the Executive Committee has in matters affecting the central bank.

*Agents.*—From nominations made by the Committee on Branches, the Administrative Council appoints agents (*comisionados*) to represent the Bank in Spain or abroad. The agents attend to such business as the governor may intrust them with. They furnish security consisting of shares of the Bank, and they are personally responsible for all paper they accept in behalf of the institution; they are paid by commissions fixed by mutual agreement.

## BUSINESS OF THE BANK.

*Accounts Current.*—The governor opens accounts current with all individuals and associations who demand the privilege and fulfill the conditions required by the Council. The first deposit, in Madrid, must be of at least 2500 pesetas, or 1000 pesetas at any of the branches; subsequent deposits must not be less than 250 pesetas each. No interest is paid upon accounts current. Holders of accounts current dispose of the amounts standing to their credit by means of cheques or transfer slips, and can make their notes payable at the Bank. The Bank furnishes to them gratuitously blank cheques, with stubs attached, which can be made payable to any person by name, or to bearer. No cheque can be drawn for less than 125 pesetas, except to close an account. Anyone who makes an overdraft may be required to withdraw his account. Deposits and withdrawals in accounts current may be made by correspondence. The following statement, expressed in millions and hundreds of thousands of pesetas, will be found of interest:

YEARS.	CHANGES OF ACCOUNTS CURRENT.		STATE OF ACCOUNTS CURRENT.		
	Deposits.	Withdrawals.	Maximum.	Minimum.	Average.
1875	1,374.3	1,355.1	111.7	69.6	
1880	2,216.6	2,169.4	257.2	144.4	
1885	4,534.5	3,502.2	286.3	190.1	243.6
1886	4,094.2	4,055.5	337.3	238.7	273.2
1887	4,247.9	4,228.4	401.2	251.8	325.7
1888	4,270.3	4,231.2	402.8	300.0	342.8
1889	5,169.7	5,163.9	380.1	343.4	361.1
1890	6,147.1	6,137.1	401.9	334.6	365.3
1891	5,841.5	5,724.2	443.6	399.5	413.1
1892	5,170.8	5,243.8	437.6	361.8	387.7
1893	4,874.4	4,894.6	372.9	311.3	336.0
1894	4,797.3	4,859.3	373.4	267.3	319.5

*Discounts.*—The Bank draws up a list of those to whom it is willing to grant discounts, and indicates upon it the maximum credit to be allowed to each. It discounts notes payable to order and bills of exchange drawn in legal form, provided they bear the signatures of two persons, of whom one at least must be upon its credit list and must live in the neighborhood of the place of presentation. It discounts also coupons of the public debt and bonds drawn for redemption. Usually the term for which the paper is to run must not exceed ninety days, and the amount must not exceed that shown upon the credit list; but if the paper bears three signatures, two of which are upon the Bank's credit list, it may be accepted though not due for 120 days, and though the amount is greater than that inscribed upon the list. The total of these latter discounts must not exceed the funds remaining available to the Bank after covering with its cash and ninety-day bills all of its demand liabilities; that is to say, its circulation, accounts current, and specie deposits. Public securities taken as collateral for a loan may replace one of the required signatures. The Bank is sole judge as to the acceptance or refusal of paper offered for discount, and it is not bound to state the grounds of its decision.

*The Discount Rate.*—The discount rate is fixed monthly or oftener; it is the same for all persons, but not necessarily the same at Madrid and at the branches. Spain, being a country with no large accumulations of capital, maintains a rate of discount distinctly higher than that of France, Belgium, or Switzerland; but it has a double standard, the Bank will not pay out its gold, and silver pesetas cannot be exported; and from these facts it results that the rate of discount, notwithstanding the unfavorable situation of exchange and the premium on gold, remains within reasonably moderate limits.

*Rate of Discount, 1874 to 1894.*

	Number of Changes.	Maximum.	Minimum.	Average.
18740	6	6	6	
18750	6	6	6	
18800	4	4	4	
18851	4½	4		4.16
18900	4	4	4	
18910	4	4	4	
18921	5	4		4.95
18930	5	5	5	
18940	5	5	5	

*Total Discounts, etc. (in Millions and Hundreds of Thousands of Pesetas).*

YEARS.	TOTAL DISCOUNTS.		AMOUNT OF BILLS ON HAND.		
	Number of Bills.	Amounts.	Maximum.	Minimum.	Average.
1874		49.8			
1875		135.0			
1880		177.5			
1885		618.0			
1886		1,048.4			
1887		1,337.7			
1888		1,631.2			
1889		1,778.8	214.7	148.0	173.4
1890	315,681	2,155.9	198.3	157.9	179.2
1891	366,782	1,815.8	192.6	156.6	172.4
1892	396,460	1,679.8	161.2	143.5	142.2
1893	415,798	1,366.5	145.3	127.3	135.2
1894	468,181	1,058.8	171.1	122.2	134.8

*Collections.*—The Bank undertakes the collection of any paper left with it ten days before the due date. Those having accounts current with the Bank, but not living in its vicinity or in that of any of its branches, may forward by mail any paper they wish to have collected. The Bank will present the paper for acceptance or for payment, and will protest it if necessary. Proceeds of collections cannot be withdrawn until a week after the due date of the paper.

*Exchange Operations.*—The Bank is authorized to deal in exchange, either for the purpose of transferring to the central office any funds it may have in the provinces, or in foreign countries, or for the purpose of transferring funds from the main office to any place where they may be needed. The rates of exchange are fixed daily, and a list of them is made, to which the public has free access. Bills of exchange signed by the governor and payable wherever the Bank has funds are sold to all who ask for them. In order to make a transfer of funds upon its own account, the Bank is authorized to purchase domestic or foreign bills.

*Foreign Bills Purchased, 1880 to 1894.*

YEARS.	Francs.	Pounds Sterling.	Marks.
1880	27,274,399	527,707	
1885	25,444,546	1,181,487	
1890	55,288,186	2,918,163	6,814,893
1891	74,301,744	1,901,559	18,059,328
1892	48,800,916	2,011,617	5,058,825
1893	35,221,004	2,182,493	6,951,238
1894	21,968,495	1,339,617	761,205

*Loans.*—The Bank makes loans on public securities, exchequer bills, mortgage bonds, railroad bonds, and other industrial and commercial securities; but it cannot loan upon its own shares. The maximum amount of a loan is eighty per cent. of the value of the security on the day the money is advanced; the minimum term is ten days, and the maximum ninety, except that loans may be made for 120 days under the same conditions that would justify the discount of paper having that number of days to run. The least loan made by the Bank is 500 pesetas; if the collateral loses ten per cent. of its value the borrower must deposit additional collateral or reduce his loan proportionately. The loaning rate is usually the same as the discount rate.

*Ordinary Loans and Loans in Account Current.*

YEARS.	Amount of Loans.	STATE OF LOANS.		
		Maximum	Minimum.	Average.
	PESETAS.	PESETAS.	PESETAS.	PESETAS.
1874	77,300,000			
1875	256,800,000			
1880	486,700,000			
1885	918,700,000			
1886	823,800,000			
1887	737,000,000			
1888	759,900,000			
1889	788,500,000	203,100,000	167,000,000	183,100,000
1890	845,900,000	251,300,000	197,000,000	214,400,000
1891	931,400,000	286,800,000	233,000,000	257,700,000
1892	760,400,000	268,600,000	169,400,000	203,200,000
1893	519,700,000	171,400,000	132,900,000	144,000,000
1894	360,400,000	135,100,000	98,100,000	110,100,000

*Loans on Bills of Lading.*—To persons whose names are upon its credit list the Bank makes loans on bills of lading accompanied by invoices, and upon storage receipts issued by legally authorized warehouses. The merchandise must be insured, and the loan cannot exceed fifty per cent. of its current market value.

*Special Deposits.*—The Bank accepts on special deposit Spanish and foreign coin, gold and silver bars, precious stones, State funds, and all securities quoted on the Bourse. The receipts delivered by the Bank are or are not transferable by indorsement,

at the will of the depositor. The minimum deposit of gold or silver or precious stones is of the value of 250 pesetas, and the maximum 75,000 pesetas. The commission for the first year is one-half of one per cent. per quarter, or two per cent. for the year; for the following years it is one per cent.; a whole quarter's commission is charged for any period less than a quarter. The only obligation assumed by the Bank is that of returning the deposit intact. It undertakes to collect coupons of bonds deposited. No commission is charged upon deposits of specie unless the depositor demands a return of the identical coin deposited.

*Accounts Current of Securities.*—We find at the Bank of Spain one very interesting class of business (though it is there transacted in a somewhat rudimentary manner), the counterpart of which is not to be found elsewhere, except in Germany and Austria in those private establishments known as “Giro und Kassen Verein.” We refer to accounts current of securities. Any depositor who wishes may open such an account; he can withdraw his securities by means of cheques or drafts, but a separate account current must be opened for each different kind of security, and this necessitates a very complicated system of bookkeeping.

*Specie Deposits (in Millions and Hundreds of Thousands of Pesetas).*

YEARS.	DEPOSITS.		WITHDRAWALS.		STATE OF THE ACCOUNTS.		
	Number.	Amount.	Number.	Amount.	Maximum.	Minimum.	Average.
1875		50.5		45.9			
1880		106.3		97.5			
1885	7,617	90.2	6,992	87.6			
1886	8,199	99.3	7,320	88.8			
1887	8,548	105.5	9,240	101.6			
1888	9,654	120.7	8,943	116.1			
1889	9,389	107.7	9,142	113.6			
1890	10,031	93.8	9,908	108.4	54.0	40.8	51.0
1891	8,438	75.6	9,021	80.0	44.7	34.5	40.6
1892	7,129	55.9	7,309	58.8	36.3	32.8	34.3
1893	6,883	56.8	8,817	60.1	34.9	26.4	32.2
1894	6,248	54.7	6,426	57.9	30.7	24.4	27.0



*Deposits of Securities.*

YEARS.	DEPOSITS.		WITHDRAWALS.	
	Number.	Value.	Number.	Value.
		PESETAS.		PESETAS.
1875		2,020,400		2,957,200
1880		3,736,700		3,913,000
1885	22,043	3,396,900	17,419	3,469,900
1886	28,120	4,706,800	28,497	4,745,000
1887	32,750	3,218,400	29,200	2,677,100
1888	29,709	1,979,800	23,919	2,046,400
1889	28,987	1,877,400	22,611	1,720,700
1890	31,122	2,018,900	24,973	1,830,900
1891	37,627	3,204,500	30,220	2,206,100
1892	48,991	5,283,200	33,201	4,215,700
1893	42,471	2,718,800	34,569	2,093,900
1894	40,875	2,730,000	36,090	2,837,500

On December 31, 1894, the Bank had in its possession, including special deposits, pledges, securities belonging to the State and those in the custody of the courts, a mass of securities estimated to be worth 5,651,848,503 pesetas. This is one of the largest amounts, if not the very largest, to be found in any European bank of issue.

The Bank also deals in gold and silver.

## ADMINISTRATION OF THE COIN AND PAPER CIRCULATION.

By decree of 1874, the Bank of Spain acquired the right to issue paper money to five times the amount of its capital; but its metallic reserve had to represent one-fourth the outstanding sum of the circulation. The law of July 14, 1891, modified those regulations. It authorized the Bank to carry its circulation to 1,500,000,000 pesetas upon a metallic reserve equal to one-third of that issue; the reserve must be at least fifty per cent. in gold, whilst the remainder or any part of it may be in silver. In no case can the amount of the circulation, together with the current accounts and deposits of securities, exceed the total of the coin on hand together with the aggregate of advances and commercial paper; included in the latter item there must be no bills receivable which have more than ninety days to run. Bonds of the four per cent. Public Debt, shares of the Tobacco Monopoly, Treasury bonds which are issued upon the security of the Tobacco Monopoly, and also bills of exchange and Treasury bonds of the floating debt are constituents in the guaranty fund for the issue of circulating notes.

In authorizing the increase of the circulation, the State had its eye primarily upon a permanent loan of 150 million pesetas, and it looked forward to advances which grew gradually upon the security of Treasury pay orders. The public was not deceived; it became convinced that the scrip was badly guaranteed, and the provisions of the law

brought about a considerable increase in the rate of exchange. The premium on gold had remained, in 1890, between a maximum of  $4\frac{1}{2}$  and a minimum of  $1\frac{1}{2}$  per cent.; the variations of 1891 were significant, as will appear from the following comparison of the fluctuations in the gold premium.

1891	Maximum.	Minimum.
January	$3\frac{1}{2}$ per cent.	$2\frac{1}{2}$ per cent.
February	$3\frac{1}{2}$ per cent.	$2\frac{1}{2}$ per cent.
March	3 per cent.	$2\frac{1}{2}$ per cent.
April	3 per cent.	$2\frac{1}{2}$ per cent.
May	8 per cent.	$2\frac{1}{2}$ per cent.
June	$6\frac{1}{4}$ per cent.	$4\frac{1}{2}$ per cent.
July	$7\frac{1}{2}$ per cent.	5 per cent.
August	$8\frac{1}{4}$ per cent.	7 per cent.
September	9 per cent.	$7\frac{1}{2}$ per cent.
October	13 per cent.	8 per cent.
November	14 per cent.	$11\frac{1}{2}$ per cent.
December	14 per cent.	11 per cent.

In 1892 the premium varied from 22 per cent. to 12 per cent.

In 1893 the premium varied from 24 per cent. to 15 per cent.

In 1894 the premium varied from 23 per cent. to 11 per cent.

The deterioration of exchange was too closely parallel with the working of the new law to preclude the conclusion that it was the simple relation of cause and effect. The protective measures which France took against Spanish exportations, and *vice versâ*, have still further aggravated the evil, as Spain is heavily indebted to France, through her having constructed the larger part of the Peninsular railroads with French capital, while France, moreover, holds a considerable amount of Spanish Government bonds. There is no doubt that the credit of the bank notes has suffered thoroughly from these commitments. Meanwhile, the Bank's metallic reserve has grown continually, as the following statement of the metallic coin stock on hand on December 31st will show:

PESETAS.

1874 54,100,000  
1875 129,100,000  
1880 200,600,000  
1885 127,200,000  
1886 193,900,000  
1887 283,300,000  
1888 298,700,000  
1889 231,900,000  
1890 234,000,000  
1891 274,000,000  
1892 321,100,000  
1893 372,600,000  
1894 475,700,000

The coin stock consists of gold and silver, the latter being on an equal legal status with gold; but as Spain is not in the Latin Union, she cannot export her white metal. Consequently, she has a large store of money which is absolutely deceptive; for the duro, the 5-pesetas piece, is intrinsically lower in value than the paper money at the present price of silver. The Bank is always ready to pay out the duro, but refuses, absolutely, to pay in gold, as the paper is preferred to silver, which is not as much in use as the paper. Spain, although theoretically a free-currency country, is practically under the régime of forced currency. Besides, the legal prescription that the metallic reserve should consist of at least fifty per cent. in gold is not observed.

We give the composition of the coin stock of the Bank on December 31st, for seven recent years:

Gold.—Pesetas. Silver.—Pesetas.

1888 77,000,000	221,700,000
1889 102,900,000	129,000,000
1890 151,800,000	82,000,000
1891 160,000,000	114,000,000
1892 190,300,000	130,800,000
1893 197,900,000	174,700,000
1894 200,100,000	275,600,000

The variations of the metallic stock are not of wide range, as virtually only silver is to be found in circulation.

The fluctuations in the Bank's stock of coin are not abnormally wide, as will appear from the following comparison:

YEARS.	Maximum.	Minimum.	Average.
	PESETAS.	PESETAS.	PESETAS.
1886	245,000,000	143,900,000	194,200,000
1887	326,600,000	237,600,000	295,500,000
1888	358,000,000	297,600,000	328,900,000
1889	326,400,000	231,400,000	287,800,000
1890	290,300,000	234,800,000	261,800,000
1891	274,000,000	225,800,000	243,800,000
1892	321,800,000	285,000,000	308,900,000
1893	372,600,000	315,900,000	349,200,000
1894	475,700,000	375,000,000	420,900,000

## THE CIRCULATION OF THE BANK.

The amount of the circulation of paper swells from year to year, on account of the incessant wants of the Government. Each business year means to the Bank an added weight to the burden which it carries in the paper of the State; which is the principal, if not the veritable guarantor, of the Bank's notes. The following statement shows the steady augmentation of the issues for the twenty years ending with 1894:

YEARS.	Maximum.	Minimum.	Average.
	PESETAS.	PESETAS.	PESETAS.
1874	72,100,000	58,100,000	65,900,000
1875	139,700,000	73,300,000	111,100,000
1880	269,000,000	185,100,000	227,500,000
1885	469,000,000	388,900,000	424,400,000
1886	526,600,000	473,100,000	493,700,000
1887	612,100,000	529,600,000	582,900,000
1888	722,700,000	609,600,000	658,000,000
1889	749,900,000	705,300,000	724,100,000
1890	748,700,000	726,300,000	740,900,000
1891	811,700,000	728,600,000	750,400,000
1892	894,600,000	805,600,000	846,400,000
1893	944,400,000	877,900,000	911,900,000
1894	947,500,000	900,900,000	931,500,000

## DENOMINATIONS OF THE NOTES.

The denominations are of 25, 50, 100, 125, 250, 500, and 1000 pesetas. The distribution of the circulation, as to denominations, stood, in December, 1894, as follows:

PESETAS.

Notes of 1000 pesetas	257,660,000
Notes of 500 pesetas	118,801,500
Notes of 250 pesetas	302,000
Notes of 125 pesetas	141,000
Notes of 100 pesetas	297,873,800
Notes of 50 pesetas	142,903,650
Notes of 25 pesetas	91,881,350
Total	909,563,300

A peculiar circumstance is that the only denominations which are virtually useful in Spain are those of 1000 and 100 pesetas.

## LIABILITIES *VERSUS* ASSETS.

Spain may be taken as a type of the countries “whose exchange is wrecked,” to use an expression of M. Leroy Beaulieu. The bad condition of the exchange is easily understood, if we consider that the credit of the Bank and of the State are merged into one. An examination of the balancesheet of December 29, 1894, will show that the Bank has neither capital nor reserves; thus—

PESETAS.

Formal capital	150,000,000
Formal reserves	15,000,000
Total	165,000,000

These are absorbed by

PESETAS.

The permanent Treasury advance	150,000,000
And by the Bank buildings	17,755,694
Total	167,755,694

On the other hand, the debts payable on demand consist of:

PESETAS.

Circulation	909,435,800
Current accounts	282,121,074
Deposits	24,536,827
Dividends and interest due	34,738,986
Total	1,250,832,687

To meet these obligations, the Bank owns the following assets, which are, indeed, realizable funds, or supposably so:

	PESETAS.
Gold	200,105,026
Silver	275,550,960
Foreign credits	56,228,176
Foreign commercial paper	1,000,735
Discounts	171,089,645
Advances	106,451,577
Commercial paper to collect	2,384,046
Total	812,810,165

Consequently, the Bank owes demand debts to the amount of 438,022,522 pesetas, which are represented purely by State scrip, which is rather difficult to turn into cash. The State securities so held are:

	PESETAS.
Shares of the Tobacco Monopoly	12,270,000
Other stock	5,485,235
Four per cent. funded debt	413,489,302
Four per cent. funded debt	5,421,831
Treasury bonds	45,728,086
Total	482,394,454

There is no doubt that if Spain had not its system of bimetallism, which allows it to pay its debts in silver which nobody wants, she would have been long ago under a forced currency régime. The 482,400,000 pesetas of Treasury securities which the Bank holds are a genuine asset; but they represent obligations of a State heavily in debt; and it can hardly be considered that a bank note which is secured by 275,000,000 of silver worth fifty per cent. of its face value and by 482,000,000 of securities whose value is far from being unquestionable, is equal to its face value in gold. The public understand the situation; and therein lies the principal cause of the unfortunate condition of the paper and coin circulation and of the Spanish rate of exchange.

## RELATIONS BETWEEN THE BANK AND STATE.

The law of March 19, 1874, stipulates that the Bank can only negotiate public securities or make advances to the State upon substantial guaranties which can be readily turned into funds. This principle has been clearly violated by the law of July 14, 1891, by which the Bank was compelled to loan the Treasury 150,000,000 pesetas without interest. Reimbursement of this loan cannot be demanded before the expiration of the Bank's privilege. The payment of debts owed to the Bank by the State, the provinces, and municipalities cannot be delayed in any case and the debtors cannot refuse settlement. Originally, the Bank had charge of the tax collections; but now it is released from this service. According to a law of May 12, 1888, however, it must undertake the State Treasury business for five years upon the following terms: It must gather the product from all sources of revenue of the State and centralize it at

Madrid and the provincial branches. For this purpose, all administrations under the Ministry of Finance, who are in charge of the management and collection of revenues, must pay their receipts into the Bank. As in former contracts, the Bank paid the interest and assessments for the redemption of the four per cent. debt, and for the foreign two per cent. debt, by taking the necessary funds out of the taxes and revenue paid in. If necessary, the Bank may make advances, and if a balance in its favor appears it is entitled to interest at one per cent. less than the discount rate; this rate of interest, though, cannot exceed three per cent. The debit balance of the Treasury is guaranteed by three months' paper which can be renewed until expiration of the agreement. In case of grave, exceptional events, the maximum of interest is subject to change. The Treasury has a current account at the Bank, in which payments are credited and drafts by the Treasury debited. This account is settled every three months. The Treasury pays interest on debit balances as stated above; the Bank pays no interest on credits in favor of the Treasury. Such credits serve for the settlement of disbursements made by the Bank. If the balance due the Bank exceeds 165,000,000 pesetas, the Treasury must issue certificates at three, six, or nine months' maturity and hand them over to the Bank, which can negotiate them in order to reduce the open debt of the Treasury to 165,000,000 pesetas. The Bank redeems these certificates for account of the Treasury and charges them to its debit. It also collects funds due the Treasury in foreign places, and supplies the funds for the payment of the public debt and other obligations of the State wherever this may be necessary. The Treasury is charged with the expense of such transactions. The agreement, which expired on June 30, 1893, was extended until June 30, 1894, since when it runs on from year to year by tacitly implied acknowledgment.

*Current Account of the Treasury with the  
Bank.*

Paid In.—Pesetas.	Paid Out.—Pesetas.
1888 439,500,000	476,600,000
1889 818,800,000	875,400,000
1890 962,600,000	944,500,000
1891 904,200,000	927,400,000
1892 988,500,000	924,500,000
1893 1,122,100,000	1,077,100,000
1894 1,159,600,000	1,204,900,000

In order to meet a deficit of about 750,000,000 pesetas, and the extraordinary expenses of the Carlist War in 1876, the Minister of Finance transferred to the Bank the proceeds of the ground and manufacturing taxes, as guaranty of an issue of 580,000,000 pesetas in *pagarés* (promissory notes), and a reserve fund of 70,000,000 pesetas set aside to ensure the payment of interest, and the gradual redemption of these obligations. This agreement was made by virtue of a law dated June 3, 1876. This issue was made at eighty-five per cent., which netted only 493,000,000 pesetas, and the Government entered into a new arrangement with the Bank, by which the Treasury certificates which were paid and returned to the Treasury were again applied to guaranty the floating debt, which, consequently, cannot decrease.

In order to regulate the service of the floating debt the Bank has had a current account with the Treasury since July 1, 1888. All remittances of Treasury certificates are placed to its credit, and negotiations of these securities by the Bank for State account are charged to the debit of this account.

*Account of Securities.*

YEARS.	Received.	Disposed of.	Balance on Dec. 31st.
	PESETAS.	PESETAS.	PESETAS.
1888	1,183,300,000	828,600,000	354,700,000
1889	421,800,000	543,100,000	233,400,000
1890	474,200,000	459,400,000	248,200,000
1891	840,100,000	814,300,000	292,000,000
1892	1,405,100,000	1,084,400,000	612,600,000
1893	735,600,000	993,700,000	354,400,000
1894	1,715,600,000	1,302,000,000	767,100,000

It is interesting to watch the distribution of the Spanish debt abroad. The places of payment, as judged by the currency, are scarcely a precise guide in the matter, but they help to give a fair estimate:

*Payments.*

YEARS.	Francs.	Marks.	Pounds Sterling.	Lire.	Reis.	Total in Pesetas.
From July 1, 1888, to Dec. 31, 1890	15,487,990	1,548,910	526,639	465,301	1,026,730	38,784,626
1891	2,623,248	243,902	194,103	338,780	149,182	9,734,866
1892	4,131,617		264,037	379,781	199,203	13,571,046
1893	5,040,657		348,686	329,090	181,162	17,541,040
1894	2,823,768	15,942	238,792	340,337	130,432	12,090,244

The above table shows very clearly the effect of the deterioration of exchange on Spanish finances. The expenses caused by increased rate of exchange may be estimated at about 2,000,000 pesetas, for the period of July 1, 1888, to December 31, 1890. In 1891, they amounted to 800,000 pesetas; in 1892 they were 1,200,000 pesetas; in 1893, the cost was 2,400,000 pesetas; and the expenses of 1894 amounted to 2,200,000 pesetas. Still, it must be noted that, through the circumstance of the high Italian and Portuguese exchanges, Spain's chances were essentially favorable for the payment of interest due in those countries. We speak here only of payments made for Government account, but, if we consider that the bonds of Spanish railroads are principally held in France, it becomes evident what a formidable increase in expenses these enterprises have to pay in consequence of the depreciation of the Spanish circulating medium. Hence, we can understand how certain railway companies considered French money too dear, and paid their interest obligations in depreciated pesetas, in violation of contract.



It is rather difficult to determine the amount of taxes which the Bank pays. The statements mention the following: First, ground tax and stamp duty; second, the tax on the profits, which seems to amount to about 16.50 per cent. of the dividends.

## PROFITS AND EXPENSES OF THE BANK.

If the Bank of Spain is seriously embarrassed by the defective credit of its notes, which is due to its too intimate relations with a Treasury whose administration is utterly faulty, it makes, nevertheless, very considerable profits. We know of no other establishment which earns such an income for its shareholders.

The statistics of the profit and loss account can be established in a positive manner only since 1881.

<i>Annual Profits.</i>				
YEARS.	Working Profits.	Earned from former Business Years.	Profits from Investments.	Total.
	PESETAS.	PESETAS.	PESETAS.	PESETAS.
1881	22,321,788	3,067,598	10,542,182	35,931,568
1882	37,837,794	3,177,277	23,482,482	64,497,553
1883	19,466,004	801,594	22,823,550	43,091,148
1884	16,577,852	1,781,739	22,678,900	41,038,491
1885	17,730,819	855,291	22,883,830	41,469,940
1886	22,113,824	2,105,972	23,449,430	47,669,226
1887	22,018,778	2,503,215	23,352,000	47,873,993
1888	19,628,535	6,243,519	23,344,165	49,216,219
1889	22,573,918	5,706,077	23,111,623	51,391,618
1890	25,236,777	5,686,961	23,175,396	54,099,134
1891	28,893,526	5,840,622	22,064,022	56,798,170
1892	27,994,508	3,984,692	22,639,706	54,618,906
1893	28,317,372	3,146,973	22,740,350	54,204,695
1894	24,883,961	2,474,852	22,046,857	49,405,670

The high proportion of the profits accruing on investments is the most palpable proof of the bad condition of Spain's finances. A similar situation prevails in the Bank of Portugal and the National Bank of Greece. All States with "wrecked" finances use their principal credit establishment for the marketing of their signature, and pay very dearly for this dangerous service. The country suffers not only from the exorbitant sums which it pays to the banks, but still more so from the increased rate of exchange. A candid examination of these conditions warrants the conclusion that it would have been better to establish a State bank pure and simple. Such a bank would at least show merit in lending its signature gratis. A bank whose credit depends absolutely upon the State, and which stands responsible while it cannot offer opposition to the Government's prodigality and bad management, has all the drawbacks of a State bank, with hypocrisy added.

## RUNNING EXPENSES.

The running expenses of the Bank are considerable, as will appear from the subjoined statement covering fourteen years:

YEARS.	Taxes.	Business Expenses.	Miscellaneous Charges.	Total.
	PESETAS.	PESETAS.	PESETAS.	PESETAS.
1881	3,561,600	2,955,953	1,468,434	7,985,987
1882	6,223,221	4,402,128	6,444,599	17,069,948
1883	3,526,371	3,617,554	8,746,506	15,890,431
1884	4,588,721	3,417,857	921,094	8,927,672
1885	3,837,253	4,448,776	1,823,372	10,109,401
1886	4,515,187	4,221,837	2,587,389	11,324,413
1887	5,085,425	5,020,931	2,210,408	12,316,764
1888	5,981,940	4,866,194	1,706,956	12,555,090
1889	5,352,449	6,311,366	2,001,331	13,665,146
1890	5,378,776	6,266,597	3,639,569	15,284,942
1891	5,124,922	6,711,743	5,640,863	17,477,528
1892	5,451,803	6,491,893	8,949,992	20,893,688
1893	6,702,913	6,278,159	5,748,410	18,729,482
1894	6,315,291	6,172,735	3,078,789	15,566,115

## DIVIDENDS.

The dividends of the Bank are very favorable, and the Bank's shares are quoted high, as will appear from the subjoined data:

Dividends.	Market Value of Shares on December 31st.
PESETAS.	PESETAS.
1881 120 per share.	2470
1882 90 per share.	1995
1883 80 per share.	1317
1884 95 per share.	1512
1885 95 per share.	1675
1886 110 per share.	1950
1887 110 per share.	2090
1888 100 per share.	2095
1889 100 per share.	2097
1890 100 per share.	2000
1891 100 per share.	1920
1892 100 per share.	1870
1893 110 per share.	1880
1894 100 per share.	1957

## REPORTS AND BALANCE-SHEET.

The Bank of Spain publishes annually a statement of its transactions. That document is rather explicit and well arranged; it contains numerous figures, some of which, though, are not sufficiently explained. The statement is a valuable source of information, which is extensively sought. Moreover, an abridged balance-sheet is published weekly, one of which we here reproduce:

ASSETS.	November 30, 1895.	
	PESETAS.	
1. Gold	200,111,092.71	
2. Silver	270,104,865.81	
3. Foreign correspondents	45,067,323.01	
4. Foreign paper	8,481,219.75	
5. Discounts	137,454,506.44	
6. Loans	198,041,009.97	
7. Commercial paper due	2,254,497.34	
8. Tobacco stock	12,270,000.00	
9. Other securities on hand	31,186,886.47	
10. Redeemable 4 per cent. debt	405,341,958.75	
11. Redeemable 4 per cent. debt (law of July 14, 1891)	4,072,895.98	
12. Treasury certificates (law of June 26, 1894)	61,453,000.00	
13. Negotiable Treasury notes	87,685,645.75	
14. Copper coin for the Ministry of Finance	6,385,599.20	
15. Treasury fund for payment of interest on the floating debt	10,196,836.36	
16. Foreign transactions for Treasury account	589,891.23	
17. Advance to the Treasury (law of July 14, 1891)	150,000,000.00	
18. Real estate	17,673,952.05	
19. Miscellaneous accounts	84,237,426.33	
	1,732,608,607.15	
LIABILITIES.		
	PESETAS.	
20. Capital of the Bank	150,000,000.00	
21. Reserve fund	15,000,000.00	
	{	
	Realized	11,198,005.34
22. Profit and loss,		{ Not realized 1,119,273.42
23. Bank note circulation	987,691,375.00	
24. Current accounts	366,388,472.77	
25. Deposits in coin	25,296,715.61	
26. Dividends, interest, and other obligations to pay	27,135,715.33	
27. Tax reserves	30,570,068.57	

28. Current account of cash for the Public Treasury	15,191,775.63
29. Credits granted on public securities	103,017,205.48
	1,732,608,607.15

The two first items of the *assets* give the amount of gold and silver which constitute the metallic reserve of the Bank. The third item represents outstanding debts of the Bank owed by foreign correspondents who buy exchange for the Bank and pay the interest on the public debt. In item 4 we have the foreign paper owned by the Bank. The fifth item represents the stock of commercial paper, and the sixth shows the loans made. Item 7 concerns commercial paper out for collection. From 8 to 13 the statement recapitulates the securities held by the Bank; we have already spoken of these in detail. Item 14 shows the amount of copper coin; the Bank receives this for Treasury account and does not carry it under the head of coin on hand. Item 15 gives the amount of the loans granted by the Bank for payment of interest on the floating debt; and No. 16 shows the expenses which the Treasury has to pay back to the Bank. The permanent loan of 150,000,000 pesetas, which resulted from the stipulations of the law of July 14, 1891, appears as the seventeenth item; while No. 18 declares the value of the Bank's buildings. Finally, No. 19 consolidates the accounts of the Bank, which are not mentioned in detail.

In the *liabilities*, items 20 and 21 correspond to capital and reserve. The profit and loss account which follows indicates the profits of the running year, and the statement distinguishes between profits actually made and those which will be realized only after maturity of the engagements from which the profits are derived. Item 23 gives the paper circulation; next come current accounts and deposits in coin; then dividends of the Bank and interest on the public debt which has matured but not been called for as yet. Under item 27 we find the reserves made up from taxes which are set aside for the payment of the public debt; we explained this in detail before. Item 28 represents the current account of the Treasury; and the statement closes with the balances of open credits which the Bank has established against deposit of public securities.

## CONCLUSION.

The Bank of Spain is one of the strangest institutions of issue in Europe. On the ground of the amount of its business and the high figure of its profits, it occupies one of the first places among banking establishments of its class; but this apparent prosperity conceals an incurable weakness. The Spanish financial administration leaves much to be desired. The budget is never made up in a thorough and responsible manner; deficits are the rule, and the floating debt, which widens the chasm between expenses and receipts, grows steadily. The Bank absorbs all Treasury certificates and orders for the redemption of its own notes, and so sells its credit very dearly to the State. The public is not duped by this transaction, and its misgivings find expression in the fact that the people are always ready to give 117 or 118 pesetas paper for 100 pesetas in gold. The old traditions of the Bank of San Carlos and the Bank of San Fernando are still extant, and the same faults cause the same calamities.

Of course, Spain has formally no forced currency; but while she boasts of exchanging her paper for hard money over the counter, she only bandies words. She proposes to pay for bank notes in a clumsy money which does not circulate abroad and which, instead of being preferable to paper, offers only drawbacks; she neither takes in nor pays out gold. According to the Gresham law, bad silver and paper have systematically driven away good money, and to-day not a single twenty-peseta gold piece can be found in Spanish circulation. Consequently, the Bank gives only the choice between paper or money which is worth still less, and yet forced currency is not acknowledged.

Nevertheless, the Bank's signature lends a certain additional value to its paper money. Although the bank note is only redeemed in silver which has lost fifty per cent. of its metallic value, the paper is worth eighteen to twenty per cent. below par. In calculating the loss, two elements must be taken into consideration. First, the absolute depreciation of the paper money on account of the insufficient guaranty which it offers; and then the increased exchange owing to the ugly situation of Spain's balance of trade. The country has no large capital and has to place Government loans with its neighbors. Spain depends upon them for her railroads, port and canal improvements, etc. The extremely large amount of interest which she owes abroad could only be counterbalanced by large exports of merchandise and products of the soil, and she needs a very severe control over her imports. Yet, in spite of an almost prohibitive customs tariff, which is often intensified by harsh interpretations of the officers in charge, Spain's imports are constantly higher than her exports. Again, Spain's wines, which constituted the main staple for export, are kept out of France, as the French vineyards which were destroyed by the phylloxera have recovered; and, moreover, France inaugurated a protective tariff in 1892. Thus there seems to be little hope for an improvement in Spanish exchange.

The bimetallist school has built quite a framework of theories to demonstrate that a high exchange against a country is favorable to the sufferer; that it develops its industries and foreign commerce; but such reasoning has scarcely been applicable in the case of Spain. She struggles with genuine courage against all kinds of difficulties caused by her bad economic conditions. The high exchange against her is its most striking symptom, and credit, which plays such an important part in the capital of a nation, is seriously compromised to the detriment of Spain. The Bank is accused—we think wrongly—of aggravating the evil by squeezing the Government.

If Spain does not resolve to issue paper money on her own account—which would seem to be advisable—and if she has not the wisdom or rather the opportunity to bring her expenses upon a level with her revenues, she is compelled to call upon the principal credit establishment of the country for discounts and for the disposal of Treasury bonds. It is natural, and even necessary, that the Bank should demand good compensation; for therein lies the only means for moderating the Government's exactions. Spain suffers from the mistake which economists fight in vain—the error that the Government can do as it pleases with the money and credit of the country. Laws do not change the nature of affairs, and if matters are handled contrary to nature, immediate and sudden countershocks show that mistakes have been made, and those who danced must pay the piper.

Virtually, Spain is under forced currency rule. She has misused her Bank; she has deflected the bank note from its natural purpose; she has harvested as she has sown, and suffers from her errors the same as Italy, Portugal, Greece, and many others in the past and present. The decline of credit and the depreciation of the national money are the natural disastrous consequences which result from her course.

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## PART IV.

### BANKING IN BELGIUM.

#### THE BANK OF BELGIUM.

#### ITS EARLY VICISSITUDES.

THE National Bank of Belgium is of comparatively recent origin. It was founded under an act of May 5, 1850, the first article of which provided: "A bank which shall be known as the National Bank is established." Its purpose was declared to be to regulate the issue of paper currency, and secure uniformity in the bank note circulation of Belgium.

Four banks had previously been in competition—the Société Générale, the Bank of Belgium, the Bank of Flanders, and the Bank of Liege. The last two were local institutions; the first two had charge of the Government service. The Société Générale, founded in the beginning of the century, was a powerful establishment, which, under the Dutch régime, attended to the collection of public revenues. In 1830, when Belgian independence was proclaimed, the new government could not dispense with the co-operation of the Société Générale. The latter, taking advantage of the circumstances, caused the State much embarrassment by refusing to agree to any supervision over its administration of public moneys. The Government, deciding to put an end to the vexation, authorized in 1835 a new bank of issue, and gave it the name of Bank of Belgium. The privilege of performing cash transactions for the State was taken away from the Société Générale and conferred upon it. The two banks did not get on well together. The Société Générale even endeavored to force the Bank of Belgium into bankruptcy, by suddenly demanding the redemption of a large amount of currency. This rivalry weakened and greatly embarrassed both, when the crisis of 1836 came on. Neither the Société Générale nor the Bank of Belgium had obtained the experience necessary for properly regulating the paper circulation. Both had done a large business in commercial and industrial transactions at long maturity. The public holding the notes of the Bank of Belgium took fright, and to avoid a suspension of payments the Bank was obliged to appeal to the Treasury for assistance. The years 1837, 1838, and 1839 were disastrous for the Belgian banks. The Société Générale was able to retrieve its position, but the Bank of Belgium was so distressed that, in 1842, it had to resign its function of State depository, which reverted to the Société Générale. The Government, however, did not forgive the Société Générale. It felt keenly the humiliation of being obliged to return to that institution after striving to do without its services, and devised a plan for a new bank of issue which it purposed carrying into execution at the earliest opportunity. In 1843, the concession of the Société Générale as a chartered company expired. The shareholders desired to prolong their agreement for twenty-five years, but the Government reserved the right to require changes in the regulations before the end of 1849. In 1848, the shock of the revolution that had just broken out in Paris was felt in Belgium, and the Société



Générale suspended payments. The Government embraced this opportunity to carry out its project. At the beginning of 1849, the President of the Ministry demanded various reforms and modifications which, if accepted, would have compelled the Société Générale to wind up its affairs at the sacrifice of very important business. The Société Générale declined to preserve at such a price the right of issue, which was thereupon transferred to the new National Bank of Belgium.

The National Bank is not formally granted a monopoly of issue, but possesses it in practice. The law appears to permit the coexistence of several banks, prescribing that “no bank of issue can be established on shares except under the form of a stock company and by a statute.” Out of this proviso arises the monopoly of issue. M. Pirmez, referring to this subject in his report to the Chamber, said: “*De facto*, we have in Belgium only one bank of issue. *De jure*, liberty to create banks of issue is accorded to individuals, partnership concerns, and companies which have no stock on the market; but there is no such liberty for open and joint-stock companies. The latter owe their existence to law, which can enforce its own terms. By stipulating that banks of issue must be stock companies the Government reserves the right to grant or refuse authority to issue paper money.”

The Bank had a struggling beginning, and the support of the Government did not strengthen it much. To offset the somewhat dubious advantages bestowed, the State had imposed upon it exceedingly heavy burdens, which will be considered in detail under the head of the relations of the Bank with the Treasury. Moreover, the Bank had to contend against the antagonism of the Société Générale, which, with the experience of age, understood better the art of distributing credit. But it gradually obtained education, and its transactions grew. During the crises of 1857 and 1863, it rendered all the services naturally to be expected of a well-regulated bank of issue. The year 1870 was a time of trial for the Bank of Belgium, as for the Bank of France; and the difficulties in store for banks of issue having too intimate connection with the State received ample illustration. Belgium, contiguous to both France and Germany, was obliged to equip her army to assure respect for her neutrality, and became at the same time a market in which the two belligerent countries procured a part of the financial resources requisite for maintaining their armaments. The discounts of the Bank swelled rapidly, and, as always happens in troublous periods, the merchants and bankers made extraordinary calls, while the holders of bank notes, seized with apprehension, clamored for their redemption. The State itself had demanded the transfer to Antwerp of an amount in coin equal to the account current of the Treasury, and meantime had instructed its officers not to pay anything but paper to the Bank. The Minister of War went so far as to observe to the Chief of Corps that the military treasurers would do well to exchange the bank notes in their possession for gold and silver. As a matter of course, all these State performances intensified the fear of the public. The Bank had only one recourse for reassuring the people—to keep right on paying over the counter. In order to be able to do that, it raised the discount rate and placed restrictions upon the acceptance of commercial paper. These measures cost much both to commerce and the Bank, but payments were not suspended even for a day.

## RENEWAL OF THE BANK'S CHARTER.

Upon emerging from this crisis the Bank moved for a reaffirmation of its charter, which, granted in 1850 for twenty-five years, was to run out in 1875. The negotiations with the Minister began in the first months of 1872, and they were speedily brought to conclusion. An act was framed extending the privilege for thirty years from 1873; but on very hard terms for the Bank, aggravating those of the 1850 contract, which had been considered sufficiently oppressive. The act was voted by the Chamber after much fulmination about monopoly and the unwisdom of giving over rights belonging to the State into the keeping of a private concern; which are always favorite themes when the subject of privileged banks is under debate. The law was promulgated May 20, 1872. Since that date, the history of the Bank of Belgium has had no very conspicuous aspects. There were bad days in 1873; and, more recently, the Bank has felt the effects of crises that have disturbed Europe, but it has never found itself in very serious straits.

## ORGANIZATION OF THE BANK.

As has already been indicated, the Bank operates under no formal monopoly, but it has a substantial one, which will expire in 1903. The capital, which was fixed at 25,000,000 francs by the Act of May 5, 1850, was advanced to fifty millions by that of May 20, 1872. It comprises 50,000 shares of 1000 francs each. The shares provided for by the law of 1872 were allotted preferentially to the old shareholders, and were issued at 1100 francs, 1000 francs to go into the capital of the Bank and 100 francs into the reserve. The reserve is formed by a levy of fifteen per cent. on the net yearly profits above six per cent., and is intended to make good any losses that the Bank may suffer, and to complete, if necessary, the amount required for a 2½ per cent. half-yearly dividend to the shareholders. The capital and reserve are invested in consols; but that mode of investment is not obligatory. The Bank is prohibited from acquiring any real estate except what is strictly needful for its own business. The shares, of 1000 francs par value, 50,000 in number, are registered or to bearer, according to the preference of the holder. Changes from one form to the other are made free of charge. The Bank recognizes but one sole owner for each share. Dividends are payable every six months. The shareholders are liable only for the amount of their shares. They exercise their rights through the findings and decisions of the Shareholders' Assembly.

The Shareholders' Assembly represents the total body of shareholders. All persons owning at least ten shares are entitled to take part in its proceedings. Every member of the Assembly may be represented through the proxy of any other member of the Assembly. Ten shares entitle the owner to one vote. No person may cast more than five votes, either as a shareholder or a proxy. The ordinary meetings of the Assembly are held on the last Monday of February and the last Monday of August. Extraordinary meetings may be called upon the demand of the censors whenever the Council judges it useful to hold them. The February meeting receives the statement of transactions for the year, and certifies the balance-sheet. The August meeting selects persons to take the places of retiring members of the Council. Every proposition

signed by five shareholders who are members of the Assembly is communicated to the Council ten days before the meeting and brought under deliberation. The regulations of the Bank cannot be modified except by General Assembly meetings called for the purpose.

## MANAGEMENT OF THE BANK.

The management of the Bank is in the hands of a governor and six directors, who form the Administrative Council. A council of censors, consisting of seven members, acts as the body of comptrollers. The governor is nominated, suspended, or discharged by the King. He is appointed for five years, and may be reappointed indefinitely. His regular salary, fixed by the King, is paid by the Bank, which also provides him with a residence and furnishes it. He cannot be a member of the legislative body or draw a State pension. He presides in all councils and meetings, executes their decisions, and looks to the enforcement of the laws and regulations. He has the right to suspend the taking effect of decisions made by the Administrative Council, in order to submit them to the General Council, which he calls for urgent emergencies. It is his duty to suspend and denounce to the Government every act of the Council that is contrary to the statutes or adverse to the interests of the State. If the Government, having considered the conclusions reached by the governor, fails to come to a decision within a fortnight after his protest, the act can be carried out. The governor has the casting vote in meetings of the Administrative Council. He signs all documents making engagements for the Bank after they have received the signatures of the secretary and treasurer, or one director in lieu of either. He represents the Administrative Council in the courts, and also has authority over all the agents of the Bank, and can suspend them without reference to the Administrative Council. He must own fifty shares of the Bank's stock, as security for his administration of the Bank. The King selects a vice-governor from among the directors, who acts instead of the governor in case of the latter's absence, incapacity, or suspension. The General Assembly chooses the six directors, who must be Belgian citizens (native-born or naturalized), and reside in Brussels. They are appointed for six years, and may be re-elected. Each director must own at least twenty-five shares, and none of them can belong to the Administrative Council of any other bank. Besides their general functions, each is intrusted with the control of one department or more of the Bank, and has authority over the employees under him. Every director receives a salary of 6000 francs, and has a share in the profits. The director filling the office of vice-governor has an extra allowance of 3000 francs. The Administrative Council, consisting of the governor and directors, holds regular meetings three times a week, and special meetings whenever necessary. It considers all the concerns of the Bank, especially the rate on credits and advances, and discount affairs in general, and gives particular attention also to the purchasing of securities and to cases at law. Finally, it appoints and discharges the employees, and determines their salaries. In all matters it advises with the censors. The censors are named by the Shareholders' Assembly for terms of three years. They retire in different years—three going out the first year, two the second, and two the third. Each censor must have ten shares. They get also a portion of the profits. The Censors' Council meets at the call of the governor whenever the business makes it desirable, and at least once a month. It cannot adopt any decisions unless at least four members are present. It has control over all

transactions, audits the books, and votes the budget of expenses prepared by the Administrative Council. It is responsible for all plans of modification affecting discounts and advances.

The governor, directors, and censors constitute the General Council, which meets on the last Saturday of each month. The General Council keeps under its cognizance the situation of the Bank, and acts on all questions submitted to it which relate to its laws and routine regulations. It apportions the divisions of profits, and passes upon everything affecting the production and issuance of the Bank's notes. It selects a Discount Council from among the merchants, or old clients, which examines the paper presented for discount, and determines what to accept and what to reject. The State designates a Government Commissioner (whose salary the Bank pays), to exercise the functions of a comptroller, especially with regard to discounts and the note circulation. He has the right to look into the business condition of the Bank, and to inspect its books. In cases where he deems it proper, he has an advisory vote in the assemblies and councils.

## BRANCHES, AGENCIES, AND BUREAUS.

Under the provisions of an act of July 17, 1872, the Bank has branches and discount offices in the principal cities of the provinces, and in other localities, where the usefulness of such establishments has become manifest. Article 3 of the same act obliges it to conduct agencies in all the principal judiciary districts, and in other places where the Government considers it convenient for the interests of the public and the Treasury to have them maintained. The branches are operated for the account and at the expense and risk of the Bank, under the general direction of three administrators, named by the Administrative Council. The officers and agents of the branches are nominated by the administrators, subject to the approval of the Administrative Council. The transactions of the branches are the same as those of the Bank, excepting that the former are under restrictions established by the General Council, with the sanction of the Minister of Finance. There is only one branch proper, that at Antwerp; but a great many agencies are in existence; which make advances on securities, lend cash services, open current accounts, issue trust orders, etc. The principal object of the agencies is the accommodation of the Treasury. The agents have also the character of State receivers and disbursers, and, consequently, are appointed by the King from a double list presented by the Administrative Council. They are also dismissible by the King; but the Bank may suspend them from office for the term of one month. Their salaries range from 5000 to 15,000 francs, according to class. The agents have power to choose their employees. Though dependent upon the State, the agents have extra-official relations with the officers of the Government. They keep regular accounts, which are inspected by the representatives of the Bank.

The Bank discounts only paper with three signatures. To perform its discount transactions, and bring them reach of all, it has adopted a most ingenious machinery, which, in many respects, might be advantageously imitated in other countries. Under the name of *Comptoirs d'Escompte* (Discount Bureaus), associations of persons are permitted by the General Council, which discount such paper as is specified by the regulations of the Bank, at rates and under conditions prescribed by the General

Council. The paper admitted by the comptoirs is indorsed to the Bank direct. Each comptoir is held responsible; so that bad paper is returned to the bureau from which it emanated, and which has to make good the amount. The individuals associated in the comptoir receive a commission on paper that they discount, to remunerate them for their trouble and reward them for the risk they take. The commissions are determined by special arrangements. In general, the discount bureaus are located at the agencies of the Bank, the agents lending them half of their offices for their discount business and their bookkeeping.

## TRANSACTIONS OF THE BANK.

The Bank discounts or buys commercial paper on Belgium and foreign countries, besides vouchers on the Belgian Treasury. Commercial paper must be for commercial business; must be made to order; must have three good signatures, and must not have longer than 100 days to run. The discount bureaus that vouch for the paper they accept can take paper with but two signatures. In Brussels and Antwerp, paper with two signatures is received, but under quite peculiar conditions. In place of the third signature, a warehouse receipt may be given, sufficient to cover the total of the debt. Besides ordinary commercial paper, the Bank discounts warehouse receipts with two signatures up to a fixed percentage of their value. If the warrant bears more than two signatures, or if the two signatures are of unquestionable character, the Administrative Council may increase the amount of the loan, or admit warrants which do not figure in the Bank's regular list of those taken as collateral. The Bank makes periodical examinations to ascertain the condition of goods in storage and to see that storage fees are regularly paid. When a warehouse voucher is paid before maturity, the Bank makes allowance for the interest of the days it has to run. If the value of the merchandise given as collateral falls more than ten per cent. in market value, the Bank may ask for settlement or for increased collateral. The discount terms for commercial paper, both as to rate and period of maturity, apply equally to Treasury vouchers. But the Bank cannot carry more than 10,000,000 francs of Treasury vouchers at a time.

*Discounts of the Bank of Belgium.*

YEARS.	BELGIAN PAPER.		FOREIGN PAPER.		TOTAL.		COMMERCIAL PAPER ON HAND.		
	Number of Pieces.	Amount.	Number of Pieces.	Amount.	Number of Pieces.	Amount.	Maximum.	Minimum.	Average.
1851						186.2			
1855	157,578	358.0	12,817	126.6	170,395	484.6			
1860	380,237	729.5	2,594	28.6	382,831	757.6			
1865	804,037	876.4	1,072	21.8	805,109	898.1			
1870	1,052,792	1,205.1	11,489	131.9	1,064,281	1,337.0			
1875	1,625,820	1,832.1	3,159	84.8	1,628,979	1,916.9	310.9	252.9	270.5
1880	2,185,914	1,647.0	20,737	347.6	2,206,651	1,994.6	367.3	328.1	345.8
1885	2,716,208	1,666.2	79,966	422.4	2,736,174	2,088.6	306.4	275.7	289.5
1886	2,804,695	1,624.6	20,497	434.7	2,825,192	2,059.3	328.2	278.8	205.5
1887	3,008,336	1,795.0	17,259	358.8	3,025,595	2,153.8	325.2	289.7	309.0
1888	3,097,843	1,818.2	15,690	349.1	3,113,533	2,167.3	323.3	282.5	297.0
1889	3,204,360	1,865.7	15,043	362.4	3,219,403	2,228.1	314.7	280.0	297.6
1890	3,079,037	1,958.6	15,423	396.9	3,095,360	2,355.5	346.4	293.9	313.7
1891	2,998,563	2,022.2	20,553	490.7	3,019,116	2,512.9	367.4	364.1	324.2
1892	2,995,429	1,872.7	22,696	557.7	3,018,125	2,430.4	353.3	314.4	329.8
1893	3,039,964	1,880.7	21,059	582.8	3,061,023	2,463.6	363.1	315.1	335.6
1894	3,147,805	1,874.8	24,260	671.3	3,172,065	2,546.1	370.2	328.9	344.4

**RATE OF DISCOUNT.**

The Bank of Belgium has two rates of discount—one for accepted drafts, the other for non-accepted commercial paper. The rate applicable to non-accepted paper is one-half per cent. higher than that fixed for accepted drafts. The following comparison shows the Bank rate for a series of years:

YEARS.	Number of Variations.	Maximum.	Minimum.	Average.
1885	4	4	3	3.28
1886	5	4	2½	2.80
1887	2	3½	2½	3.10
1888	6	5	2½	3.32
1889	4	5	3	3.58
1890	2	4	3	3.22
1891	0	3	3	3.00
1892	1	3	2½	2.70
1893	1	3	2½	2.83
1894	0	3	3	3.00

The Bank is authorized to deal in gold and silver bullion and moneys at money rates, deducting refining charges, if any. The bullion must be accompanied by an assayer's certificate acceptable to the Bank, and the seller is held responsible for the fineness shown in the certificate. Sellers have the right to redeem the bullion within eighteen days. The statement following shows the transactions in the precious metals from 1873 to 1890:

	Purchases.	Sales.
1873	88,600,000	2,600,000
1874	28,400,000	18,000,000
1875	31,200,000	39,200,000
1880	12,700,000	17,500,000
1885	6,500,000	5,500,000
1890	200,000	700,000

## ADVANCES UPON COLLATERALS.

The Bank makes advances direct or for current account on deposits of Belgian national securities and other securities guaranteed by the State, within limits and at terms fixed periodically by the Administrative Council. The securities are not accepted for more than four-fifths of their current market value. Loans are made for ten days at least and four months at most. They may be taken up before maturity. In case of non-payment at maturity, the collateral is sold on the Bourse. No more than one extension of maturity is allowed unless specially authorized by the Council. The annual amounts of the Bank's advances for a series of years compare as follows:

YEARS.	Sums Advanced.	ON HAND.		
		Maximum.	Minimum.	Average.
1873	28,700,000	13,400,000	3,300,000	4,200,000
1875	25,100,000	8,300,000	5,000,000	6,300,000
1880	30,600,000	8,200,000	3,800,000	
1885	45,100,000	12,900,000	9,600,000	10,700,000
1886	50,600,000	19,100,000	7,600,000	9,700,000
1887	61,600,000	14,800,000	11,500,000	13,100,000
1888	54,000,000	13,800,000	9,600,000	11,600,000
1889	60,900,000	14,000,000	9,500,000	11,500,000
1890	34,300,000	11,300,000	5,300,000	7,600,000
1891	36,800,000	10,500,000	5,400,000	6,600,000
1892	41,500,000	10,700,000	6,100,000	8,700,000
1893	41,700,000	10,700,000	8,100,000	8,900,000
1894	52,100,000	12,700,000	9,000,000	10,000,000

## CURRENT ACCOUNTS.

The Bank opens current accounts on written applications addressed to the governor. The application must give surname, Christian name, profession, and domicile. The current accounts bear no interest but are carried without charge. The current account holders may make or receive payments, without charge by the Bank, at all the Bank's agencies, and draw on their credits by cheques or transfers. The annual amounts of this kind of business transacted by the Bank are stated in the following figures:

YEARS.	Paid In.	Paid Out.	BALANCE.		
			Maximum.	Minimum.	Average.
	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.
1873	4,679,700,000	4,717,300,000			34,600,000
1875	4,451,600,000	4,457,300,000			28,200,000
1880	3,721,000,000	3,717,900,000			40,300,000
1885	3,281,000,000	3,273,900,000	41,900,000	26,400,000	34,200,000
1886	3,376,800,000	3,363,500,000	49,200,000	23,800,000	34,900,000
1887	3,728,800,000	3,726,100,000	47,600,000	26,400,000	33,000,000
1888	4,312,900,000	4,305,000,000	45,400,000	24,900,000	34,900,000
1889	4,435,700,000	4,439,500,000	38,200,000	21,100,000	29,500,000
1890	4,527,200,000	4,518,300,000	43,800,000	21,500,000	30,900,000
1891	4,484,200,000	4,486,700,000	51,500,000	23,200,000	31,700,000
1892	4,036,700,000	4,025,200,000	43,200,000	22,800,000	30,800,000
1893	4,019,900,000	4,014,300,000	49,900,000	28,000,000	34,500,000
1894	4,132,200,000	4,125,300,000	43,700,000	23,600,000	32,600,000

## COLLECTIONS FOR ACCOUNT-HOLDERS AND TRUST ORDERS.

The Bank undertakes for account-holders the collection of local paper, indorsed and deposited three days before maturity. A special service of the Bank of Belgium, which has had considerable development during the last few years, is that of "trust orders." Any person, by simply paying in the amount at an agency or office of the Bank, may have an order, executed without commission, at any other designated agency or office. The Bank is thus called upon to perform, gratuitously, all transfers of money for the whole country. It accounts for its policy of executing trust orders without charge by explaining that it is compensated for these transactions by the lessened use of bank notes. The "trust order" system may some day, however, prove dangerous for the coin stock of the Bank, as will be pointed out later. From 1866 to 1894, these "trust orders" transactions have amounted to the following annual aggregates:



No of Orders.	Amount.
1866 10,620	36,600,000
1873 92,300	498,100,000
1875 129,991	562,100,000
1880 199,113	705,000,000
1885 249,450	742,200,000
1886 252,548	733,300,000
1887 265,986	790,800,000
1888 273,752	819,700,000
1889 282,651	870,200,000
1890 286,119	921,300,000
1891 291,774	933,600,000
1892 295,836	893,800,000
1893 303,652	905,500,000
1894 316,501	927,500,000

## TRUST DEPOSITS.

The Bank takes deposits in trust. Deposits for joint account, or by persons not having free disposal of their property, are allowed only by special authority. The deposit is made in a locked metallic box, sealed by the depositor. The capacity of the box must not exceed  $\frac{1}{2}$  cubic metre, and each box counts as a separate place of deposit. This very rudimentary deposit system does not offer the facilities and advantages that the public finds in the French, German, and Austro-Hungarian banks; and the service of the Bank of Belgium in this departments is of minor importance.

## COIN AND PAPER CIRCULATION.

Belgium has the same monetary policy as France—the double standard. Gold and silver are identical in current value, but the silver coinage, which was first limited in 1874, has been totally stopped, so that bimetallism, although prevailing nominally, is much attenuated practically. In common with Italy, Switzerland, and Greece, Belgium is associated with France in a monetary convention, called the Latin Union, which obligates the public officials of the five countries to accept on equal terms the coins struck by each of them, with the proviso that, at the expiration of the agreement, each nation will exchange the coins of the Union circulating within its dominions for an equal amount of its own coins circulating in the other States of the Union, and that half of the balance remaining after that adjustment shall be settled in gold or equivalent values, and the other half, not to exceed 200,000,000 francs, shall be restored through the channels of commerce and exchange.

These terms bear rather severely on Belgium, which, profiting by the low price of silver before the discontinuance of the coinage, issued large amounts of five-franc pieces that are to-day in extensive circulation in France. The Latin Union and the “trust order” system permit Belgium to send her five-franc coins into France at pleasure. When a Belgian debt is due in France the debtor draws an order at some

agency payable at Tournay or Courtrai (frontier places in Belgium). There, coin is asked for, and forwarded to the branch of the Bank of France at Roubaix or Tourcoing. The transfer charge is very light, so that money leaves Belgium when the exchange is but 2 per 1000, under the circumstances explained. The rate would have to reach 4 to 5 per 1000 to make it a matter of advantage to transfer actual coin instead of using orders. Belgium is thus more exposed than any other country to a drainage of coin.

Article 35 of the regulations of the Bank of Belgium directs that it shall have a coin stock equal to one-third of the combined amount of its bank note circulation and other sight obligations, although the Minister of Finance may, at his discretion, set aside this requirement and authorize the Bank to operate below the one-third limit. The coin stock and the outstanding circulation of the Bank, from 1873 to 1894, has ranged as follows, the amounts being stated in millions and hundred thousands of francs:

YEARS.	COIN STOCK.			CIRCULATION.		
	Maximum.	Minimum.	Average.	Maximum.	Minimum.	Average.
1873	145.3	102.5	126.4	364.0	294.1	332.5
1875	141.6	93.1	115.7	337.8	310.3	318.6
1880	106.4	89.1	99.1	340.6	294.1	313.6
1885	107.2	89.5	96.6	364.3	328.8	346.4
1886	114.1	86.8	103.3	380.4	334.5	355.9
1887	104.5	91.7	96.6	382.9	351.2	370.3
1888	112.8	86.5	100.2	385.0	341.5	361.0
1889	106.8	92.7	99.8	378.4	343.0	363.3
1890	111.8	101.6	105.7	409.1	364.0	382.3
1891	115.3	100.8	108.4	416.7	365.1	391.1
1892	118.5	102.8	109.9	421.3	386.9	405.8
1893	116.8	97.6	106.2	435.3	389.2	411.9
1894	131.1	108.5	116.2	446.7	409.6	429.4

The metallic stock carried is smaller, in proportion to the note circulation, than in most of the other great banks of Europe—smaller even than in the Bank of Spain—yet the notes of the Bank of Belgium suffer no depreciation. The reason for this favorable factor is, that the Bank possesses a great deal of foreign paper payable in gold or equivalent values that serves to render part of its coin productive. The following table gives the figures for the last five years of coin on hand, foreign paper, and note circulation:

YEARS.	Coin on Hand.		Foreign Paper on Hand Total.	Note Circulation.
	FRANCS.	FRANCS.		
1890	103,400,000	74,500,000	177,900,000	399,700,000
1891	102,700,000	91,300,000	194,000,000	416,700,000
1892	114,600,000	94,500,000	209,100,000	414,200,000
1893	111,600,000	96,200,000	207,800,000	435,300,000
1894	130,800,000	99,300,000	230,100,000	446,700,000

The proportion of metallic or equivalent values reaches fifty per cent., and is therefore eminently satisfactory. The surplus of note circulation and the current accounts is protected by a most solid supply of commercial paper, and by capital, reserve, and high-class securities. The notes are taken by the State in payment. They are redeemed at sight at the Bank, and also by the provincial agents, although the latter may delay payments until they can procure the necessary funds. Belgium displays a tendency toward the single gold standard, as indicated by the composition of the coin stock of the Bank, shown in the following statement of the Bank's coin on hand at the end of the business year:

	Gold. FRANCS.	Silver. FRANCS.
1873	40,900,000	64,600,000
1875	77,900,000	44,700,000
1880	73,100,000	25,700,000
1885	70,300,000	35,300,000
1886	57,600,000	42,900,000
1887	58,700,000	40,300,000
1888	57,900,000	35,700,000
1889	65,700,000	37,900,000
1890	59,600,000	43,800,000
1891	67,900,000	34,800,000
1892	81,400,000	33,200,000
1893	75,800,000	35,800,000
1894	103,600,000	49,400,000

The increasing preponderance of gold is due to the parsimony of the Bank in distributing the yellow metal. Likewise, the public is reluctant to give up gold, fearing that it may not come back.

*Receipts and Payments of the Bank (in Millions of Francs.).*

YEARS.	RECEIPTS OF THE BANK.			PAYMENTS OF THE BANK.		
	Gold.	Silver.	Proportion of Gold to Total Receipts.	Gold.	Silver.	Proportion of Gold to Total Receipts.
1889	76	274	20.30 per cent.	68	272	20.00 per cent.
1890	74	306	19.50 per cent.	80	301	21.00 per cent.
1891	66	321	17.00 per cent.	58	331	14.90 per cent.
1892	50	284	15.00 per cent.	50	285	14.80 per cent.
1893	54	325	14.30 per cent.	53	322	14.10 per cent.
1894	45	300	13.00 per cent.	29	309	8.60 per cent.

The small amount of silver in the Bank of Belgium contrasted with the formidable aggregate in the Bank of France, is convincing proof that Belgium is not over-supplied with silver coin. Yet the five-franc piece is worth in Belgium as much as gold, for it is an article of export always accepted at face value in France. France, besides, is called upon to supply gold to Belgium when needed for gold payments. The embarrassments induced by the depreciation of silver will not be felt in Belgium

until the day arrives for the dissolution of the monetary convention that joined her to France, and the French and Belgian coinages now in circulation are made independent of each other.

The figures below of average circulation according to note-denominations of the Bank of Belgium for the past five years show that, as in France, the 1000 and 100 franc bills are preferred, and that there is little request for the 500-franc note:

Denominations of Bank Notes.	1890.	1891.	1892.	1893.	1894.
FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.
1000	121,788,000	123,550,000	128,337,000	129,426,000	130,187,000
500	21,906,000	21,968,500	22,424,500	23,089,000	24,115,000
100	171,487,300	175,081,000	182,401,700	190,392,000	195,076,700
50	29,337,200	30,186,200	31,341,850	32,003,150	32,936,450
20	37,791,180	40,294,960	41,357,000	36,917,000	47,043,300

## RELATIONS OF THE BANK WITH THE STATE.

The National Bank of Belgium, as we have already shown, was created chiefly with a view to serving the State as a depository. Its relations to the State are very comprehensive. It performs, without charge, cash services for the Government. It meets all the running expenses for material and for transferring and forwarding funds; and, in addition, it pays to the Treasury a yearly fee of 175,000 francs. This fee is taken by the State in recompense for the advantages that the Bank is supposed to derive from the handling of the Treasury's money; which, as a matter of fact, is but a problematical advantage. The cash services for the State consist in receiving all amounts in money or equivalents paid in by the Department of Finance, discharging the general expenses of the State and provincial governments, and carrying credits for the Ministry of Finance. The accounts of receipts and payments are audited by Government agents and submitted for the approval of the Auditing Court.

*Statistics of Receipts and Payments for the Account of the State.*

YEARS.	Receipts.	Payments.	Average Balance of Account Current of the Treasury.
	FRANCS.	FRANCS.	FRANCS.
1873	584,200,000	623,900,000	25,100,000
1875	459,700,000	467,600,000	33,600,000
1880	801,100,000	804,100,000	27,000,000
1885	815,200,000	814,500,000	31,800,000
1886	892,300,000	891,400,000	34,900,000
1887	895,000,000	902,000,000	30,600,000
1888	935,100,000	940,600,000	27,600,000
1889	979,900,000	975,900,000	32,200,000
1890	1,100,100,000	1,100,300,000	28,200,000
1891	1,165,400,000	1,155,600,000	32,800,000
1892	1,147,200,000	1,151,800,000	35,100,000
1893	1,194,000,000	1,196,000,000	29,500,000
1894	1,193,100,000	1,184,600,000	27,600,000

Aside from its obligation to make public debt payments as they come due (which belongs to the regular cash service department), the Bank receives the consols intended for conversion into registered securities and delivers State securities on transfers and to bearer (unregistered bonds). It collects, if ordered to do so, the amounts on coupons of securities which it has in keeping, and also the amounts past due on consols registered at the Treasury for the account of the public departments. The disposable funds of the Treasury in excess of current needs are invested by the Bank upon its responsibility. These disposable funds are held to be the balance of the Treasury's account current after deducting the drafts of the Bank plus five millions of francs. It has always been understood that the arrangement with the Bank to invest idle Government money is not intended to obtain from the Bank productive interest on sums temporarily unproductive on account current. The available Treasury funds are ordinarily invested in foreign paper. Belgium paper is selected for investment only in exceptional cases. This plan is designed to prevent the State from acting in opposition to the Bank. Whenever the Bank is persuaded to invest State funds in Belgian paper, it takes such paper out of its own supply; but the Bank has exclusive right to determine as to the convenience of the transaction. The profits and expenses of investment go entirely to the account of the State.

*Paper on Hand for Treasury Account.*

YEARS. Joint Entries and Returns. Balances at End of Business Year.

	FRANCS.	FRANCS.
1873	322,900,000	16,800,000
1875	234,200,000	30,600,000
1880	578,000,000	16,600,000
1885	366,900,000	24,600,000
1886	300,600,000	49,000,000
1887	558,900,000	54,500,000
1888	531,000,000	50,500,000
1889	606,300,000	63,900,000
1890	526,200,000	25,900,000
1891	269,300,000	22,700,000
1892	265,300,000	38,300,000
1893	473,100,000	40,600,000
1894	423,500,000	39,100,000

THE BANK'S SERVICE TO SAVINGS-BANKS.

The Bank attends gratuitously to services on account of the Caisse d'Epargne et de Retraite (Savings and Pension Institution), established under State authority by the Act of March 16, 1865. It invests the assets of the fund, maintains separate accounts, and does discounting for the Institution. At all the agencies of the Bank, deposits for the account of the Savings Institution are received and payments are made.

*Savings Institution Service.*

YEARS.	CURRENT ACCOUNT.		Balance at	PAPER ON HAND.		Value of Paper at End of Business Year.
	Paid In by Savings Institution.	Paid Out for Savings Institution.	End of Business Year.	Discounts and Loans.		
	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	
1873	13,500,000	24,000,000	5,500,000	20,400,000	20,900,000	
1875	13,500,000	32,800,000	200,000	35,200,000	34,400,000	
1880	38,800,000	64,200,000	13,400,000	292,100,000	81,000,000	
1885	40,100,000	76,400,000	11,200,000	324,700,000	82,000,000	
1886	44,800,000	89,000,000	6,000,000	317,800,000	90,300,000	
1887	41,700,000	98,000,000	12,300,000	323,200,000	86,400,000	
1888	36,100,000	97,000,000	12,900,000	296,800,000	84,600,000	
1889	34,700,000	96,500,000	6,000,000	273,100,000	82,400,000	
1890	40,400,000	184,000,000	10,100,000	103,400,000	104,600,000	
1891	38,000,000	224,400,000	1,600,000	402,000,000	100,100,000	
1892	40,900,000	231,400,000	8,100,000	393,900,000	101,800,000	
1893	42,800,000	235,200,000	9,000,000	403,100,000	111,400,000	
1894	44,200,000	294,800,000	3,400,000	482,000,000	130,000,000	

## TAXES ON THE BANK.

Notwithstanding the numerous and burdensome services for the State, the Bank is heavily taxed. In the first place, it pays an annual fee of 175,000 francs to defray the expenses of the Treasury in the provinces. Then it is subjected to all the general taxes, particularly the license tax, to which are added municipal and provincial taxes. Its bank note circulation is taxed fifty centimes per thousand, with an extra one-fourth per cent. on all notes outstanding above 275,000,000 francs. Whenever the discount rate exceeds five per cent., the profits resulting from the difference between that figure and the rate in force go to the State. Lastly, if the profits of the Bank amount to more than six per cent. of the capital, the State takes one-fourth of the surplus.

### *Taxes and Charges.*

YEARS.	License.	Stamp Duty on the Circulation.	Tax on the Circulation Above 275 Millions.	Profits Arising from the Raise of the Rate Above Six Per Cent.	Share of the State in the Benefits and Subvention of 175,000 Francs.	Total
	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.
1873	224,960	167,084	249,254	1,336,339	1,737,577	3,715,214
1875	212,250	161,783	216,740		1,553,592	2,144,365
1880	158,615	156,812	174,760		1,220,534	1,710,721
1885	211,947	173,189	339,206		1,288,815	2,013,157
1886	202,993	177,947	388,808		1,197,808	1,967,556
1887	194,467	185,152	460,019		1,357,028	2,196,666
1888	208,601	180,515	413,000	83,219	1,288,755	2,174,090
1889	202,880	181,630	418,961	14,484	1,470,768	2,292,723
1890	219,166	191,155	518,138		1,447,745	2,376,204
1891	217,609	195,540	555,977		1,265,991	2,235,117
1892	201,110	202,931	633,110		1,038,674	2,075,825
1893	199,492	205,943	660,665		1,038,674	2,104,774
1894	205,896	214,679	748,740		1,038,672	2,207,987

## PROFITS AND DIVIDENDS.

Thanks to Belgium's density of population, the abundant means of easy communication, and the commercial activity of the country, the Bank prospers and yields substantial dividends to its shareholders, despite the crushing charges which the State lays upon it. The dividends are paid semi-annually. In calculating them, the general and running expenses of all kinds, the sinking fund, and the payments to the State are deducted from the gross profits. The net profits thus ascertained are distributed in the following manner: 1. The shareholders are given a dividend of three per cent. every six months. If the profits do not admit of a minimum dividend of two and one-half per cent., the deficit is made up out of the reserve, which, as far as practicable, is reconstructed from the profits of the ensuing half-year. 2. Fifteen per cent. of the surplus is applied to the reserve, and twenty-five per cent. is turned over

to the State. The Administrative Council receives four per cent. of the profits in excess of five per cent. of the capital, and the censors receive one per cent. of such profits; but these allowances cannot be more than 80,000 francs for the Administrative Council and 17,500 francs for the censors. The remainder goes to the shareholders as a second dividend, after deducting an amount not to exceed twenty-five centimes per share, which is applied semi-annually to charitable purposes. The dividend of the first half-year is distributable on September 1st, and that of the second half-year on March 1st.

*Receipts, Expenses, Dividends, and Market Price of Shares.*

YEARS.	Gross Receipts.	Expenses and Charges of All Kinds.	Net Receipts for Division.	Dividends.	Market Price of Shares on Dec. 31st.
	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.
1873	16,542,873	5,228,621	11,314,252	141.95	2,925
1875	11,365,900	4,003,576	7,362,324	119.60	3,170
1880	9,854,985	3,705,874	6,149,111	105.00	2,890
1885	11,114,498	4,146,432	6,968,066	108.00	3,045
1886	10,894,626	4,132,137	6,762,489	104.00	2,985
1887	11,202,106	4,354,671	6,847,435	111.00	2,882
1888	10,723,509	4,282,674	6,440,835	108.00	2,895
1889	11,947,140	4,557,294	7,389,886	116.00	2,970
1890	12,344,883	4,590,808	7,754,075	115.00	3,070
1891	11,402,407	4,498,147	6,904,260	107.00	3,085
1892	10,789,231	4,311,409	6,477,822	97.00	3,060
1893	11,202,820	4,377,590	6,825,230	97.00	2,865
1894	11,470,306	4,444,710	7,025,596	97.00	2,700

*Sources of Bank's Receipts.*

The following table shows the receipts of the Bank from different sources:



YEARS.	INDUSTRIAL RECEIPTS.			OTHER RECEIPTS.
	Discount.	Advances.	Miscellaneous.	
	FRANCS.	FRANCS.	FRANCS.	
1873	14,598,295	309,069	249,918	1,385,591
1875	9,189,594	340,238	69,986	1,766,082
1880	7,096,152	163,933	113,646	2,481,254
1885	7,503,737	375,368	38,585	3,116,808
1886	6,707,710	307,053	141,636	3,738,227
1887	7,593,166	422,671	141,744	3,044,525
1888	7,553,398	389,049	153,431	2,627,631
1889	8,558,692	434,335	171,697	2,782,416
1890	9,227,525	251,863	189,779	2,675,716
1891	8,383,186	212,118	191,875	2,675,228
1892	6,526,452	238,395	1,325,645	2,703,234
1893	7,349,752	247,585	926,374	2,679,109
1894	7,231,279	302,316	1,226,425	2,710,286

## BALANCE-SHEET.

At the end of each week, the Bank issues a balance-sheet showing its condition on the date of publication and that of the agencies, etc., on the preceding Thursday.

*Condition of the Bank on October 10, 1895.*

	ASSETS.	LIABILITIES.
	FRANCS.	FRANCS.
Capital		50,000,000.00
Coin on hand and bullion	109,754,660.57	
<i>Bills receivable on hand:</i>		
Belgian paper	357,039,865.81	
Foreign paper		
Paper out for collection on account current	976,361.83	
Bank notes in circulation		433,441,370.00
Public funds	49,964,258.50	
Reserve securities	24,844,478.71	
Reserve fund		24,844,487.71
Advances on Belgian funds	21,693,400.00	
<i>Current accounts:</i>		
Public Treasury		70,528,390.36
<i>Individual accounts:</i>		
Buildings and furniture	12,034,899.70	
Collateral and available securities	7,153,136.13	
<i>Public Treasury:</i>		
Securities on hand (usual rating)	41,349,346.68	
Security account		41,349,346.68
Public funds deposited	1,489,496,558.00	
Deposits in coin and public funds		1,490,460,588.02
Trust Deposits	197,859,883.26	
Depositors		197,859,883.26
Values of the Savings Institution and Pension Fund	130,002,499.80	
Savings Institution and Pension Fund (securities)		130,002,499.80
Miscellaneous		3,682,782.55
	2,442,169,348.49	2,442,169,348.49

The *metallic stock on hand* of the assets includes both gold and silver, but the proportions of each are specified only once a year—in the annual statement of December 31st. The *Bills receivable* comprise Belgian and foreign paper. Practically, the foreign paper might be carried in the account of coin on hand, as is done in the Banks of Austro-Hungary and Italy; for this collateral is payable in gold or silver coin of the Latin Union, which is equivalent to gold. *Paper out for collection in current account* is a special account, representing paper having no more than three days to run, handed in by current account holders to the Bank for collection. The items, *Public funds* and *Reserve securities* stand for consols bought by the Bank for the use of its capital and reserves. They show that the Bank of Belgium, like the Bank of France, considers its capital and reserves as a guaranty, and carries them in securities instead of cash. *Advances on Belgian funds* gives the amount of loans in force on consols and other national securities. Often the item *Advances on precious metals*

appears. Instead of selling gold and silver outright, the parties concerned prefer at times to speculate on the rise, and the Bank allows such proceedings. The account *Buildings in use and furnishings* gives the estimated value of the Bank building in Brussels, the branch concern in Antwerp, and the buildings of the agencies, with their furnishings. *Guaranteed sureties* or *available securities* are liabilities to the Bank for which it holds liens on collateral.

Turning to the liabilities of the Bank, we find the first item to be *Capital*, 50,000,000 francs. It has stood at that figure since 1872. The *Bank notes in circulation* constitute the principal indebtedness of the Bank of Belgium. The *Current accounts* are subdivided into: (1) *Current account of the Public Treasury*, which has already been explained. The sums embraced in this account generally about balance the debts that the Treasury has to settle at short terms; but there is a credit of 5,000,000 francs added. This surplus is in the custody of the Bank, and is separately itemized under *Paper on hand for the Public Treasury*. (2) *Individual current accounts*, representing the credits of the Bank's customers on the day of publication of the statement. The remaining accounts of the statement are miscellaneous accounts in the assets and liabilities. *Paper on hand for the Public Treasury* is the amount of investments of the disposable funds of the State. This item represents only a deposit at the Bank, and is entered in the books only as a matter of reference. It is balanced in the liabilities by the item, *Account of Public Treasury holdings*. *Deposits of public funds* has reference to the consols sent to the Bank for registry under the head "Deposits in coin or public funds." *Voluntary deposits* appear in the assets for their declared value. This item is offset in the liabilities by "Depositors." The same applies to *Holdings of the Savings and Pension Fund*, for which the Bank of Belgium is the depository. *Divers accounts*, both in the assets and liabilities, include specially unimportant items.

Besides the weekly statements, the Administrative Council issues half-yearly balances on June 30th and December 31st, which are submitted to the Censors' Council. At the February meeting, the shareholders receive a communication of the statement of transactions for the year, and also the report of the censors concerning their control of the institution.

## CONCLUSION.

The National Bank of Belgium, under its organization, vouchsafes to the State extraordinary services. No other bank in the world assumes, gratuitously, equal responsibilities, or surrenders to the Government so large a portion of the profits. It has been very appositely described as an "acting State bank"; but it is a State agent of a peculiar kind, since it pays for the opportunity to perform duties. The too close union of the Bank and the State is a danger *a priori*. Attention has been called to the trouble provoked in 1870, when the balance of the Treasury account was most inopportunistly withdrawn. On the other hand, it may well be considered whether Belgium, though a neutral nation, could, in the event of invasion by either warring Power, have enforced her neutrality. Would she not have been constrained to side with one or the other? In that event, would not the Power discriminated against have deemed itself justified in levying upon the public funds in the occupied territory? It is extremely doubtful whether the Bank, which is practically a fief of the State, would

have been entitled to protection by the *droit des gens*. In 1870, the branches of the Bank of France were able to prove that they were attached to a private establishment, and accordingly the Germans showed full respect for their property. The Bank of Belgium, of course, belongs to shareholders; but it is the State depository, and on that ground the enemy might stop its operations and even seize its resources, awaiting the restoration of peace before giving an accounting. To conclude: Though, favored by exceptional national conditions, the Bank prospers despite the State's exactions, it certainly pays for the privilege much more than it is worth and brings in. The Bank of Belgium is the truest type of State-harassed institutions.

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## PART V.

### BANKING IN SWITZERLAND.

#### BANKS OF ISSUE.

#### THEIR RECENT ORIGIN.

THE history of Swiss banks of issue is a short one. Before 1834 none were in existence. The difficulty of communication between place and place and the slight development of commerce had not permitted broader credit facilities other than those afforded by the numerous private banks, which had important establishments, principally at Geneva and Basle, which fairly satisfied all needs. The advent of the railroads, however, changed the economic conditions; and Switzerland felt the necessity of large and united capital and a freer circulation of its credit representatives, and banks of issue were the outcome.

The first establishment of the kind was the Cantonal Bank of Berne. Its establishment was soon followed by the Bank of St. Gall and the Bank of Zurich. The years from 1840 to 1850 saw the birth of five new banks, and their number continued to increase from 1850 to 1860. The by-laws of all these banks were, as a rule, submitted to the approval of the State Council; and they therefore present a close resemblance in the nature of their transactions. The founders of the banks were manifestly largely guided by the statutes of the Bank of France. Sometimes the capital is entirely furnished by shareholders; in some cases partially by shareholders and partly by the canton where the bank has its main office. The range of transactions is strictly prescribed by law; it takes in, as a rule, the discounting of bills of exchange and commercial paper on Switzerland and other countries; collections of such documents for account of individuals or establishments; the opening of accounts without interest and the payment of cheques and drafts against credits; and finally the issue of bank notes.

The volume of notes was primarily limited to a multiple of the capital and sometimes to a multiple of the metallic stock on hand. The administrative organization varied. At first, the issue of paper money was of but slight importance; the people had to become educated to its appreciation, as the Swiss were rather ignorant in the matter of credit instruments. The general diffusion of the bank note dates from 1864, when a syndicate of French capitalists established the Eidgenossische Bank.

#### THE FEDERAL BANK.

The Eidgenossische Bank established nine branches in the principal Swiss cities, and the public became educated to value paper money as the sure equivalent of coin. In order to prevent the inconveniences which might arise in the use of bank notes in other cantons than those in which they were issued, and to avoid exchange charges,

the Eidgenössische Bank made an arrangement with the Banks of Basle, Zurich, and St. Gall by which they would mutually accept each other's paper money. The Cantonal Bank of Berne and the Bank of Commerce of Geneva joined in this agreement and the smaller banks soon followed; and thus the general circulation of the paper medium was greatly helped.

## DISTURBANCE FROM THE FRANCO-GERMAN WAR.

Matters thus ran smoothly until the Franco-German War of 1870 threw Switzerland into serious embarrassments. France had declared an extension of maturities for commercial paper, and Switzerland consequently could not collect its holdings of commercial bills on France. Ordinarily, Switzerland obtained the hard money of which she stood in need by these collections. The closing of this channel of supply brought about a general crisis. Everybody knew that Switzerland depended absolutely upon France for its supply of coin, and the banks' clients, who feared a forced circulation of the paper issue, rushed upon the banks for redemption of their notes in coin. The bank's strongest interest lay in the protection of their metallic reserve, and therefore they cut down discounts and loans. As a natural consequence, credit facilities were wanting, and the whole country—eastern Switzerland especially—suffered cruelly. The memory of these times is still painfully fresh in the minds of the Swiss people.

This crisis aroused the Swiss Federal Council. The Government looked for the causes, and, not without reason, saw them in a bad system of issue and circulation, and in the insufficiency of guaranty which certain banks offered. In order to effect an improvement in the system of issue, the Federal Council asked the Legislature for a constitutional act which should define the general principles to which the banks should be subject. Thereupon, the Legislature passed a general resolution to this effect: "The Federation shall establish by legislation general rules relating to the issue and circulation of bank notes. The Federal Council will not seek a remedy in extreme measures, as, for instance, by a monopoly of the right of issue at the hands of the Federal authorities."

The resolution allowed that it would be sufficient to establish general obligatory rules for the issue and circulation of bank notes. That much was done to satisfy the clamorings of the opponents of the liberty that had been enjoyed by the banks. Upon this decision, the Federal Council, in a message of June 16, 1874, proposed to the Legislature a law on the issue and redemption of bank notes. "Long ago," said the message, "and notably in the crisis of 1870, it became evident that the bank note circulation in Switzerland, as conducted between the various independent institutions which are established in the different cantons, according to district legislation or by special ordinances, and which at times are unrestricted by regulations, is absolutely at fault and lacks the elements of safety." After demonstrating that the Federal constitution gives the Federation absolute authority in legislative matters; that the constitution prohibits a monopoly of the right to issue and of making bank notes legal tender, the message declares that the Federal Council desires such an improvement of the paper currency system as will make it strong enough to cope with critical conditions. In fact, there ought to be a means to instil into the people's mind a

sentiment that paper money was as good as any amount of coin which it represented. To accomplish this, the Federal Council proposed to build up a reserve fund which should meet the requirements of a guaranty, and which would suffice, at any time, to ensure the ready exchange of paper against coin, and which would bring about a uniform parity of bank notes. Further, statements of the banks' accounts were called for; their transactions were to be confined to discounts, collections of commercial paper, current accounts with interest or without, and secure deposits of securities and the precious metals. If the banks desired to undertake other transactions, they had to set aside, out of their capital, a separate guaranty fund for discount or the issue of notes, and keep separate books for such special business. After a lapse of ten years, banks doing a miscellaneous business should either confine themselves to transactions consisting of bank note issue and other authorized operations, or abandon the issuing of notes. The banks should be held to exchange each other's notes free of charge.

## ENACTMENT OF THE NEW BASIS.

This plan became a law, with some amendments, on September 18, 1875. The rule of mutual acceptance of the various banks' paper money was established by an arrangement which was entered into on July 8, 1876, and which is known as the "Concordat." By the terms of this compact, each bank engaged itself to accept notes of fifty francs and under, issued by banks in the agreement, from all who presented such at their main offices, and to redeem them in coin without cost. If a bank had not the ready resources for the redemption of the notes, it had to give a receipt and cash them free of charge within three days. The banks engaged to undertake, free of commission, and only against reimbursement of actual expenses, the mutual collection of their commercial paper wherever they had offices. They could also draw upon each other at three days; no charge was made for such accommodation.

## BANK CLEARINGS AT ZURICH.

The Bank of Zurich took upon itself to direct and supervise a Central Bureau at which each bank should have an account, and where the clearing of reciprocal credits should be effected. Settlements of accounts were to be made in the following manner: Bank notes received or cashed by one bank for account of another were sent to the bank which issued them, after previous advice by letter or telegram. If the bank which had made the disbursement so desired, it could cover itself for such remittance by drawing upon the Central Bureau, where all banks had to maintain a credit account current. The bank could also demand that such settlements be made in coin. When one bank received another's scrip for redemption, notice was wired to the indebted bank, which had to remit immediately an equivalent amount of coin to the bank in credit. The Central Bureau settled the accounts of the banks by transfers amongst each other. In addition, the Central Bureau had charge of the consolidation and publication of the balancesheets of the banks included in the concordat.

## NOTE ISSUES UNDER THE LAW OF MARCH, 1881.

Although the law of 1874 was an improvement upon the former state of affairs, yet it did not give the holders of paper money all the guarantees they desired.

Complaints were made that the capital of many of the banks was too limited; that there were no adequate legislative ordinances as to their transactions; that the guaranty of the paper issues was insufficient, and that there was no precise legislation relating to the amount of issue of each bank, nor any stipulation as to the denominations of bank notes; in short, that there was no serious Government control whatever. Another complaint was that the paper money was inadequate, both in quantity and quality. The bad condition of the circulation arose from the diversity of the banks' origin, from the differences in the constitution of the banks of issue, and from the limited field which each of them controlled. Moreover, the quantity in circulation did not meet the needs of Switzerland's manufacturing and mercantile interests.

The law of March 8, 1881, was brought out as a remedy against these defects in the law of 1874. Thenceforth the following regulations were recognized in the control of the banks:

The Federal Council had the right to authorize the issue of bank notes. Such authority cannot be withheld if it is shown that the banks have filled the conditions which the law prescribes. The Federation assumes no guaranty for the notes of the banks of issue. Each bank is responsible only for its own paper. No one is obliged to receive bank notes in payment. The authority to issue bank notes gives the banks no right to indemnity in case of the cancellation of such authority either in whole or in part, or in case of restriction of the issue by Federal decree. The banks which may be authorized to issue scrip must be domiciled in Switzerland; and their firm name must be distinctly acknowledged by the Federal Council. They must be legally constituted as cantonal establishments or stock companies, and must publish regular statements of their transactions. Their capital must not be less than 500,000 francs, fully paid in, and the whole of it must serve in full as a guaranty of their transactions. Each bank shall accept the others' notes in payment, at par. The amount of the issue of a bank cannot exceed twice the sum of its paid-up available capital. The Federal Assembly has the right to regulate, at any time and as circumstances may demand, the amount of the total issue of Switzerland, and to fix according to that aggregate, the portion accruing to each bank. Forty per cent. of the current circulation of a bank must always be covered by a metallic reserve, which has to be kept separate and independently from other coin on hand; a distinct account must be kept for this item. This coin guaranty is exclusively devoted to the redemption of the paper money, and cannot be used for other transactions of the banks. It is a special surety fund for the holders of bank notes. This guaranty consists of gold and silver coins which are legal tender in Switzerland; fractional coins are not admissible for this purpose; but gold coins which are legal tender in foreign countries, and for which a rate is legally established in Switzerland, are allowed. The remaining sixty per cent. of the note issues must be covered either by a deposit of securities or by the guaranty of the canton in whose territory the main office of the bank is established. The guaranty may also be supplied



by commercial paper. The securities must be deposited in trust, and the canton in which the bank is located guarantees for their safe deposit; the guaranty securities may also consist of Federal, cantonal, or foreign listed bonds. Commercial paper intended for guaranty of bank note circulation must consist of bills of exchange of a maximum maturity of four months, and be signed by two solvent parties, one of whom must be a resident of Switzerland. Collateral having one signature may be accepted if sufficient in amount. Bank notes of other banks of issue, cheques, and Treasury vouchers and Government vouchers running no longer than four months, also coupons of Government bonds, may form part of the guaranty funds.

Banks of issue are forbidden to give open credit; to speculate for their own account, or to guarantee for others speculation in stocks or merchandise; they cannot buy buildings except such as are intended for their own accommodation. They must do no insurance business; they must not undertake the negotiation of loans other than State, cantonal, or municipal, and they must not be interested in houses who do a loan business, from which the banks are debarred. The bank notes are supplied by the Federal Government at the expense of the banks. Each bank is bound to redeem its notes on demand at par in legal-tender coin, when presented at the central office or within two days at the branches. The bank at whose counter notes of other banks are presented must lend its free service for their redemption within three days from the day of presentation. No allowance or indemnity is made for lost or destroyed bank notes. If bank notes are not redeemed within the legal period of grace they are protested, and such protest is published by order of the Federal Council. The holder of such protested bank note can demand that the delinquent bank be declared bankrupt. Banks which do not meet the conditions of the law forfeit their right of issue. The Federal Council supervises the banks, and has them inspected whenever it deems proper, but not less frequently than once a year. The banks must pay the Federation a control tax of one per cent. on the amount of their issue. The cantons can charge no higher tax than six per cent. on the circulation of the banks whose main office is located in their territory. If a bank maintains branches in several cantons, the share of the taxable issue for which the bank is liable to each canton is calculated *pro rata* of the circulation of the branch compared to the bank's total circulation. The Department of Finance exercises the Federal control over the banks. The head of the control has the title of Inspector of Banks of Issue.

Such is the régime which rules at present the legally authorized banks of issue of Switzerland. The statistics which they publish, aside from their regular statements, are rather incomplete. They show only balances and omit the movement of transactions. We give on following pages the figures as reported to the Bank Inspectorate.

*Consolidated Balance-sheet of the Thirty-four Swiss Banks of Issue on December 31, 1894.*

ASSETS.			LIABILITIES.		
<i>I.—Cash.</i>	FRANCS.	FRANCS.	<i>I.—Bank Note Issue.</i>	FRANCS.	FRANCS.
Metallic reserve for notes	73,080,000		Open circulation	175,322,400	
	00			00	
Legal-tender coin on hand	21,264,645		Bank notes of own issue and other banks on hand	7,577,600	182,900,000
	73			00—	00
Legal metallic reserve	94,344,645				
	73				
Notes of own issue	2,378,850	[oc]	<i>II.—Short-term Engagements (Payable Within Eight Days).</i>		
	00				
Notes of other banks	5,198,750	[oc]			
	00				
Miscellaneous ready cash	1,512,600	103,434,846			
	38—	11			
			Cash, deposit certificates, and other short engagements	5,240,851	
				11	
<i>II.—Short-term Credits</i>			Transfer and cheque accounts	20,345,081	
				95	
To be turned into cash within eight days	1,918,965		Credits of banks of issue	5,918,529	
	85			31	
Cheques, certificates, local paper, and other short credits	6,358,267		Credits of correspondents	11,730,692	
	89			29	
Debts from correspondents	28,115,300		Credits on current accounts	91,141,557	
	06			19	
Current accounts with branches	37,358,775	73,751,309	Savings-bank deposits	72,076,976	
	72—	52		71	
			Current accounts of the bank and branches	34,880,664	
<i>III.—Commercial Paper and Loans.</i>				77	
			Interest and dividends due but not collected		1,606,799
					61
Swiss commercial paper	155,127,242		Miscellaneous—shares in profits, etc., to be paid	231,592	243,202,744
	77			05—	99
Foreign commercial paper	17,337,396				
	16				

Loans on collateral	42,139,062 15			
Paper with one signature, unsecured	2,388,980 00	[oc]		<i>III.—Engagements on Signed Paper.</i>
Merchandise, warehouse warrants, and pledges	704,393 90			
Commercial paper in course of collection	4,892,745 32—	222,589,820 30	Due bills to mature at fixed time	2,675,261 65
			Drafts and acceptances	12,173,735 45— 14,848,997 10
<i>IV.—Other Credits (Collectible in Eight Days).</i>				
Due from Swiss banks of issue	822,130 15		<i>IV.—Other Time Engagements (to Run More than Eight Days).</i>	
Current accounts on collateral	100,735,925 94	[oc]		
Current accounts with open debits (including bank deposits)	9,647,240 80			
Credits guaranteed, but not by notes	94,614,066 22		Credits of Swiss banks of issue	478,736 29
			Credits of current accounts	29,349,308 78
Open credits without notes or guaranty (including loans to municipalities and corporations)	1,325,742 86		Savings-bank deposits	139,894,693 89
Mortgages	390,284,221 02		Time certificates and deposits due in the next year	133,788,156 41
		604,212,568 99		Time certificates and deposits not maturing next year
Margin loans	6,763,242 00—			229,559,126 36

<i>V.—Open Investments.</i>			Mortgage debts	565,653 50	
Shares	7,286,744 10		Standing loans	5,261,000 00	
Bonds	119,332,609 91		Miscellaneous	28,533 10—	538,925,208 33
Public securities	126,619,354 01		<i>V.—Order Accounts.</i>		
Real estate not for use of bank	2,734,828 11		Reserve for losses	1,572,323 48	
Settlements and balances due	1,704,532 49—	131,058,714 61	Rediscount of assets items	1,273,714 69	
<i>VI.—Loans on Collateral.</i>			Interest share of liabilities items		5,186,511 57
Loans on public securities	10,799,416 80		Net profits to be distributed for the year 1892	6,937,429 12—	14,969,978 86
Loans on real estate	1,419,600 00—	12,219,016 80			
<i>VII.—Regular Investments.</i>			<i>VI.—Funds Owned.</i>		
Branches and participation in various enterprises	4,446,944 20				
Buildings used by bank	4,401,704 75		Paid-in capital	147,400,000 00	
Furniture used by bank	150,755 45—	8,999,404 40	Supplementary reserve	2,035,383 03	
<i>VIII.—Order Accounts</i>			Capital sinking fund	361,718 40	
Interest on assets and rediscount of liabilities	12,434,062 18		Carried forward, balance of profits for 1894	333,713 97—	175,098,591 63
Interest on stock capital	1,243,871 10				
Difference in market price of bonds, cost of	1,906 90—	13,679,840 18			

Regular reserve

printing notes,  
etc., carried  
forward

<i>Capital not paid</i>	11,550,000 00	<i>VII.—Capital not paid</i>	11,550,000 00
<i>in</i>		<i>in</i>	
	1,881,495,520		1,181,495,520
	91		91

*Yearly Averages of Monthly General Balance-sheets, of All Banks of Issue, from 1889 until 1894, Inclusive.* (In 1889, 34 banks; 1890, 35 banks; 1891, 36 banks; 1892, 34 banks; 1893, 35 banks; 1894, 34 banks.)

ASSETS.

	1894.	1893.	1892.	1891.	1890.	1889.
<i>Cash.</i>						
	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.
Legal reserve against notes	69,024,890	64,298,657	65,947,277	66,464,167	61,833,950	58,708,387
Coin on hand	23,610,289	25,190,191	22,890,646	19,052,708	19,480,244	17,880,222
Notes of the bank's own issue	8,148,871	8,039,429	11,987,017	16,118,821	7,517,233	6,852,479
Notes of other banks	11,328,037	11,942,458	12,539,650	14,560,817	10,746,370	10,639,662
Miscellaneous ready cash	1,551,434	1,618,420	1,775,231	1,390,234	1,762,088	1,843,476
<i>Short-term Credits.</i>	113,663,521	111,089,155	115,139,821	117,586,747	101,339,885	95,924,226
Clearings of banks of issue and branches	2,123,840	3,219,923	3,386,832	2,979,621	2,677,507	2,698,687
Debts of correspondents	29,487,266	24,718,036	25,009,261	24,686,181	22,846,991	23,653,017
Miscellaneous	2,256,264	2,313,089	2,311,024	2,401,228	1,985,475	2,062,421
<i>Bills Receivable.</i>	33,867,370	30,251,048	30,707,117	30,067,030	27,509,973	28,414,125
Swiss commercial paper discounted (including paper out for collection)	150,333,289	150,700,399	141,789,788	149,548,761	141,171,024	143,350,386
Foreign commercial paper	19,188,998	22,850,565	16,913,887	14,667,101	17,366,503	21,957,999
Loans on collateral, warehouse warrants, etc.	42,796,569	42,737,394	47,759,408	48,669,324	44,197,085	43,327,158
<i>Credits on Time.</i>	212,318,856	216,288,358	206,463,083	212,885,186	202,734,612	208,635,543
Current account debtors	112,771,710	105,570,430	96,666,341	93,648,110	91,530,649	82,489,731

Open accounts						
not secured by	91,931,622	85,056,454	81,660,938	81,162,337	74,014,986	67,593,151
acceptances						
Mortgages	377,315,276	346,859,195	315,991,449	297,672,476	279,315,947	270,414,818
Government securities	136,513,508	137,151,080	122,595,758	119,267,689	116,240,174	112,359,255
Miscellaneous settlements and balances	2,666,330	3,603,690	2,589,097	1,887,508	2,255,775	1,719,859
<i>Running Investments and Accounts.</i>						
Real estate and furniture	8,196,351	8,595,950	8,601,939	8,855,066	8,886,453	9,287,786
Branches and interest in various enterprises	3,876,690	3,732,369	4,141,270	4,898,282	4,239,682	1,963,141
Running accounts (to be charged)						
	12,073,041	12,328,319	12,743,209	13,753,348	13,126,135	11,250,927
Capital not paid in	11,550,000	11,550,000	11,550,000	11,516,579	12,098,714	13,418,333
Total	1,104,671,234	1,059,747,729	996,106,813	979,447,010	920,166,850	892,219,968

*Yearly Averages of Monthly General Balance-sheets, of All Banks of Issue, from 1889 until 1894, Inclusive. (In 1889, 34 banks, 1890, 35 banks; 1891, 36 banks; 1892, 34 banks; 1893, 35 banks; 1894, 34 banks.)*

LIABILITIES.	1894.	1893.	1892.	1891.	1890.	1889.
<i>Note</i>						
<i>Circulation.</i>						
	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.
Notes in circulation	161,234,188	156,843,613	152,328,542	151,599,600	143,838,505	136,131,305
Notes of own and other banks	19,476,908	19,981,887	24,526,667	30,679,638	18,263,603	17,492,141
<i>Short-term Engagements.</i>						
Cheques and transfers	19,819,674	19,742,136	19,844,196	22,278,741	21,353,230	21,500,460
Certificates and short-term deposits	5,457,949	4,473,031	3,691,760	3,322,798	3,994,005	4,631,912
Due to correspondents	7,031,284	8,007,136	5,444,467	9,028,517	8,217,505	6,817,523
Credits of current accounts	82,933,770	75,266,072	69,048,577	66,395,867	66,604,472	71,877,471
Miscellaneous Clearings of banks and branches	363,689	434,147	487,286	472,883	526,166	621,731
<i>Engagements on Bills of Exchange.</i>						
Drafts to order	2,541,800	1,699,312	2,320,794	4,465,482	2,290,408	2,125,496
Drafts and acceptances	12,298,277	12,547,728	10,237,970	11,899,837	9,881,720	9,613,333
<i>Other Time Engagements.</i>						
Credits on open account	33,044,303	32,208,880	30,044,903	29,858,516	25,708,143	23,821,379
Savings-bank credits	203,213,829	184,413,605	169,631,132	163,450,368	156,635,848	154,693,264
Demand deposits	358,576,825	343,559,753	321,315,618	301,120,494	284,673,408	270,551,088
Standing loans	5,551,107	5,912,333	5,671,333	5,737,667	7,131,709	8,949,792
Miscellaneous	698,749	763,685	783,550	898,534	861,202	853,772



<i>Order</i>						
<i>Accounts,</i>	601,084,813	566,858,256	527,446,536	501,065,579	475,010,310	458,869,295
<i>Capital, and</i>						
<i>Reserve.</i>						
Order						
accounts (to be	2,165,168	2,110,462	1,981,204	2,827,238	3,522,866	1,800,303
balanced at						
end of year)						
Ordinary and						
extraordinary	26,417,881	26,058,949	25,598,814	25,260,830	25,805,726	24,588,998
reserve						
	152,295,833	154,175,000	141,600,000	138,633,421	128,759,620	122,731,667
	180,878,882	182,344,411	169,180,018	166,721,489	158,088,212	149,120,968
Capital not	11,550,000	11,550,000	11,550,000	11,516,579	12,098,714	13,418,333
paid in						
Total	1,104,671,234	1,059,747,729	996,106,813	979,447,010	920,166,850	892,219,968

*Consolidated Profit and Loss Account of All Swiss Banks of Issue, from 1887 to 1894.\** (In 1887, 1888, 1889, 34 banks; 1890, 35 banks; 1891, 36 banks; 1892, 34 banks; 1893, 35 banks; 1894, 34 banks.)

DEBIT—EXPENSES.

	1894.	1893.	1892.	1891.	1890.	1889.	1888.	1887.
<i>Business Expenses.</i>	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.
Fees to the administration	150,313	145,574	140,182	137,422	134,413	129,818	125,935	314,255
Employees' salaries and gratuities	2,094,349	2,107,535	2,015,731	1,960,404	2,045,860	2,000,039	1,993,150	1,758,331
Rent and maintenance of banks and branches	282,088	305,675	304,986	282,448	271,795	249,083	244,412	252,720
Office expenses (printing, advertisements, furniture, etc.)	254,520	246,166	233,846	238,891	205,544	205,247	182,831	208,366
Postage, telegrams, and general expenses	267,597	365,606	336,355	452,586	300,731	315,968	299,321	250,922
Printing of notes	32,234	39,666	52,498	56,104	76,372	12,074	21,230	9,744
Miscellaneous Taxes.	87,225	68,336	97,346	95,192	71,212	58,160	57,465	57,582
	3,168,326	3,278,558	3,180,944	3,223,047	3,105,927	2,970,389	2,924,344	2,851,921
Federal note tax	180,120	176,685	177,239	181,522	161,342	153,795	150,320	141,850
Cantonal note tax	865,497	840,619	839,927	870,344	774,512	722,656	704,247	670,533
Miscellaneous cantonal taxes	129,760	124,488	123,718	127,626	95,090	74,127	73,069	60,704
Municipal taxes	63,702	65,159	63,444	62,199	55,923	50,684	46,414	45,387
<i>Debits to Various Items.</i>	1,239,079	1,206,951	1,204,328	1,241,691	1,086,867	1,001,262	974,050	918,474
Cheques, banks and correspondents	687,963	662,062	717,591	597,279	455,244	412,852	394,642	379,521

\* The data for 1887, 1888, 1889, 1890, 1891, 1892, 1893, and 1894 have been made up by the Bank Inspectorate from the profit and loss accounts published by each individual bank in the "Feuille Officielle Suisse du Commerce."

Current account creditors	2,860,510	2,764,264	2,581,371	2,715,669	2,685,068	2,581,068	2,323,537	2,290,080
Savings-bank deposits	7,125,100	6,643,799	5,695,019	5,414,341	5,306,846	5,246,970	5,030,402	4,947,710
Drafts and short-term deposits	173,042	95,318	183,180	263,429	151,709	119,055	180,238	124,064
Engagements and time certificates	12,873,437	12,789,097	11,965,186	11,251,489	10,696,484	10,514,477	10,453,912	10,737,710
Miscellaneous	244,296	29,495	43,342	74,457	119,968	70,935	85,538	111,480
<i>Losses and Sinking Fund.</i>	23,964,354	22,984,035	21,185,689	20,316,664	19,415,319	18,945,357	18,468,269	18,590,610
On Swiss discounts	126,174	74,364	157,109	554,567	84,300	190,150	248,450	205,132
On Bourse credits	496,692	105,871	137,178	144,922	24,577	51,396	80,936	68,361
On debits of current accounts and correspondents	508,193	241,169	717,602	202,771	570,861	130,083	169,165	225,544
On mortgages and engagements not secured	44,208	67,526	104,741	425,568	56,251	74,752	37,153	77,593
On Government securities, comprising the lowest standard	749,868	1,528,690	777,509	1,412,284	417,684	254,219	101,613	102,560
On real estate of the bank	235,194	261,775	98,289	145,649	256,716	320,864	221,975	133,368
On miscellaneous and doubtful accounts	362,973	739,704	115,340	592,298	235,140	93,338	44,346	61,270
<i>Other Charges.</i>	2,523,302	3,019,099	2,107,768	3,478,059	1,645,529	1,114,802	903,638	873,828
Charitable contributions	550	1,700	425	10,905	2,568	1,300	600	200
<i>Net Profits.</i>								
Brought forward from	271,830	322,746	237,898	354,349	333,974	291,806	254,182	221,408

\* The data for 1887, 1888, 1889, 1890, 1891, 1892, 1893, and 1894 have been made up by the Bank Inspectorate from the profit and loss accounts published by each individual bank in the “Feuille Officielle Suisse du Commerce.”

profits of last  
year

Net profit of 1894	9,446,512	8,223,647	7,695,651	7,287,757	9,709,433	8,613,479	8,203,586	7,446,911
	9,718,342	8,546,393	7,933,549	7,642,106	10,133,407	8,905,285	8,457,768	7,668,321
	40,613,953	39,036,736	35,612,703	35,912,472	35,389,617	32,938,395	31,728,669	30,903,311

\* The data for 1887, 1888, 1889, 1890, 1891, 1892, 1893, and 1894 have been made up by the Bank  
Inspectorate from the profit and loss accounts published by each individual bank in the “Feuille Officielle  
Suisse du Commerce.”

CREDIT—EARNINGS.

	1894.	1893.	1892.	1891.	1890.	1889.	1888.	1887.
<i>Earnings on Commercial Paper and Loans.</i>	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.
Swiss commercial paper	4,631,339	4,917,760	4,880,526	6,135,056	5,729,211	5,543,974	4,900,657	4,954,36
Foreign commercial paper	1,083,185	1,093,964	555,073	655,283	877,208	1,016,558	1,373,401	1,518,04
Loans on collateral	1,469,813	1,588,761	1,832,344	2,102,625	1,871,441	1,798,342	1,479,496	1,368,97
Other credits on bills of exchange and paper out for collection	134,042	85,436	83,257	95,377	78,053	103,996	89,315	94,434
<i>Credits and Commissions Due.</i>	7,318,379	7,685,921	7,351,200	8,988,341	8,555,913	8,462,870	7,842,869	7,935,82
From banks and correspondents	951,341	1,000,100	1,082,288	815,973	820,458	742,029	761,345	803,620
From accounts current	4,297,303	4,195,980	3,874,012	3,787,978	3,532,625	3,280,598	2,937,026	2,952,88
From current commissions	235,725	255,435	212,725	187,366	205,862	198,927	154,681	156,023
From open accounts, not secured by paper	3,914,232	3,710,194	3,420,395	3,414,251	3,157,226	2,863,068	2,643,260	2,570,07
From mortgages	15,194,296	14,327,787	12,685,720	11,929,277	11,322,741	11,019,893	10,815,455	10,688,0
Interest and profits on Government securities	6,823,604	6,141,714	5,616,169	4,875,410	5,172,749	4,697,386	4,786,123	4,193,85
Miscellaneous credits	353,528	257,274	238,807	424,247	302,519	356,547	454,012	353,433
Commission on purchases and sales of public funds	135,061	88,353	94,013	130,038	270,644	177,307	92,573	123,411

<i>Profits on Real Estate.</i>	31,905,090	29,976,837	27,224,129	25,564,540	24,784,824	23,335,755	22,644,475	21,841,3
From the bank building	212,975	220,013	208,925	204,353	194,920	192,031	187,010	180,460
From other real estate	147,541	143,586	127,924	197,573	203,716	273,561	276,430	261,912
<i>Various Profits.</i>	360,516	363,599	336,849	401,926	398,636	465,592	463,440	442,372
Safe deposit charges	146,761	141,695	151,996	144,106	166,066	155,416	163,161	127,933
Miscellaneous charges	57,688	118,707	58,632	52,879	44,061	28,634	61,187	11,896
Premium on coin, etc.	99,780	88,120	48,628	78,013	75,691	68,349	68,276	58,906
Profits of investments, etc.	189,594	197,507	63,445	155,982	214,903	22,978	79,843	152,788
Miscellaneous	51,296	6,452	79,870	114,197	50,126	50,728	39,076	52,589
	545,119	552,481	402,571	545,177	550,847	326,105	411,543	404,112
<i>From sinking fund</i>	213,019	135,152	60,056	58,139	101,423	56,267	112,160	58,357
<i>Balance of last year's profit</i>	271,830	322,746	237,898	354,349	333,974	291,806	254,182	221,408
<i>Assessment on the reserve</i>					664,000			
	40,613,953	39,036,736	35,612,703	35,912,472	35,389,617	32,938,395	31,728,069	30,903,3

*Results of Operations of Thirty-four Swiss Banks of Issue in 1894.* (Tabulated by the Inspectorate)

TITLES OF THE BANKS.	FUNDS OWNED AT THE END OF 1893.			Capital Entitled to Profits in 1894.	Gross Profits.	Net Profits.	Per Cent.	Dividend Per Cent.
	Capital Stock.	Reserves.	Profits Carried Forward.					
	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.	FRANCS.
St. Gallische Kantonalbank, St. Gallen	6,000,000	1,535,268	3,962	6,000,000	539,305	320,401	5,340	4,167
Basellandschaftl. Kantonalbank, Liestal	3,000,000	1,090,538	441	3,000,000	232,246	172,088	5,736	4,000
Kantonalbank von Bern, Bern	10,000,000	481,866		10,000,000	1,179,784	643,678	6,437	5,744
Banca cantonale ticinese, Bellinzona	2,000,000	20,000	3,017	2,000,000	458,241	61,793	3,090	3,000
Bank in St. Gallen, St. Gallen	6,750,000	1,800,000	7,969	6,750,000	521,000	365,422	5,414	5,400
Crédit agr. et ind. de la Broye, Estavayer	700,000	140,000	13,843	700,000	89,031	48,239	6,891	5,500
Thurgauische Kantonalbank, Weinfelden	3,000,000	900,600	11,149	3,000,000	378,443	225,293	7,510	3,725
Aargauische Bank, Aarau	6,000,000	600,000	41,038	6,000,000	642,485	468,304	7,805	7,600
Toggenburger Bank, Lichtensteig	3,000,000	466,847	4,249	3,000,000	417,090	170,468	5,682	4,500
Banca della Svizzera italiana, Lugano	1,000,000	300,000	5,280	1,000,000	268,724	58,272	5,827	6,000
Thurg Hypothekenbank, Frauenfeld	5,500,000	1,540,000	6,122	5,500,000	538,548	407,270	7,405	7,000
Graubündner Kantonalbank, Chur.	2,000,000	1,343,545		2,000,000	365,568	223,741	11,187	7,500
Luzerner Kantonalbank, Luzern	2,000,000	1,093,000		2,000,000	558,044	432,498	21,625	18,025

Banque du Commerce, Genève	12,000,000	505,000	9,251	12,000,000	709,732	466,406	3,887	3,800
Appenzell A. Rh. Kantonalbank, Herisau	2,000,000	262,246		2,000,000	204,933	154,101	7,705	6,567
Bank in Basel, Basel	12,000,000	1,000,000	4,824	12,000,000	827,759	565,603	4,713	4,667
Bank in Luzern, Luzern	4,000,000	300,000	2,266	4,000,000	413,845	262,335	6,558	6,000
Banque de Genève, Genève	2,500,000	597,043	4,413	2,500,000	263,275	163,154	6,526	5,000
Zürcher Kantonalbank, Zürich	12,000,000	4,820,712	133,384	12,000,000	1,503,092	808,432	6,737	3,932
Bank in Schaffhausen, Schaffhausen	2,500,000	403,468	5,430	2,500,000	324,006	146,313	5,853	6,000
Banque cantonale fribourgeoise, Fribourg	2,400,000	240,000	2,281	2,400,000	239,177	133,106	5,546	5,000
Banque cantonale vaudoise, Lausanne	12,000,000	3,300,000		12,000,000	2,331,123	790,456	6,587	5,000
Ersparniskasse des Kantons Uri, Altdorf	500,000	224,550		636,300	103,305	78,031	12,263	10,523
Kant. Spar & Leihkasse von Nidw., Stans	500,000	52,074		500,000	55,673	46,175	9,235	6,868
Banque cantonale neuchâteloise, Neuchâtel	4,000,000	55,000	6,990	4,000,000	429,313	255,131	6,378	5,160
Banque commer. neuchâteloise, Neuchâtel	4,000,000	1,200,000	301	4,000,000	298,733	197,903	4,947	4,800
Schaffhauser Kantonalbank, Schaffhausen	1,000,000	192,403		1,000,000	138,272	91,042	9,104	8,335
Glarner Kantonalbank, Glarus	1,000,000	500,000		1,000,000	151,971	65,125	6,513	6,513



Solothurner Kantonalbank, Solothurn	5,000,000	584,855	2,075	5,000,000	496,879	357,565	7,151	4,468
Obwaldner Kantonalbank, Sarnen	500,000	132,247		500,000	65,228	52,929	10,586	7,543
Kantonalbank Schwyz, Schwyz	1,000,000	100,000	1,693	1,000,000	130,308	86,340	8,634	6,000
Credito ticinese, Locarno	1,500,000		436	1,500,000	245,838	30,583	2,039	2,000
Banque de l'Etat de Fribourg, Fribourg	15,000,000	311,456		15,000,000	1,150,316	871,697	5,811	5,349
Zuger Kantonalbank, Zug	800,000	5,000	1,406	800,000	97,950	47,791	5,974	5,400
					147,286,300	16,369,255	9,267,704	6,293
1893—35 banks	157,150,000	26,578,317	298,417	152,400,000	15,721,273	8,098,546	5,314	5,023

## GRAVE DISCONTENT WITH THE LAW OF 1881.

The law, as analyzed above, did not stop the complaints about the banks. The Bank Inspector has again and again called attention to the dangers of a too small metallic reserve in proportion to the circulation and other demand engagements. In his report of 1886 he says: "If we add to the amount of bank notes in circulation the short-term engagements, which might be estimated at 80,000,000 francs at least, we obtain a figure which does not inspire us with confidence in the solvency of the banks in case of crisis. To meet a debt of 200,000,000 francs payable on demand, we find only 15,000,000 francs of ready coin, and for hundred thousands of francs of liabilities but a few thousand francs cash could be found in several places. It is truly incomprehensible, we must say, that some banks jeopardize their own existence through neglect of taking into account the essential and unavoidable demands which a bank of issue must obey if it wants to work prudently and safely. Instead of this, they compromise themselves and, at the same time, the more prudent institutions. We do not doubt for a moment that, if misfortune should compel one or another bank to suspend payments, the consequences would be felt by the other banks, in a measure which might inspire anxiety even for the solvency of establishments which have the strongest cash resources."

In the course of 1887, the Société Suisse du Commerce et de l'Industrie published a detailed statement showing the necessity for reform of the bank note system, in which the banks were invited to make proposals for a revision of the law of March 8, 1881. After preparatory studies on the subject, a message was addressed by the Federal Council to the Federal Assembly on June 23, 1890, stating that the system of paper money, as then operated, was dangerous, and that far-reaching reforms were necessary. The principal defects, according to the Federal Council, lay in the general weakness of available metallic reserve, which could not cope with extraordinary

needs; also in the fact that the banks could not touch the obligatory coin reserve; in the continuous growth of short-term engagements running alongside of the circulation, and also in the lack of uniform measures to fix the rate of discount. The Federal Council was well aware that, even with a reform of the multiple bank system (*i. e.*, where several banks issued paper money), it would not be possible to bring about a fundamental readjustment and reach a definite result on the question of banks of issue. The Council leaned toward a policy of centralization, by creating a Swiss bank which would have a monopoly of note-issuing. But from fear of seeing its proposals rejected, on account of the attachment of the Swiss to the idea of “liberty” of banking, it confined itself to amending the law of 1881. The authority to issue paper money was not given any more as a right, and several new regulations concerning the guaranty fund for the redemption of bank notes were adopted.

## NOTE-ISSUING FINALLY RESTRICTED TO A NATIONAL BANK.

This plan was not discussed, but on September 24, 1890, the National Council adopted, by seventy votes against seven, the following proposition of National Councilor Keller of Fischenthal:

“The Federal Council is invited to bring in as quickly as possible a report, and to make propositions that the Federation should have the monopoly of issuing paper money. This monopoly could be intrusted to a central bank to be established.”

This motion met the views of the Federal Council very generally, and that body made the following statement, in a message of December 30, 1890:

“No law can prescribe to the banks that they should take measures to regulate the money market; that depends upon their management, their justness of appreciation, and their skill. Where the system of multiple banks of issue prevailed, it was not possible to ask establishments whose interests are at variance and partly running counter to each other to adopt uniform and effective measures to regulate the money market. We should not even expect that they could do this. One sole bank of issue which does a restricted line of business and has few engagements; a bank with simple management which can easily be controlled by anybody; a bank imbued with the sentiment of its own responsibility, can alone succeed in inspiring a degree of confidence which will enable it to live through crises and forced currency, as experience has proved. One exclusive bank of issue offers still another advantage which, although less weighty, is very important to commerce. Such a bank can gauge its issue in accordance with the needs of commerce, and will, therefore, be provided with the means to meet extraordinary necessities without being obliged to draw upon its metallic reserve, because people will not ask to have the paper reimbursed in metallic money. A strong paper circulation offers no dangers as long as it is strongly secured. With a plurality of banks, each of which must accept the others’ notes in payment, it is indispensable to confine the issue within fixed limits.”

As the question of a monopoly of issue was decided upon affirmatively in principle, it remained to determine whether it should be practised by a private bank, whose capital

should be supplied by shareholders, or whether the bank should be a strictly State institution. Considering that all the great centralized banks of Europe, with or without monopoly of issue—with the sole exception of the Imperial Bank of Russia—are private establishments, and that their credit can be kept independent of the State credit, while in a State bank both credits are joint interests; considering, further, that political interests which bear upon State banks may become fatal, and that in case of war a private bank would be protected by the principle of popular rights, which would not apply to a State bank, the Federal Council recommended that the monopoly should be conferred upon a private bank. The delegates of the Swiss Commercial and Industrial Union seconded the propositions of the Federal Council in a session of May 9, 1891, by a strong resolution, with the proviso that the monopoly of issue could be given only to a central private bank, which should be under Federal supervision, and that the cantons should receive an equitable share of the profits. Five months later, on October 18, 1891, a popular vote decided that “the right of issuing bank notes, or other circulating scrip, belonged exclusively to the Federation; that the Federation can exercise the monopoly of issue by means of a State bank, under special management, or to give a concession of the same; that the State, in the latter case, reserves the right to buy back the concession from such central bank, which would be established on shares; and that this bank should be managed with the concurrence and under the control of the Federation.”

The Finance Department, which set to work at the instance of the Federal Council to elaborate a law to put the above vote into execution, studied the subject thoroughly and collected a vast amount of pertinent material from various specialists on banking. Professor Dr. Hilty expressed himself upon the question of the responsibilities of banks in times of war—a question about which the Federal Council was particularly anxious. He stated: First, the movable property of a State bank proper can be seized. Ordinary deposits, which are the depositors’ property, are also considered prizes of war; but the bank must indemnify the depositor later, unless it can set up the plea of *force majeure*. Second, the enemy can collect and keep the matured outstanding debts of a State bank; but he cannot sell the unmatured outstanding debts, although he can enjoy the revenues therefrom. The enemy can use the State bank’s buildings as he may deem proper. Third, in the case of a national bank, the enemy can levy at most upon State property if he can discover it in the bank; for instance, he can demand the handing over of the State’s current account, or collect the dividends on bank stock belonging to the State. All other property of a national bank is exempt from seizure.

National Councilor Forrer gave his opinion on August 2, 1892, and concurred approximately in the conclusion of Professor Hilty. He said: “In principle, the property of a private bank will not be seized, while the invader would levy upon the property of a State bank. The victorious army would capture the coin and the paper money of the State bank, and the enemy would also seek to realize upon the commercial paper, cheques, and other personal outstanding debts as far as this could be done during the duration of the war. Neither are the assets of a private bank completely exempt from seizure in case of war. It is possible, even according to modern rights of war, that the enemy might empty the coffers of a private bank. In such case, the enemy would only give a voucher with a view to entitling the bank to put in a claim against the Power which, according to the final treaty of peace, would

have to bear the burden of indemnity. This possibility becomes a probability, even a certitude, in cases where the State has an interest in a private bank. First, the enemy will declare the State's share confiscated and will endeavor to liquidate it. If such share had been protected, the enemy could yet convert it into cash, even if he should not obtain possession of the original securities. Practically, matters would come to pass in the following manner: The invader would levy upon the bank for the amount which represents the bank's interest. And if the bank objected to a similar interpretation of the Prize Law, the enemy would show but small consideration for a bank in which the State was strongly interested; he would have only slight scruples in proceeding against it; he would seize all in sight and give vouchers therefor. Indeed, a State bank, pure and simple, or a private bank in which the State is largely interested, will be treated on the same level."

These opinions are of great weight, in the present actual condition of Europe, and must be seriously considered when the establishment of a new privileged bank, or the renewal of the privileges of old banks, comes into question.

From an economic standpoint, M. Max Wirth\* recommended the creation of a State bank. M. Schweizer, Inspector of Banks of Issue, elaborated a plan of a bank on shares. The Cantonal Bank of Vaud pronounced itself energetically against the State bank. It acted in the name of a certain number of banks which were styled "mixed banks," *i. e.*, whose capital was made up in part by the cantons and partly by stockholders. Dr. Escher, former president of the Cantonal Bank of Zurich, supported the State bank plan, and he was seconded by M. Keller, who had brought about the adoption of the principle of the monopoly of issue.

After a thorough study of all documents, the Federal Council reversed its former opinion and declared itself in favor of a State bank. The Council could not be induced to decide on formulating an organization for the future bank of issue monopoly. Such constitution ought to deal with the administrative authority and the Federal Government's supervision. It feared to cope with the decisions of the General Assembly; where the caprices and the brutality of a coalition majority might compel the Federation to attack the decisions of the Assembly. But the true motive of the change in the Federal Council's opinion lay in the desire to reserve for the cantons and the Federal Government the total revenue from the bank's profits. This idea is not formally expressed, but it clearly permeates the Council's statement of its reasons.

## FEATURES OF THE LAW OF 1891.

The law which came from the deliberations of the Federal Council may be summarized as follows: Under the title of Banque de la Confédération Suisse, a State bank is established under a special administration. This bank has the exclusive right of issuing bank notes. The principal mission of the bank is the regulation of the money market and to facilitate transactions of payment; it does the service of the Federal Treasury free of charge. The central office of the Bank is at Berne; each canton can demand the establishment of a branch or an agency of the Bank within its territory. The Federal Government supplies the capital of the Bank by an issue of consols; it is responsible for all the engagements of the Bank. The Bank and its branches are

exempt from all cantonal taxes. Its administration consists of the Bank Council and of local committees, which have charge of the supervision and control. There is also a Managing Committee and local managing committees, who have charge of the administration. The Bank Council consists of twenty-one members, who are appointed by the Federal Assembly. The various parts of Switzerland must be equitably represented in this body. This Council selects, out of its own members, a president, vice-president, and a Select Committee of five members, whose duty is the supervision and control of the Bank. The president and vice-president are, *ex-officio*, members of the Select Committee. At the branches, the supervision is in the hands of local committees, of five members at least or ten members at most, who are appointed by the Bank Council for a term of four years. The Managing Committee has charge of the administrative and executive departments of the Bank; it represents the Bank in business dealings and has authority over the employees and the branch directors. The Federal Council appoints the president and vice-president of the Managing Committee. The branch management consists of two persons, at least, whom the Federal Council appoints. They have charge of the business at the branches. The members of the Bank Council and the local committees receive gratuities for attending meetings and are paid mileage. The Federal Assembly may also grant a fixed salary to the members of the Select Committee or to some special members. The Federal Assembly exercises supreme supervision over the Bank on behalf of the Federation; and the two councils appoint each a commission of five members for a term of three years for this purpose. The two commissions audit the annual accounts and business statements and prepare the reports, which must be submitted to the Federal Assembly for approval.

## POWERS AND OPERATIONS OF THE BANK.

The Bank of the Federation is authorized to issue bank notes within the limits of its business in denominations of 50, 100, 500, and 1000 francs. At least one-third of the circulation must be covered either by gold bullion or legal-tender coin; the remaining two-thirds must be guaranteed by commercial bills on Switzerland or foreign countries. The Bank must redeem its notes at par, in legal coin, when presented in any amount at Berne; redemption at the branches is made so far as the metallic reserve on hand permits, and settlement in full is made after the necessary delay to procure coin from the main office. The notes are accepted at par by the Bank, by its branches, and at all public Federal offices. Forced currency of the notes to private parties can be decreed only in times of war.

The Bank can transact only the following business: (1) Discounts of commercial paper on Switzerland at three months' maturity at the outset; such paper must bear two solvent signatures. (2) It buys and sells bills of exchange on foreign countries at the terms and guarantees which are prescribed for discounts. (3) It makes advances on securities for three months at most, but does not loan on stocks. (4) It can buy for its own account, for temporary investment, bonds of the Federal Government and cantonal bonds. (5) It can receive deposits on current account, either at interest or without. (6) It can issue gold and silver certificates. (7) It can issue cheques, make collections, receive securities for safe-keeping, and attend to the collection of coupons. (8) The Bank performs the Federal Treasury service free of charge.

Out of the net earnings, as shown in the profit and loss account, fifteen per cent. are set aside for the reserve. The balance of profit goes in a share of one-third to the Federation and two-thirds to the cantons.

The reserve fund is invested in Swiss and foreign securities.

The Bank publishes a weekly balance-sheet, and at the end of each year an account of its transactions.

The foregoing project of law has not yet been voted by the Federal Assembly, so that the old system of multiple banks of issue is still in force.

## CONCLUSION.

Switzerland is under a free régime of banks of issue, as the authority to issue paper money can only be refused in very rare cases; and establishments which do not fulfill the legal conditions would certainly not ask for the right of issue.

Although this system has not given such bad results as in some other countries, it is decidedly condemned. It has demonstrated its inadequacy in all crises which befell the country, and in normal times it does not even ensure a cheap rate of discount. Notwithstanding the autonomy of the cantons, their representatives have readily come around to the idea of a central bank, which alone can have the strength to hold out in times of crisis, and to regulate paper money circulation. Yet it is a question whether Switzerland has been wise in adopting the State bank. Doubtless a State bank can be conducted with much prudence and be as well managed for general service as a private bank; but this presumes a self-control, a loftiness of view, a practical wisdom, and a disinterestedness on the part of the State which ordinary experience fails to afford. In the case of a State bank, borrowers are disposed to consider the rate of discount and of loans in the light of a tax and they are easily persuaded to claim relief. Moreover, the intrusion of political influences must be apprehended. These might warp the decisions of the management; and accusations might arise that unjustified favors were shown to some, while adversaries were vigorously dealt with. Neither is it certain that discounts, when regulated according to administrative and bureaucratic methods, can be obtained as rapidly and on such good terms as if the bank were only guided by personal interest and the desire to earn dividends. However, this is only a minor aspect of the question. Leaving aside the question of the risks of war, which jurists, by common accord, declare to be higher for a State bank than for a private bank, there is no doubt that through the diffusion of Socialistic doctrines, the Government might easily become hard pressed to assume new functions and new attributes.

Equally, a State bank stands exposed to inflated issues of its notes. Every service which the State is called upon to render costs money, and the State is generally loath to obtain this by taxation. Sophisms will not fail to be urged for forcing the issue of paper money on the theory that the State bank only needs to print notes from plates. With the obligation to redeem the bank notes in coin, the danger in ordinary times, no doubt, is not great, as the surplus of paper flows back to its source; but the inevitable

consequence of an inflation of circulation is forced currency, and possibly a temptation to reach this goal quickly. This is the great drawback of State banks.

Finally, the credit of a State bank becomes involved with the Government credit. In times of political crisis, the bank's signature adds no value or new guaranty to the State's, and we might repeat here the famous sentence of Thiers: "The Bank of France has saved us because it is not a State bank." In the critical phases in the life of a nation, the need of a powerful establishment under firm management is felt. An institution is needed which can discuss matters freely with the State, so that, charter in hand, it may say to the Government: "You ask us for such and such service, which we consider compromising and dangerous for our credit; we cannot render you this service." The welfare of a nation may easily depend on such wise and patriotic resistance; and it is the height of imprudence to break down safeguards which may sometimes be inconvenient but are always salutary.

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## PART VI.

### BANKING IN PORTUGAL, 1750 TO 1891.

#### CHAPTER I.

#### THE FIRST GREAT BANKS.

#### BANK OF LISBON—ORIGINAL BANK OF PORTUGAL.

PORTUGAL has always been a badly financed country. In 1750, at the end of the reign of King John V., who had spent enormous sums on costly buildings, on the clergy, the nobility and courtiers, there existed a debt of 23,380,000 cruzades (about \$374,080,000). The Marquis of Pombal succeeded, by measures which were often unjust and vexatious, in bringing Portugal's finances back to something approaching order; but, when he fell, abuses began anew. The privileged classes succeeded in evading taxation, and the numerous wars into which the country was dragged through its alliance with England completed the ruin of the exchequer. Thus embarrassed, the Government, in 1797, resorted to the deplorable expedient of issuing paper money. In 1807, at the time of the French invasion, 22,500,000 of paper cruzades (equal to \$360,000,000) were in circulation, which lost twenty to twenty-five per cent. in exchange, and the depreciation reached thirty per cent. in 1821. Then the Government contemplated the creation of a bank of issue to take its place in the circulation of paper money. The Bank of Lisbon was established in 1822. Its career was a troubled one, and in 1828 it suspended payments.

The crisis of 1846-47, which had shaken France, England, and Spain so badly, did not spare Portugal. At that time the Government owed the Bank of Lisbon large sums without security; the course of interior politics became threatening, and the Bank lost all credit. The holders of the Bank's notes demanded their redemption; the Bank could not comply, and on May 23d the Government decreed forced currency for three months. In vain were the most rigorous measures proclaimed against those who should refuse the notes. The premium on gold rose to 37½ per cent., and a reorganization of the Bank became necessary.

#### THE BANK OF PORTUGAL ESTABLISHED.

With the remnants of the Bank of Lisbon and those of another establishment, styled "Confiança Nacional," which had been almost ruined by the Government, an institution was organized under the title of the "Bank of Portugal." Its capital was 10,000 contos, divided into shares of 100 milreis; half from the Bank of Lisbon and half from the Confiança Nacional, whose respective assets and liabilities the Bank of Portugal assumed. By decree of November 19, 1846, the latter institution received, for thirty years, the exclusive privilege to issue bank notes in the kingdom proper,



without interfering with the privilege granted in 1835 to the Commercial Bank of Oporto. The new bank had also the right to open savings-banks. Its issue of paper money was limited to 5000 contos de reis, and its notes were made a legal tender. Its transactions consisted of discounts of commercial paper at three months or above, bearing three signatures; discounts of Treasury certificates at twelve months; to loan on deposits of gold or silver up to four-fifths of their value; on precious stones to two-thirds of their value; on merchandise to three-fourths of its value; and on Government bonds to two-thirds, and stock of the Bank to the extent of half of its current market quotation. These loans were made for three months at five per cent. interest. The Bank also received deposits on current account and made loans on mortgages.

This establishment rendered genuine services. It took a large share of the old paper money of the Bank of Lisbon and the Confiança out of circulation: but it did not understand how to resist the State's demands, and soon the Government was in debt to the Bank for considerable sums. At first the Government showed some good will toward the Bank. A law of December 19, 1846, had established a sinking fund on behalf of the Bank; assessments from the revenues of the national domains and the Lisbon custom-house were set aside for that purpose. A loan of 4000 contos which the Bank had made to the State should be repaid, principal and interest, in installments of 800 contos a month, for which the company holding the Soap and Tobacco Monopoly was made responsible. But, unfortunately, the embarrassments of the Treasury did not leave the Bank long in the enjoyment of these guaranties. A decree of August 30, 1852, deflected the sinking fund from its original purpose and turned it over for the use of public works. The only compensation which the Bank received was that the sums which it was obliged to devote monthly to the withdrawal of old bank notes was cut down one-half. On the 9th of October of the same year, the Government seized also the monthly installments which the Bank received from the Tobacco Monopoly, and, finally, on March 15, 1854, an arrangement was made by the terms of which the Bank had to relinquish the contributions toward its sinking fund absolutely. It received three per cent. consols at par, and the Government took the redemption of the old paper money up to the amount of 108 contos (108,000,000 reis) upon itself.

Meanwhile banking had been considerably modified. A decree of April 16, 1850, had reduced the capital of the Bank of Portugal to 8000 contos, (about equal to \$8,640,000); the exclusive privilege of issue had been restricted to the district of Lisbon, and the creation of other banks of issue was allowed upon the sole condition that the legislative body should authorize them. The Bank of Portugal had the privilege to establish savings-banks in the whole kingdom; this was taken away by the law of May 6, 1857, and the Bank did not remonstrate, as the privilege was more onerous than profitable.

## SIX NEW BANKS OF ISSUE.

The law of April 16, 1850, brought the following new banks into existence:

Mercantile of Oporto, established on June 26, 1856.

Union of Oporto, established on December 10, 1861.

Alliance of Oporto, established on July 13, 1863.

Public Utility of Oporto, established on April 21, 1864.

Minho of Braga, established on June 15, 1864.

Ultramarino of Lisbon established on May 19, 1864.

These five banks were permitted to issue notes, on condition of their holding a metallic reserve equal to one-third of the value of the outstanding notes and of the demand deposits. In addition to this restriction, the issue was limited to an amount equal to seventy-five per cent. of the paid-in capital; exception, however, was made against the Bank of Public Utility, which was allowed to issue up to only half of its capital; and in favor of the Ultramarine Bank, which could issue to the amount of twice its capital. The latter bank had the privilege of establishing credit institutions in the colonies, except at Macao; and it was promised a subvention of 30 contos for the establishment of branches and agencies in Portuguese Africa; this was independent of the transactions which it could undertake in Portugal proper.

Senhor Rodrigues de Freitas, in his "Notice on Portugal," gives the situation of the Portuguese banks of issue on December 31, 1866, as follows, the amounts being stated in contos (millions) de reis:

BANKS.	Paid-in Capital.	Reserve	Metallic Reserve.	Commercial Paper,	Loans and Advances	Deposits.	Circulation.
Portugal	8,000		1,300	4,794	2,013	2,001	1,427
Mercantile	1,800	100	232	774	496	317	142
Alliance	2,400	60	231	1,611	650	301	191
Public Utility	2,000	72	248	857	262	241	168
Minho	338	2	139	319	60	49	49
Ultramarino	1,508	15	31	1,303	211	415	

There were two sets of banks, one at Lisbon, where the privilege of the Bank of Portugal barred the creation of new establishments; the other for the provinces, where banks could be established by legislative sanction, which was never refused.

## PRIVILEGE OF THE BANK OF PORTUGAL EXTENDED.

The history of the Bank of Portugal offers no points of prominent interest. Upon solicitation of the Stockholders' Assembly, the term of existence of the Bank was extended on September 22, 1874, for 50 years. The exclusive right of issue, for the district of Lisbon, was continued; other banks sharing this right in the provinces. In 1875 the Bank desired to obtain the provincial right of issue and elaborated a general plan of agencies. But its capital, which had been largely exhausted by State loans, allowed only slow progress in this scheme. It was, indeed, impossible—unless as a matter of grave recklessness—to pay for the first cost of installation of branches for

the sake of circulation. The Bank started with two branches, the first one at Oporto, and took into consideration a plan to transform the agencies of Funchal and Faro into branches.

## ATTEMPT TO REFORM THE GOLD COINAGE.

In 1883, the Bank took the initiative for a measure having in view the abolition of the tax on gold coinage. Up to 1837, the exportation of gold in any shape was absolutely forbidden. This prohibition, which had kept Portugal seriously embarrassed, and which constantly raised the rate of exchange, was replaced by an export tax of one milreis per mark (229½ grammes) on gold bullion, and of 500 reis on export of the corresponding weight in foreign coin; the interdict against exportation of national (gold) coin remained in force. In 1852, a new law took the place of the one of 1837; the embargo against the exportation of national coin was raised, and instead an export duty of one milreis per mark in gold bullion or coined gold was levied. This law was gain, at least in principle; but it acted directly counter to its purpose. It brought on a rise in exchange in Portugal, and offered a premium on exports of gold, which it was intended to restrain. The English pound sterling, in sight drafts or gold, is worth at par 4½ milreis, which makes a milreis equal to 53½ pence; it costs 2 reis, or 0,1,066 pence, to transfer a pound sterling from London to Lisbon or *vice versa*. Therefore, Lisbon *gold points* were  $53.333 + 0,1066 = 537/16d.$ , but with the export duty of 5 milreis per kilogramme of gold and the customs expenses, the *gold point* fell to 5211/16d.; in other words, sovereigns left an assured and highly profitable margin of the difference between 537/32d. and 5211/16d., *i.e.*, 17/32d. per pound. The Bank urged very effectively these points of disadvantage, and explained the impossibility of protecting its metallic reserve in view of such a considerable adverse premium, and it had the satisfaction of obtaining the repeal of a law which had been made at a period when complete ignorance of economics prevailed, and which had been kept in force in spite of its noxious character and of the persistent efforts of bankers and economists to effect its abrogation.

Closely connected with Portugal's monetary reforms is an important measure, the withdrawal of old copper coins, which was prescribed by the law of May 31, 1882. The Bank was intrusted with the gathering of this money, for which it paid in scrip, which figures in its balance-sheet as "bank notes representing copper."

## CONSOLIDATION OF THE BANKS OF ISSUE.

In the meantime, Portugal had improved financially; its consols were looked at favorably in Europe, notwithstanding the partial bankruptcy of 1852, and there were indisputable proofs of progress in commerce and manufactures. The inconveniences produced by a plurality of banks of issue began to make themselves felt. Since 1877, public opinion had agitated the question of a single bank of issue. It did not matter whether the Bank of Portugal or any other had charge of the issue; but it was necessary that all bank notes should originate from one and the same source.

## THE BANK RECEIVES A MONOPOLY OF NOTE ISSUES.

A Minister who had not always been well inspired, but who in this case showed determination and energy—Senhor Marianno de Carvalho—accomplished the consolidation of the eight banks of issue existing on January 31, 1887, and which had the following circulation:

	CONTOS. MILREIS.
Bank of Portugal	6,183:566
Commercial Bank of Oporto	145:040
Mercantile Bank of Oporto	255:214
Union Bank of Oporto	399:000
Bank of Public Utility	475:265
Alliance Bank	677:010
Minho Bank	260
Guimaraes Bank	50:000
	8,185:355

The vast superiority of the circulation of the Bank of Portugal over the other banks demonstrated that, in the case of a monopoly, it ought to be conferred upon this bank. Accordingly, a law of June 29, 1887, authorized the Government to enter into an arrangement with the Bank of Portugal, or with another credit establishment, in case of refusal by the former. The terms of the law were mutually discussed and accepted by the Bank of Portugal, and they form to-day its charter. If the Bank of Portugal should refuse to meet the Government's views, it should lose the exclusive right of issue for Lisbon and surroundings; if, on the contrary, it accepted the proposals made, the Government promised to negotiate with the banks of Oporto in order to induce them to relinquish their right of issue. After long conferences, a concordat was signed on June 8, 1891, between the Bank of Portugal and the northern banks by which the latter obliged themselves not to issue new bank notes and to withdraw the old ones through the medium of the Bank of Portugal. The latter should be supplied by the banks with the necessary funds for redemption within fifteen years at most. In the meantime, the Bank of Portugal should advance them 2,000 contos without interest.

The banks were the more ready to surrender their right of issue to the Bank of Portugal because just then the monetary situation had become very critical. The Portuguese Government was heavily in debt, and found it impossible to balance its budget; it maintained itself by Treasury operations, in which the Barings of London were largely engaged. Again, Portugal has a great deal of capital engaged in Brazil, and remittances and returns for that market are made through London channels.

## THE BANK IN THE CRISIS OF 1890.

So long as the political condition of Brazil did not change, Portugal had generally more to receive from that country than to remit there; it had therefore exchange on London to dispose of, and could, on the other hand, draw on the banks of that place,

especially on the house of Baring. The Brazilian revolution, however, overthrew all commercial relations soon after; the failure of the Barings deprived Portugal of the credit upon which it had been accustomed to count, and a crisis broke out. The economic situation in 1890 was deplorable; the balance of trade showed imports to the amount of 44,623 contos, in which importations of money were not comprised—against 21,589 contos of exports. Public expenses, especially in the Ministries of Public Works and the Navy, had swelled into extravagant proportions, and almost the whole capital of the Bank was tied up in securities which could not easily be turned into cash and in loans to the State. Portugal went into bankruptcy and failed to pay two-thirds of the interest on its debt. In 1891, exchange tightened suddenly, as the following phenomenal schedule shows:

*Lisbon on London, Ninety  
Days' Sight.*

	Pence per Milreis.	
January	5313/16	53 <sup>3</sup> / <sub>8</sub>
February	53 <sup>3</sup> / <sub>8</sub>	537/16
March	53 <sup>1</sup> / <sub>2</sub>	
April	539/16	53 <sup>5</sup> / <sub>8</sub>
May	53 <sup>5</sup> / <sub>8</sub>	52 <sup>1</sup> / <sub>8</sub>
June	52 <sup>5</sup> / <sub>8</sub>	51 <sup>3</sup> / <sub>4</sub>
July	50 <sup>1</sup> / <sub>8</sub>	49 <sup>3</sup> / <sub>4</sub>
August	48	44
September	44 <sup>5</sup> / <sub>8</sub>	44 <sup>7</sup> / <sub>8</sub>
October	44 <sup>3</sup> / <sub>4</sub>	
November	4413/16	43 <sup>3</sup> / <sub>4</sub>
December	43 <sup>1</sup> / <sub>8</sub>	42 <sup>1</sup> / <sub>8</sub>

Theoretically a milreis was equal to 53<sup>d</sup>28, but in December the loss amounted to 11<sup>d</sup>55 or 20.93 per cent. All the coin of Portugal took flight, and, in spite of all the efforts of the Bank to keep the metal, it held at the end of 1891 a metallic reserve in gold, silver, and copper of only 4,348:754, against a bank note circulation of 34,760:637, and 2,254:345 of deposits on current account. The banks of Oporto, which were too numerous for the needs of the population to whom they catered, had thrown themselves unreservedly into speculation, and their depositors made a rush upon them. On March 18, 1892, the director of the Bank of Commerce and Industry disappeared, and the Mercantile, Public Utility, and the Oporto banks suspended payments. The economic crisis passed from the acute into the chronic stage, from which it recovers very slowly; exchange remains at a very high rate, although Portugal has repudiated a great part of its debt. The Bank of Portugal is flourishing enough from the standpoint of earnings; but its condition is extremely precarious, as its credit is merged with that of a ruined government which has never shown the slightest scrupulousness about the observance of good faith in its engagements with creditors.

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## CHAPTER II.

### THE BANK OF PORTUGAL.

#### ITS CONSTITUTION, MECHANISM, AND MANAGEMENT.

THE Bank of Portugal has held since January 1, 1888, and virtually from 1891 for a term of forty years, the exclusive privilege to issue paper money payable on demand to bearer. Its notes are a legal tender, representing gold in Portugal proper and in its dependencies. The Government has the option of reducing the term of the concession to thirty years upon giving to the Bank five years' previous notice.

*Capital.*—The capital amounts to 13,500 contos, which includes 5500 contos contributed by the addition of the capital of the former Bank of Portugal. The law allows an increase of the capital if the circulation rises above 25,000 contos. The stockholders of the old Bank of Portugal have the option on any new issues of shares at 120 milreis. The shares unsold at the time of reorganization were marketed on the Stock Exchange, and the premium obtained was applied to the reserve fund. The capital is divided in 135,000 shares of 100 milreis each. Each share entitles the holder to a *pro rata* interest in the company's property and earnings; the stockholders' liability is limited to the amount of shares they hold. The shares are registered or to bearer; they may be owned jointly by several parties, but the Bank recognizes only one owner to a share.

*General Assembly.*—The stockholders are represented by 240 principal stockholders, who meet once a year in ordinary general assembly. Extraordinary general assemblies are composed of the holders of at least fifty shares, who vote for modifications of the by-laws, and to decide—if necessity should arise—on the dissolution and liquidation of the Bank. Each shareholder is entitled to one vote only, independently of the number of shares he may hold; but he may be represented by a member of the Assembly, who, in that case, has two votes—his own and his proxy vote.

*Directors and Censors.*—The General Assembly elects a directorate of ten regular and five supernumerary members from the native or naturalized Portuguese shareholders, besides a Censors' Council (*Conselho fiscal*) composed of seven regular and three supernumerary members taken from the shareholders of the Bank, which must fill the same conditions as to nationality as the directors. The directors are elected for a term of two years; the censors are elected for the same period, and alternate in batches of three and four members. The supernumeraries of the directorate and the Censors' Council have a term of office of one year and are re-eligible. Each member of the directorate must possess at his free disposal shares of the Bank to the amount of five contos, in order to qualify him for election, and upon his taking office ten contos in shares of the Bank must be deposited as a guaranty of his faithful administration.

*Governor and Vice-governor.*—The governor is appointed by the State for a term of five years, and can be re-elected. He must deposit as a guaranty of his administration ten contos of shares of the Bank or in Government securities with a margin of ten per cent. of the rate of the day. The vice-governor acts for the governor whenever necessary, and assists him in his functions; he is appointed for one year by the Government from a list of three candidates which the General Council submits. The governor represents the Bank in business and court transactions; he attends to all current business, signs the correspondence with the State and administrative authorities, as well as all other documents of the Bank, but he may delegate these functions to the vice-governor or a director. He supervises all details of the Bank, attends to its internal service and the development of affairs; he examines the books except those over which the General Assembly has like authority. He appoints and discharges the directors of the branches and the agents; he regulates the duties of the Administrative Council and the departments of the General Council, and presides at meetings. He can suspend execution of the decisions of the committees of the Administrative Council, and submit them to revision by the General Council, which is summoned at once, and he notifies the Government of all decisions which the Councils might have passed contrary to the laws, by-laws, or the interests of the Government. The governor may address himself to the King through the medium of the Ministers in all matters which interest the Bank and in which it is dependent upon the Government.

*Council of Administration.*—The Council of Administration directs and supervises the general business of the Bank in accordance with the laws and by-laws. Its special duties are to transact the business which the by-laws and regulations authorize; to regulate and supervise all departments, and to maintain prompt business discipline; for this purpose two directors must be on duty every day; to appoint and discharge employees and fix their salaries; to manage and control the business of the branches and agencies; to inspect them in person or by deputies; to elaborate for the General Council the rules for the branches and agencies; the General Council submits these rules to the Government for approval; to supply the Censors' Council and the secretary-general with all documents necessary to give them an insight into the Bank's condition; to submit important and extraordinary business to the General Council; to propose to the General Council the establishment, transformation, or abolition of branches, agencies, and Lisbon offices; to propose to the General Assembly, after conference with the Censors' Council, all measures for the benefit of the Bank's development and safety; to present the annual statement to the General Assembly; to summon the extraordinary general assemblies. The Council is obliged to hold two sessions per week, and minutes of its resolutions must be kept.

The council for the Bank's business management divides itself into as many committees as it deems necessary. Each committee consists of three directors and the governor as *ex-officio* president. The following committees are obligatory: Committee on discount and miscellaneous business; committee on Treasury and State transactions; committee on bank note issue; committee on branches, agencies, and correspondents, and committee on litigations. These committees supervise directly the transactions within their sphere of competency and refer all useful measures to be taken to the Council of Administration.

*The Censors' Council* (Conselho fiscal) is on duty throughout the year. Its functions are to examine the weekly balance-sheets and the accounts which are presented to the Council of Administration; to supervise the internal business of the Bank, and to attend to the carrying out of laws, by-laws, and rules; to inspect the cash whenever it deems it proper, and to make a report upon the result of its supervision to the General Assembly; to demand the calling of extraordinary assemblies.

*General Council.*—The General Council consists of the governor, president of the Council of Administration, and the Censors' Council. It meets regularly once a month and decides specially on the rate of discount, the Bank's state of affairs, the budget of expenses, and the appointment of the staff. Further, it selects the places where the Bank should keep representatives; it has the power of appointing and discharging the managers of branches and agencies; upon proposal by the Council of Administration, it authorizes business relations with foreign banking houses, and it considers and approves the regulations of the Bank, branches, and agencies. Finally, it has control of the distribution of profits, and it decides upon questions submitted to it by the Council of Administration.

*Secretary-General.*—The Government keeps an agent at the Bank under the title of "Secretary-General." This official watches over the correct observance of the by-laws and regulations, and looks into the situation of the establishment from the standpoint of public interest and the security of the paper currency. The secretary-general is present at the meetings of committees, the Council of Administration, and the General Council. He takes part in the debates and makes such motions as he may deem useful for the relations of the Bank and State. He has a consulting vote. He can examine both documents and accounts of the Bank, which must furnish him full opportunity to carry out that portion of his function. He must be given access to all documents which the governor issues, and countersign the correspondence with the State. The governor receives a salary of 3600 milreis, and the secretary-general 2000 milreis; both are paid by the Bank. There are certain bars to the selection of governors, directors, and censors. Managers or partners of banking houses are ineligible to such offices. No two members of a firm, father and son, two brothers, uncle and nephew, two cousins, father-in-law and son-in-law, can be simultaneously members of the General Council of the Bank. The members of the General Council cannot obtain loans or advances either individually or as members of a firm, but they can procure discount commercial paper.

## BRANCHES, AGENCIES, AND CORRESPONDENTS.

The Bank is obliged, by the law which conferred its concession, to establish branches and agencies in the capitals of the administrative districts of the kingdom and dependencies. These establishments should be opened within four years from January 1, 1888. The Bank was liable to a fine of one conto for each three months' delay. If the Bank had failed to establish branches or agencies in four districts at least within five years, the Government would repeal the exclusive privilege of issue of legal-tender bank notes. In 1894, the Bank had one branch at Oporto, and eighteen agencies. The Bank is responsible for the administration of the branches, which are managed by a director, whom the Government nominates, and a Managing



Committee appointed by the General Council of the Bank. The directors of branches supervise all business transactions, take part in the Managing Committee's deliberations, and see to the observance of the laws, by-laws, and regulations. The administrations of the branches are responsible for their acts; full liberty of action rests with them as long as they conform themselves to the requirements of the by-laws and regulations.

If circumstances allow, a local Discount Committee is attached to each branch or agency. This committee is appointed by the General Council, and the director or one of the agents presides over it. The correspondents which the General Council appoints in concurrence with the Government transact the business with which the Bank intrusts them. There are also *city branch offices* of the central bank at Lisbon; these are simply city bureaus. Agencies are promoted to branches if the development of their business warrants such change, and branches may become agencies, or even simple correspondents, on authorization by a vote of the Shareholders' Assembly, upon the proposition of the General Council and the approval of the Government.

## TRANSACTIONS OF THE BANK.

*Discounts.*—The Bank discounts bills of exchange and other commercial paper; due bills backed by collateral, vouchers and certificates of the Public Treasury, and of the naval stations and colonies, if they are duly indorsed by the Ministries of the Navy and the Colonies. It discounts current interest and coupons of the National debt and bonds of the General Portuguese Crédit Foncier Company, which are guaranteed by the State. It buys and sells bills of exchange. Discounted commodities must not mature later than in three months and must bear three signatures of persons of acknowledged solvency. Bills of exchange are allowed under the guaranty of the signatures of the acceptant and drawer with one indorsement only so long as the drawer is safe and there is no reason to suspect the legitimacy of the draft.

### *Discounts of the Bank, 1869 to 1894.*

YEARS.	Number of Pieces.	Value.	Bills Receivable on Hand Dec. 31st.
		CONTOS DE REIS.	CONTOS DE REIS.
1869		13,371	3,104
1875	7,596	10,581	3,693
1880	16,613	10,995	3,576
1885	19,131	14,030	4,217
1887	14,454	9,036	3,588
1888	14,861	10,030	7,326
1889	15,501	11,975	9,746
1890	20,042	21,960	8,549
1891	27,906	29,393	13,527
1892	35,933	28,357	15,043
1893	39,722	28,215	11,610
1894	49,112	32,085	12,258

The discounts of 1894 were constituted as follows:

Of commercial paper	10,086 contos.
Of bills of exchange bought (payable in the kingdom)	109 contos.
Of bills collectible in the kingdom	682 contos.
Of collectible abroad	315 contos.
Of bills bought abroad, not matured	117 contos.
Of Treasury certificates	949 contos.
Total	12,258 contos.

*The rate of discount* is relatively high, as in all countries where capital is scarce and exchange impaired. Yet, by reason of the forced currency of the paper money, it is remarkably stable. The rate is the same at Lisbon as at Oporto, and at the agencies it cannot run higher than two per cent. above the Lisbon standard. The following statement shows the steadiness of the bank rate:

	Number of Fluctuations.	Maximum Rate.	Minimum Rate.	Average Rate.
1888 0		5 per cent.	5 per cent.	5 per cent.
1889 0		5 per cent.	5 per cent.	5 per cent.
1890 3		7 per cent.	5 per cent.	6.30 per cent.
1891 1		7 per cent.	6 per cent.	6.05 per cent.
1892 0		6 per cent.	6 per cent.	6 per cent.
1893 0		6 per cent.	6 per cent.	6 per cent.
1894 0		6 per cent.	6 per cent.	6 per cent.

Buying and selling *bills of exchange* is one of the most important services which the Bank renders to commerce; for, through these transactions, funds are transferred at small expense throughout every part of the kingdom. During the last two years the sales of paper in the kingdom reached the following figures:

	Number of Pieces.	Value in Contos.
1893	69,570	10,070
1894	89,362	13,390

*Loans.*—The Bank grants loans on the following collateral: Gold, silver, precious stones, and bonds of the Portuguese public debt. Non-assessable stocks and bonds of banks, companies, societies, municipalities, districts, and other administrative corporations with established credit which are quoted on the Lisbon Bourse. It lends also on its own stock, on foreign Government bonds, foreign shares, and bonds of banks, companies, administrative corporations guaranteed by governments, and finally on bills of lading and merchandise warrants for goods stored in the customs warehouses or in general storage warehouses. It opens *current loan accounts* on the collateral of Government bonds, Treasury certificates, and bonds of the General Portuguese Crédit Foncier Company, which are guaranteed by the State. The ratio for loans is ninety per cent. of the actual value on gold, fifty per cent. on precious stones, ninety per cent. on Government bonds, eighty-five per cent. on stock of the Crédit

Foncier Company, seventy-five per cent. on shares of other companies, bank stock, and foreign securities, and fifty per cent. on storage warrants and bills of lading. Loans must not exceed the face value of the pledged securities even if they are currently quoted above par. No more than sixty per cent. of the Bank's capital can be applied to loans; but this limit may be extended with the consent of the Government. The loans on the Bank's own stock must not be for more than five per cent. of the capital.

*Loans on Collateral.*

YEARS.	DIRECT ADVANCES.		CURRENT LOAN ACCOUNT.	
	Sums	Balance on Dec.	Combined Loans and	Balance on Dec.
	Advanced.	31st.	Reimbursements.	31st.
	CONTOS.	CONTOS.	CONTOS.	CONTOS.
1869	5,488	1,729		
1875	7,466	2,054		
1880	3,761	1,063		
1885	6,115	1,420		
1887	4,862	1,267	9,839	717
1888	7,059	1,395	24,812	2,408
1889	11,341	2,311	21,852	937
1890	11,843	2,223	20,338	2,040
1891	16,689	3,701	19,064	4,054
1892	16,882	4,032	12,259	3,002
1893	356	3,772	8,090	2,947
1894	337	2,972	9,557	2,631

The enormous decline of the loans on securities was the natural consequence of the bankruptcy of the Government and of the *convenio* (covenant) of the Portuguese railroads for the restriction of credits.

*Accounts Current.*—The Bank opens current accounts and undertakes transfers by cheques and drafts from one account to another. The following is a statement of these transactions from 1869 to 1894:

*Current Accounts.*

YEARS. Payments and Deposits. Payments to Depositors. Balance on December 31st.

	CONTOS DE REIS.	CONTOS DE REIS.	CONTOS DE REIS.
1869			1,542
1875	39,437	40,941	2,333
1880	41,253	40,272	2,887
1885	68,169	68,714	1,999
1887	97,924	98,465	3,008
1888	65,148	66,300	1,856
1889	89,886	88,763	2,979
1890	76,838	77,913	1,904
1891	49,927	49,577	2,254
1892	24,342	24,534	2,062
1893	25,923	25,718	2,267
1894	27,415	27,133	2,549

The decline in deposits on current accounts was due to the withdrawals made by depositors when the Bank stopped paying out gold. People who had money to invest would no longer pay it into the Bank, and they began to take advantage of the exchange which favored its export. The years 1893 and 1894 showed a slight gain upon 1892, but still they remained much behind preceding years.

*Miscellaneous Services.*—Amongst other business details, the Bank issues circular letters of credit on Portugal and foreign countries; it allows first-class foreign banking houses to draw upon the Bank against exchange business, which serves to maintain its metallic reserve. These very important transactions figured at the following amounts before the crisis; they subsequently fell off considerably, as the appended table will show:

	CONTOS DE REIS.							
	1887.	1888.	1889.	1890.	1891.	1892.	1893.	1894.
Drafts by the Bank	12,881	8,116	20,370	32,598	14,561	1,438	1,613	1,044
Bills of exchange bought	18,292	20,030	21,011	26,576	9,109	3,866	2,996	1,819
Government business	4,666	12,904	16,437	22,058	7,155			
Importations of gold and silver	4,410	6,075	9,675	13,382	3,240	1,804	819	1,314
Total	40,249	47,125	67,493	94,614	34,065	7,108	5,428	4,177

In 1894 the Bank drew the following amounts: On London, £168,888 8s.; on Paris, 271,843 francs; on Madrid, 5638 pesetas; on Berlin, 11,970 marks. It bought bills of exchange on London for £298,275 12s. 10d.; on Paris, 570,679 francs; on Madrid, 27,510 pesetas; on Berlin, 1569 marks. To these figures must be added 9220 contos of miscellaneous business; so that the total exchange business for 1894 amounted to 12,085 contos. The Bank also undertakes collections for its customers and renders them all services which the by-laws allow.

*Deposits.*—The Bank receives for safe deposit precious stones, jewelry, securities, and valuable documents. These deposits represented a yearly aggregate according to the table following:

CONTOS DE REIS.

1880 6,820  
1885 7,028  
1887 4,975  
1888 5,240  
1889 4,766  
1890 10,521  
1891 15,675  
1892 32,748  
1893 41,886  
1894 40,156

Finally, the Bank can deal in the precious metals, buy and sell Government bonds and other public securities, as well as bonds of the Portuguese Crédit Foncier, which are guaranteed by the State. The following transactions are not allowed: The Bank must not deal in its own stock; it cannot rediscount its commercial paper on hand; stock exchange speculation—even for account of third parties—is disallowed. The Bank cannot pay interest on demand accounts; it is debarred from taking share in other banking establishments, or commercial or industrial enterprises; it must not act as broker in either guaranteed or hazardous business, and it cannot own real estate besides the buildings devoted to its own service or such as it may acquire by foreclosure of mortgages. Such acquisitions must be disposed of as early as possible.

## ADMINISTRATION OF THE METALLIC AND PAPER CIRCULATION.

As mentioned above, the Bank holds the exclusive right of issuing bank notes payable to bearer on demand for a term of forty years from January 1, 1888. These notes are legal tender wherever the Bank has branches and agencies and within a radius of five kilometres of these establishments. Should the Bank ever cease to redeem its notes on demand at any of its offices or dependencies, it will lose the legal-tender advantage for its paper. The Bank, however, on May 7, 1891, was authoritatively released from paying for its paper money in gold. The decree of that date reads as follows:

“Under stress of exceptional circumstances of the country’s money market caused by the withdrawal of capital, and as the Treasury cannot increase the credit of its account at the Bank of Portugal before having received the product of the loan authorized by the law of March 23d of the present year, and, considering, First, that it is indispensable to enable the Bank to give aid to banking and commerce in interior business, as provided by its by-laws, without endangering its gold reserve. Second, that the distrust which has been caused by the collective withdrawal of gold coin as shown in the export statistics has abated, and that coin must again assume its natural

functions to facilitate the transactions of the Bank and the exchequer. Third, that it will not be necessary to increase the stock of silver coin by more than 2000 contos for the ordinary needs of every-day life, commerce, and the Treasury, while the present difficulties continue. It has, therefore, been resolved: First, that 2000 contos of silver be coined in the standard and weight determined by the law of July 29, 1854. Second, during three months from the date of the present decree, the Bank may exchange its paper money calling for gold redemption in silver coin; this rule will take the place of the permission to redeem half in gold and half in silver, as the Government has deemed proper to allow formerly. Third, the bank will increase the credit allowed the Government by virtue of the law of July 29, 1887, to 4000 contos. Fifth, the circulation of paper money must not surpass triple the amount of the Bank's metallic reserves."

Although this decree does not express it in so many words, it means practically forced currency; because the creditors of the Bank have only the choice between paper money and silver, which is even more depreciated than the notes of the Bank. The metallic reserve, in contos de reis, was as follows on each December 31st of 1891-2-3-4:

	Gold.	Silver.	Copper.	Total.
1891	377	2,342	55	2,774
1892	1,821	4,770	369	6,960
1893	2,690	5,607	617	8,914
1894	4,004	6,187	607	10,798

Before 1891, the balance-sheet makes no distinction between the Bank's paper money and the coin reserve which constitute the cash on hand.

In 1891 the Bank had imported for its own account	£110,000
And for Government account	610,000
Total	£720,000
But it had exported	680,333
Showing a net gain of only	£39,667

This little item of importations had been far from filling the wide gap between the exports and imports of gold from the kingdom. The exports of 1891 were 29,705 contos, and only 3721 contos were imported, leaving an export balance of 25,984 contos.

Although the Portuguese Government has stopped payment on the major part of its foreign debt, even the settlement of that part which remains unrepudiated is an onerous burden to the kingdom, on account of the adverse balance of trade. The bank pays very dearly for the gold which it purchases. In 1892, it paid an average premium of 1227 reis per pound sterling, which brings the sovereign, nominally worth 4500 reis, to 5727 reis. The premium fell to 1045 reis in 1893, but it reached 1142 reis in 1894. The make-up of the metallic reserve is ruinous for the Bank, and the country derives no benefit from it, as all gold bought is locked up and the Bank will not part

with it at any price. If a Portuguese merchant needs gold, he must resort to France, England, or Germany to buy it; he would not find a single gold piece in circulation or to be obtained at the Bank.

## THE NOTE CIRCULATION.

The circulation on December 31st of each year, from 1887 to 1894, amounted to the following figures:

### CONTOS DE REIS.

1887 7,361  
1888 9,508  
1889 10,083  
1890 8,605  
1891 34,761  
1892 50,218  
1893 52,253  
1894 53,132

A comparison of these figures with the metallic reserve shows very clearly that the Bank does not observe in the least the prescriptions of the decree of May 7, 1891, which fixes the circulation at thrice the amount of the metallic reserve. Virtually, the Government has abandoned the legal limitation of the Bank's output of paper; it permits any maximum which the needs of the Treasury may seem to dictate. The present maximum of circulation is 54,000 contos. The Bank makes strong efforts to prevent indefinite growth of its circulation; but the State places it constantly between the two horns of a dilemma by either compelling it to grant advances which necessitate new issues of paper or by putting a stop to its State service. From this position the Bank cannot extricate itself. Meanwhile, Portugal seems to recover somewhat from its unfortunate situation. Its credit is lost, and unless it can offer collateral of undoubted value, the foreign market for loans is absolutely closed against it. The country can depend only upon its own resources, and, apparently, it seeks to develop them. The chief condition of its salvation lies in its not exhausting its principal credit establishment, which is its last resource.

## THE CONSTITUENTS OF THE BANK'S PAPER.

The circulation of the Bank is very singularly made up. Before the crisis of 1891, Portugal had been from July 29, 1854, under a single gold standard; no creditor was held to accept more than five milreis in silver money; yet it had become common usage to pay two-thirds in gold and one-third in silver, or even copper. The banks had made special issues of notes which were redeemable in silver and copper, and which clearly stated so on their face. These bills were much in excess of the silver and copper metallic reserves of the banks; and, by the letter of the law of 1887, they should be brought within the exact figure of the actual money reserve. Events, however, have not allowed this; and, on December 31, 1895, the Bank of Portugal had the following issue of paper money in circulation:

Denominations. Circulation.	
MILREIS.	MILREIS.
{ 50	3,948,400
	{ 20 30,050,240
	{ 20 (Azores money) 14,912
	{ 20 (Madeira money) 168
Notes redeemable in gold	{ 10 112,130
	{ 10 (Azores money) 15,128
	{ 10 (Madeira money) 37
	{ 5 26,720
{ 5	10,705,920
	{ 5 (Azores money) 30,124
Notes payable in silver	{ 2½ 1,891,035
	{ 1½ 3,605,875
	{ 500 reis. 2,720,364
Notes payable in copper { 10	10,890
Total	53,131,943

The 20-milreis denomination, which corresponds approximately to the French 100-francs note, occupies a prominent place in the Portuguese paper money issue.

## RELATIONS BETWEEN THE BANK AND STATE.

*Annuities and Pensions.*—As in all countries with wrecked finances, the Bank of Portugal has the most intimate relations with the State. By the terms of its by-laws the Bank is obliged to pay the running civil and military pensions in force in July, 1887; pensions after that date do not fall within the contract. The Bank, in this case, is not an agent or disbursing medium; it advances the pensions, and the Treasury reimburses it for principal and interest by an annuity of 800 contos. The old debts of the State to the Bank, for the payment of pensions, have been merged in this contract. The rate of interest which the exchequer owes for this service is regulated by the quotation of Portuguese consols on the London Stock Exchange. When they are quoted at fifty-four, the Treasury pays five and one-half per cent.; but for each point of decline the rate rises six centimes; for each point gained the interest is lowered six centimes until it reaches five per cent., which is the minimum rate. At the end of each business year the Bank and the Treasury balance accounts and determine the rate of interest which the State has to pay. The Government can abandon this branch of the Bank's service at any time; and the Bank, in such event, is not entitled to either compensation or indemnity. The Bank is authorized to issue bonds to be redeemed by drawings (premium bonds) against the Treasury's debts for pensions. These bonds are guaranteed by the Government. If at any time the Government repays the whole or part of its debts, the Bank must redeem a corresponding amount of bonds. The following statement shows the increase of these obligations:



	Pension Debts Owed the Bank by the Treasury. CONTOS.	Pension Bonds in Circulation. CONTOS.
On December 31, 1888	4,034	
On December 31, 1889	4,945	900
On December 31, 1890	5,829	900
On December 31, 1891	6,645	890
On December 31, 1892	7,017	879
On December 31, 1893	6,900	867
On December 31, 1894	6,818	856

*Cash Service.*—The Bank is the State's banker and the Treasury's disbursing agent. The branches and agencies act in a like capacity for the Treasury, and become the collectors and disbursers of the public revenues; they are subject to the general rules and accountability applicable to public officials. All expenses for the movement of funds are at the Bank's charge; it also pays the salaries of the disbursing officials of the Ministry of Finance, the Junta of Public Credit and its clerks, and the district disbursing agents. The Bank can employ the latter as its own agents. Any reforms which may be made in the Treasury service are at the expense or profit of the State. The Government employees are subject to the regulations of the Bank; the provincial directors of finance exercise control over the branch offices and agencies in so far as the State's business is concerned. In matters for which the Bank is held responsible, the general direction of the Treasury takes up the case, and the Court of Account decides in all such affairs.

In accordance with its by-laws, the Bank has opened an interest account for the Treasury, whose debit may reach a maximum of 2000 contos. By several agreements, the last of which was entered into on February 9, 1895, the Treasury's account has been raised to 21,000 contos, which it owes the Bank on open account. If the State is debtor, the Treasury pays four per cent. interest; if there is a credit in favor of the Treasury, the Bank pays three per cent.

*Current Account of the Treasury (in Contos de Reis).*

YEARS.	Payments by the Treasury.	Drawn by the Treasury.	Balance on December 31st.
1888	108,910	108,320	590 creditor.
1889			714 debtor.
1890			1,860 debtor.
1891			5,628 debtor.
1892	81,188	87,361	11,801 debtor.
1893	87,306	88,274	12,769 debtor.
1894	83,354	86,153	15,568 debtor.

It is not necessary to here enter into the details of the very confused accounts of the Government's dealings with the Bank; it may suffice to give the figures of the State's indebtedness to the Bank on December 31st, for a series of past years:

1888 4,771,885\$892  
1889 5,971,930\$837  
1890 7,979,545\$788  
1891 23,563,244\$678  
1892 34,097,033\$678  
1893 35,871,338\$090  
1894 38,559,994\$814

This shows that the State has absorbed an amount almost three times that of the Bank's capital.

*Taxes and Division of Profits.*—The taxes figuring in the profit and loss account of 1894 represent: The stamp tax on the account-books, commercial paper, cheques, and receipts; municipal taxes; income and dividend taxes; an industrial tax on banking transactions. The total taxes in 1894 amounted to the considerable sum of 170:226\$756. The annual profits remaining, after deduction of the share set aside for the reserve fund and a dividend of seven per cent. for the stockholders, are divided equally between Bank and State.

## PROFITS, RESERVES, AND DIVIDENDS.

Two reserve funds must be provided for out of the annual earnings of the Bank. A *permanent fund* is built up out of a five per cent. levy upon the net profits and the premium obtained on sales of shares. This fund is intended to bring together a supplementary capital equal to twenty per cent. of the stock capital. A *variable fund* is made up to the amount of ten per cent. of the stock capital by setting aside seven per cent. of the net earnings. This is a reserve account for losses, and serves as a supplement to make up a dividend of five per cent. for the shareholders if the ordinary funds do not leave enough to allow a dividend at that rate. The variable reserve fund must be completed as soon as it falls below the fixed limit. The permanent fund must be invested in Portuguese consols; its current interest is paid into the variable fund if

the latter falls below ten per cent. of the capital; when the variable fund is at its necessary level, the current interest of the permanent fund is carried to profit and loss account. The variable reserve fund is employed in the general business of the Bank, and its product is carried to profit and loss account.

*Condition of these Reserves 1888 to 1894.*

YEARS.	Variable Reserve.	Permanent Reserve.	Total.
1888	156:731\$914	1,100:000\$000	1,256:731\$914
1889	138:861\$307	1,140:617\$825	1,279:479\$132
1890	266:800\$637	1,186:926\$941	1,453:727\$578
1891	249:524\$542	1,223:670\$462	1,473:195\$004
1892	298:107\$941	1,274:992\$872	1,573:100\$813
1893	1,132:491\$265	1,368:436\$514	2,500:927\$779
1894	694:053\$250	1,454:702\$474	2,148:755\$724

The decline of the variable reserve fund, which appears in 1893 and 1894, arises from the fact that the Bank exhausted it in 1893, for the following purposes:

For consolidation of stock of securities	912:458\$290
For sinking fund on furniture	2:028\$068
For sinking fund on securities which cannot be recovered	218:004\$907
Total of variable reserve for 1893	1,132:491\$265

The 1894 fund was applied entirely to the same purpose, so that the item of variable reserve does not exist any more in the balance-sheet of December 31st; provision for its reconstruction was made for 1895, but, apparently, it will be absorbed again by the end of the year.

The following statement will show that the Bank makes considerable profits:

YEARS.	Profits of Transactions with the Public.	Profit of State Transactions.	Total.
1887	415:931\$915	385:565\$398	801:497\$313
1888	633:951\$011	387:238\$584	1,021:189\$595
1889	730:340\$094	468:347\$604	1,198:687\$698
1890	621:976\$994	544:520\$753	1,166:497\$747
1891	980:348\$908	950:616\$675	1,930:965\$583
1892	1,026:502\$833	1,743:068\$081	2,769:570\$914
1893	911:057\$348	1,432:901\$717	2,343:959\$065
1894	985:476\$935	1,393:084\$353	2,378:561\$288

This table shows that the transactions with the Treasury yield the major part of the profits. Those transactions are, of necessity, very lucrative, because in exchange for a bank note which is unredeemable and costs no more than the price of printing, the Bank receives a well-paying interest. Yet, this confusion of the credit of the Bank and State, this loss of the Bank's independence, gives rise to great dangers for both the

institution and the country. We must do justice, though, to the Bank in stating that, aside from its transactions with the State, it is intelligently and economically managed.

General Expense and Taxes. Dividends.	
CONTOS.	PER CENT.
1888 249	5½
1889 260	5½
1890 315	5
1891 243	4
1892 386	7
1893 376	7
1894 420	7

## THE BANK'S BALANCE-SHEET.

The Bank must publish each year a statement of its transactions and a balance-sheet of its accounts. These publications are made after examination and approval by the general assembly of stockholders. The balance-sheet, which was originally a mere summary, became gradually more explicit, and to-day it offers a compact and interesting exhibit of the principal events of the business year. Each week, also, the Bank reports to the Government a summary of its assets and liabilities, in which it details the composition of its metallic reserve. The balance-sheet, of which we give an example below, is regularly published in the official *Diario*.

December 4, 1895.

ASSETS.

REIS.

1. Metallic reserve	12,246:986.058
2. Commercial paper on hand	12,254:555.259
3. Loans on collateral	3,032:565.330
4. Current credit accounts for suppression of bank note issue	2,207:686.512
5. Public securities on hand	3,353:368.744
6. Miscellaneous accounts	3,453:038.515
7. Special contracts with the State and its dependencies:	
Pension fund	6,774:675.056
Miscellaneous	15,179:280.206
8. Current accounts of correspondents	2,035:089.962
9. Dividends of the first half of 1895	405:000.000
10. Buildings, furniture, machines, etc	599:128.296
11. Securities on safe deposit	35,000:906.878
12. Expenses to be charged out by profit and loss	200:012.293
13. Current account of the Treasury	16,475:032.493
Total	113,217:325.602

LIABILITIES.

14. Capital	
15. Miscellaneous accounts	
16. Current accounts of correspondents	
17. Credits on securities on safe deposit	
18. Deposits	
19. Dividends payable	
20. Reserve funds:	
Permanent	1,543:495.728
Variable	169:470.904
21. Interests and earnings to carry to profit and loss account	1,677:768.824
22. Bank note circulation	55,296:382.250
23. Pension fund bonds	843:300.000
24. Deposit account of the Junta of Public Credit	1,846:745.979
Total	113,217:325.602

Metallic reserve on Dec. 4, 1895: Bank note circulation on Dec. 4, 1895:

Gold	4,762:416.168	Redeemable in gold or silver	55,285:722.250
Silver	6,868:215.750		
Copper	616:354.140	Redeemable in copper	10:660.000
Total	12,246:986.058		
Rate of discount, six per cent.		Total	55,296:382.250

Assets.—The *first* item represents the *Metallic reserve*; its composition is given in detail at the foot of the statement. It contains a considerable quantity of copper coin,

and is mainly made up of silver, quite contrary to the Portuguese monetary system, which is based on gold.

2. *Commercial paper on hand* comprises the unmatured notes and bills of exchange which the Bank has discounted.

3. *Loans on collateral* in force. The Bank makes no distinction between advances on securities and loans made on precious metals or merchandise.

4. *Current loan accounts and open credits* is the account of free credits opened in favor of the banks of Oporto in consideration at their relinquishing the right of issue.

5. *Public securities on hand* are the bonds of the public debt owned by the Bank. Since the State's bankruptcy, which largely reduced the value of these securities, the Bank sets aside a considerable share of its earnings as a sinking fund for the recovery of the loss. It will keep this up until the stock of securities yield a capitalization at four and one-half per cent.

6. *Miscellaneous accounts* represent doubtful debts, and various other items which the Bank groups under this head.

7. *Special contracts with the State and its administrative departments*. We spoke in detail of these items in describing the relations between the State and Treasury, and explained the business which the Bank transacts with the Government.

8. *Current accounts of correspondents*. The Bank does not balance the total accounts of its correspondents, but separates the debit and credit side in the balance-sheet. It gives the indebtedness of the correspondents as an asset and the credits as a liability. The head of this item does not represent the sense which is generally attached to current accounts (deposits); it is simply a balance of transactions between the Bank and its agents or correspondents.

9. *Dividends of the first half-year*. This item is opposed in the liabilities by the item of *Dividends payable*.

10. *Buildings, furniture, machines, etc.*, is a self-explanatory item.

11. *Securities on deposit*. This represents the value of safe deposits, and the amount is counterbalanced in the liabilities under the head of *Creditors on securities on deposit*.

12. *Expenses to be charged out on profit and loss* are running business expenses since the beginning of the year.

13. *Current account of the Treasury*. We spoke of this account in referring to the relations of the Bank and Treasury.

The Liabilities show:

14. *Capital*; which is self-explanatory.

15. *Miscellaneous accounts*, on which we can give no explanation.
16. *Current accounts of correspondents*.
17. *Credits on securities on safe deposit*. Counterpart of item 11 of assets.
18. *Deposits* on regular current accounts, *i. e.*, funds deposited by the Bank's customers who can draw against them by cheques or transfer orders.
19. *Dividends payable*. Dividends of the past year which have not been drawn yet by the parties entitled thereto.
20. *Reserve funds*. The permanent reserve must represent twenty per cent. of the capital, the variable fund ten per cent. The statement before us shows that the reserves are not complete as yet, and we have explained that the variable reserve has been used for sinking-fund purposes.
21. *Interest and earnings to carry to profit and loss account*. These are profits since the beginning of the business year.
22. *Bank notes in circulation*. The statement at the foot of the balance-sheet details the amount of paper money redeemable in gold or silver and in copper coin; the latter notes take the place of fractional currency.
23. *Bonds of the Pension Fund*. The Bank is authorized to issue bonds for the pension and annuity service, which it performs for account of the State.
24. *Junta of Public Credit*. This has been elsewhere explained; it is an account opened in favor of the administration of the public debt.

## CONCLUSION.

The situation of the Bank of Portugal shows symptoms such as are observed in all countries afflicted with wrecked finances; the resources are tied up, yet the earnings are considerable. A comparison of the liabilities subject to demand and the assets which can be realized, gives us the following status of the Bank on December 4, 1895:

### *Demand Liabilities.*

Deposits	1,712:642 \$ 388
Dividends payable	70:640 \$ 950
Circulation of bank notes	55,296:382 \$ 250
Deposit of the Junta of Public Credit	1,846:745 \$ 979
Total	58,926:411 \$ 567

*Ready or Disposable Assets.*

Metallic reserve	12,246:986 \$ 058
Commercial paper on hand	12,254:555 \$ 259
Loans on collateral	3,032:565 \$ 330
Current advance accounts and credits	2,207:686 \$ 512
Securities	3,353:368 \$ 744
Total	33,095:161 \$ 903

This shows a deficit of almost 26,000 contos, if the Bank were called upon to settle its demand liabilities. For an ordinary bank, a like position would mean unqualified bankruptcy. If we look at the ways of employment of the capital and the reserves, which amount altogether to 15,212:966 \$ 632, we find the following investments:

Real estate and furniture	599:128 \$ 296
Various State contracts	21,953:955 \$ 262
Debit account of the Treasury	16,475:032 \$ 493
Total	39,028:116 \$ 051

Deduct therefrom

Capital and reserves	15,212:966 \$ 632
Pension fund bonds	843:300 \$ 000
Total	16,056:266 \$ 362
which leaves a balance of	22,971:849 \$ 419

made up by paper circulation.

Thus the Bank's paper money is guaranteed by a debt owing to the Bank by the State.

Portugal, like Spain, has failed to profit by the lessons of a pregnant experience. All faults which brought about the ruin of the first banks of issue in either Portugal or Spain are repeated to-day, only on a much larger scale. By declaring forced currency, both governments believe themselves to have acquired the right to drain the banks with impunity; but such assumptions are only illusory and the penalty for the fault must soon follow. There is a treacherous enemy who lays pitfalls for prodigal governments and for the banks which lack stamina to resist the State's intrusion; this enemy is called Exchange, which is the dial of national decline of credit. This exchange arrests all commerce and makes trading a speculation on the country's money. This exchange impoverishes day by day whoever receives a bank note; it makes money melt like snow, and like snow it trickles from his hands. Portugal is, on every side, at the mercy of a discredit which is increasingly turning the exchanges against it; these drawbacks keep it aloof from regular contact with the rest of Europe; and although some home industries have been developed as a consequence of the prohibitive action with which the high exchange affects importations, the nation is sorely afflicted in its most vital interests, owing to the misdeeds of its Government and the weakness of its principal credit institution.



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## PART VII.

### NATIONAL BANK OF ROUMANIA.

#### A BRIEF EXPERIMENT WITH STATE NOTES, THEN A NATIONAL BANK, WITH MONOPOLY OF ISSUING

UP to 1877, Roumania had no paper money. In that year, however, the Government issued non-compulsory notes of 5, 10, 20, 50, 100, and 500 lei, which were guaranteed upon the State's domains; a late copy of the ideal of France's assignats of the last century.

The Roumanian Parliament did not regard this issue favorably, and it invited the Government to consent to the establishment of a national bank which should effect the withdrawal of the State issue. The legislative corps voted upon this proposal on March 27 and 31, 1880, and a law was promulgated on April 11th, which embodied the following provisions:

#### THE BANK OF ROUMANIA.

A bank of discount and of issue shall be established under the corporate name of the National Bank of Roumania, which shall have the exclusive right to issue bank notes to bearer. The Bank's privilege shall run from July 1, 1880, for twenty years. The Bank shall be located at Bucharest, and branches shall be established wherever they may be needed. The capital shall be 30,000,000 lei\* (\$6,000,000); the State furnishing 10,000,000 lei, and 20,000,000 lei being provided by stockholders. So soon as the Bank is in operation, 12,000,000 lei shall be assigned toward the working fund out of the Bank's capital; and the balance of 18,000,000 lei shall be assigned, in two equal shares of 9,000,000 lei, for gradual investment as the business of the institution may increase. The capital shall consist of 60,000 shares, 24,000 shares of which must be subscribed for to effect the establishment of the Bank.

Within four years at most, the Bank must withdraw from circulation the notes issued by virtue of the law of June 12, 1877, secured by the Government domains; and the Bank's proper issue shall take the place of said State notes. The by-laws of the Bank were prescribed by the Government, and the Prince of Roumania confirmed them by decree of March 22, 1880.

#### ORGANIZATION OF THE BANK OF ROUMANIA.

The State's capital in the Bank carries full stockholders' rights for the shares in its possession.

The Bank is conducted by a governor, six directors, composing the Council of Administration, and seven censors, who act as supervisors. The Council of Administration, in combination with the Censors' Council, form the General Council. The governor is appointed for five years. During his term of office, he cannot be a member of the Legislature, nor hold any public office; he must own forty shares of the Bank's stock. He draws a salary of 24,000 lei, which the Bank pays. He acts as president of the Council of Administration and of the General Assembly, and is the executive officer of these bodies. He presents the reports of the Council of Administration to the General Assembly. He appoints the managers of the various departments and directs all matters pertaining to the by-laws and regulations. He also represents the Bank in law, signs all documents, and has the right to suspend decisions of the Council of Administration in order to obtain a final determination by the General Council.

*The General Assembly* of the Bank is composed of stockholders owning at least four shares. The Assembly, which represents the whole body of shareholders, meets in ordinary session on the third Sunday of February, and in extraordinary assembly whenever called by the Council of Administration. It decides upon business submitted to it by the Council of Administration and the Censors' Council and acts upon motions proposed and signed by at least twenty members; such motions must be brought in through the channel of the Council of Administration ten days previous to its meeting. The General Assembly also supervises the business management and accounts of the year and resolves upon the distribution of earnings. It is invested with the right to elect a part of the directors and censors, and can also discharge or revoke its appointees.

Directors must own twenty shares; censors ten. Out of six directors, the General Assembly appoints four for a term of four years; two are nominated by the Government for two years. All of them may be reappointed. Each director receives 12,000 lei per year. The vice-governor is selected by decree from the directors. The censors, to the number of four, are selected by the General Assembly; the Government appoints three; the appointees of the General Assembly serve for four years, and the Government's censors have a term of three years; both can be re-elected. They receive a gratuity for every meeting at which they attend, and are entitled to a share of the profits.

*The Council of Administration* is concerned in all business matters, except those provided for in the law, decrees, and regulations. In concurrence with the censors, it fixes the rates of discount and the percentages for loans; it decides upon the amounts to be devoted to the purchase of Government bonds and public funds. It also establishes the budget of running expenses. This Council also appoints and discharges the staff of the Bank; it institutes legal proceedings and reports on all matters of business and management to the General Assembly.

*The Discount Council* is appointed by the General Council; it consists of six members, who serve for the term of a year. They receive fees for each meeting they attend. This body decides upon the commercial paper offered for discount and sees that the laws and by-laws bearing upon such transactions are observed.

The Government has supreme control of the Bank's transactions and has the right of veto in all matters which are contrary to the laws and statutes as far as the interest of the State is concerned. The State's surveillance is in the hands of an officer who holds the title of Government Commissioner. Besides his permanent supervisory function, he can provisionally suspend the execution of decisions relating to discount and issue of bank notes if in his opinion the resolutions of the Council of Administration are contrary to the laws and statutes or to the interests of the State. In such cases, he reports to the Government, whose decision is final.

## BUSINESS REGULATIONS OF THE BANK.

Aside from the issue of paper money, of which we shall speak later, the Bank discounts and buys bills of exchange, drafts, and other commercial paper; invests, as far as twenty per cent. of the paid-up capital, in Treasury certificates and loans on storage warehouse warrants.

Discounted paper must not have more than 100 days to run and bear three signatures of recognized solvency; warehouse warrants need only one signature. Exceptionally, upon terms fixed by the General Council and approved by the Minister of Finance, paper with only two signatures is admitted to discount. Merchandise collateral can at any time supplant the necessity of a third signature. Treasury certificates are subject to the same terms of discount as are current for commercial paper.

### *Discounts of the Bank (in Millions and Hundred Thousands of Lei).*

YEARS.	Roumanian Commercial Paper.	Coupons.	Farmers' Notes.	Foreign Paper.	Total.
1881	26.8	3.2		36.2	66.2
1882	30.7	8.0	0.5	64.1	103.3
1883	36.2	6.0	9.4	52.4	104.0
1884	34.2	5.9	33.0	35.0	108.1
1885	30.7	3.3	47.0	40.8	121.8
1886	31.6	4.2	54.8	31.0	121.6
1887	40.1	2.4	52.3	38.1	132.9
1888	35.5	2.6	53.1	24.2	115.4
1889	40.8	2.4	47.4	85.8	176.4
1890	42.2	2.2	48.8	128.2	221.4
1891	65.8	2.4	52.0	106.7	226.9
1892	68.6	1.4	46.6	67.0	183.6
1893	100.2	1.6		128.4	230.2
1894	86.4	1.9		57.3	145.6

*Bills Receivable on Hand on December 31st.*

YEARS.	Commercial Paper.	Coupons.	Drafts Payable in Gold.	Total.
	LEI.	LEI.	LEI.	LEI.
1881	9,600,000	100,000		9,700,000
1882	13,800,000	200,000		14,000,000
1883	15,200,000			15,200,000
1884	15,800,000			15,800,000
1885	15,800,000	100,000		15,900,000
1886	17,000,000	200,000		17,200,000
1887	18,500,000	100,000		18,600,000
1888	16,900,000			16,900,000
1889	41,200,000			41,200,000
1890	33,600,000	100,000		33,700,000
1891	37,100,000	100,000		37,200,000
1892	15,800,000	200,000	14,000,000	30,000,000
1893	22,600,000	200,000	8,200,000	31,000,000
1894	13,800,000	300,000	1,600,000	15,700,000

Roumania has the gold standard, and as her paper money has free and not forced currency, she can only protect her metallic reserve by means of the rate of discount, a rather high one in general, as the following table will show:

YEARS.	Number of Fluctuations.	Maximum.	Minimum.	Average.
1890	1	6 per cent.	5 per cent.	5.24 per cent.
1891	0	5 per cent.	5 per cent.	5.00 per cent.
1892	1	6 per cent.	5 per cent.	5.82 per cent.
1893	2	6 per cent.	5 per cent.	5.31 per cent.
1894	2	7 per cent.	6 per cent.	6.12 per cent.

The Bank *loans on bonds* of the State of Roumania, on Treasury certificates, and on other securities under State guaranty. Such loans are only granted to assuredly solvent people for a maximum of four-fifths of the value of the collateral. Loans are granted for four months, and can only be renewed once. Advances are made strictly on collateral; or the borrower may gradually draw against open account established on the security of the pledge. The rate on such loans is, as a rule, one per cent. higher than the current rate of discount.

*Condition of Loans from 1881 to 1894.*

YEARS. Amount of Loans. Condition on December 31st.

	LEI.	LEI.
1881	75,300,000	19,100,000
1882	79,700,000	22,300,000
1883	89,100,000	27,800,000
1884	76,900,000	20,000,000
1885	51,100,000	16,400,000
1886	37,300,000	13,200,000
1887	43,500,000	13,600,000
1888	39,400,000	14,900,000
1889	44,100,000	11,600,000
1890	48,100,000	13,300,000
1891	51,800,000	15,300,000
1892	56,100,000	16,100,000
1893	62,300,000	21,400,000
1894	65,400,000	19,300,000

The Bank opens *current accounts*, and nothing in its regulations prevents the allowing of interest on deposits; but, hitherto, this point has not been taken advantage of.

Depositors can draw on their accounts by cheques or transfer orders. Unfortunately, the Bank embodies in its accounts the movement of the current accounts in the figures given under the head of total cash transactions; we have, therefore, no data on the subject. Following are the balances of current accounts on December 31st:

LEI.
1882 600,000
1883 36,600,000
1884 30,700,000
1885 26,100,000
1886 12,300,000
1887 20,500,000
1888 4,500,000
1889 4,400,000
1890 7,900,000
1891 4,500,000
1892 5,400,000
1893 6,800,000
1894 8,800,000

The total *cash movement*, *i. e.*, amounts paid in and withdrawn in specie and paper, was as follows from 1881 to 1894:

YEARS.	Paid In.	Withdrawn.
	LEI.	LEI.
1881	265,100,000	218,200,000
1882	325,600,000	311,700,000
1883	387,400,000	371,800,000
1884	325,900,000	324,900,000
1885	286,100,000	289,400,000
1886	320,500,000	323,700,000
1887	337,500,000	333,300,000
1888	328,500,000	313,900,000
1889	385,300,000	400,700,000
1890	355,300,000	357,200,000
1891	397,900,000	380,500,000
1892	389,900,000	398,800,000
1893	501,600,000	495,300,000
1894	414,900,000	428,700,000

The Bank takes in for *safe deposit* securities, precious metals, and gold and silver coin, of which the following statistics are illustrative:

*Statistics of Safe Deposits.*

YEARS.	Deposited.	Withdrawn	Condition on Dec. 31st.
	LEI.	LEI.	LEI.
1881	15,200,000	13,500,000	200,000
1882	40,400,000	29,000,000	13,100,000
1883	61,000,000	63,800,000	10,300,000
1884	48,700,000	38,900,000	20,100,000
1885	12,300,000	18,300,000	14,100,000
1886	45,400,000	37,100,000	22,400,000
1887	36,400,000	29,200,000	29,600,000
1888	82,800,000	98,600,000	13,900,000
1889	41,400,000	38,700,000	16,600,000
1890	291,500,000	288,200,000	19,900,000
1891	385,300,000	383,300,000	21,800,000
1892	366,400,000	33,000,000	25,400,000
1893	79,200,000	64,300,000	40,300,000
1894	183,300,000	150,400,000	72,200,000

## ADMINISTRATION AND CIRCULATION OF COIN AND PAPER.

The National Bank of Roumania has the exclusive right to issue paper money payable to bearer on demand. The total paper circulation must be represented by securities and other values which can be easily turned into cash; and the Bank must keep a metallic

reserve amounting at least to onethird of the paper outstanding. The notes of the Bank are received in payments at all State offices and public establishments connected with the State; they are redeemable in gold or silver coin of the realm over the Bank's counters at Bucharest and at its provincial branches. In cases of emergency, five days' grace is allowed at the branches, so as to enable them to obtain funds from Bucharest. It may be proper to call attention to the fact that the Roumanian monetary system is based upon the French, except that it is on the exclusively gold standard, which the law of October 15-27, 1890, established. The bourse and wholesale business is transacted entirely in gold; but five-lei silver pieces are so abundant that they have found a place in commercial dealings, and are virtually accepted freely up to fifty lei. The metallic reserve of the Bank comprises gold, silver, and foreign drafts payable in gold.

## EMBARRASSMENT CAUSED BY THE STATE'S NOTES.

The charter of the Bank provided for the redemption of the notes secured on State domains; the Bank had to replace them by its own paper money, and consequently this old Government scrip figured in the Bank's accounts as so much cash on hand. This Treasury paper amounted to 26,260,000 lei, and was to be withdrawn from circulation by 1884. On December 10, 1885, an agreement was entered into between the Bank and State by which the debt of the latter should be paid off in installments, the last to fall due in June, 1892. This measure had the inconvenience of hypothecating a share of the Bank's circulation for the redemption of State paper money which could not be realized upon and would only be redeemed by the State after a long lapse of time. Consequently the Bank's issue suffered severely. At one time, the premium on gold reached twenty-two per cent. The Government came to the relief of the Bank by redeeming the 26,000,000 lei of its own notes in the Bank's hands in gold in 1888. This action improved exchange, which now deviates but little from par.

*Condition of the Metallic Reserve on  
December 31st.*

YEARS.	Gold. LEI.	Silver. LEI.	Total. LEI.
1881			21,300,000
1882			23,800,000
1883			34,500,000
1884			34,000,000
1885			34,100,000
1886			33,200,000
1887			31,900,000
1888			32,400,000
1889			39,500,000
1890			45,600,000
1891			60,700,000
1892	53,200,000	600,000	53,800,000
1893	59,600,000	200,000	59,800,000
1894	44,500,000	4,000,000	48,500,000

The authorized denominations of bank notes are of 20, 100, and 1000 lei. Intermediate denominations of 50 or 500 lei may be issued. Like the Imperial Bank of Germany, the Bank of Roumania redeems damaged bank notes in half their original value, if a fragment larger than one-half is presented; as a fact, half bank notes are not uncommon in Roumanian circulation.

*Bank Note  
Circulation on  
December 31st.*

	LEI.
1881	69,900,000
1882	97,000,000
1883	104,900,000
1884	103,500,000
1885	112,300,000
1886	116,300,000
1887	122,300,000
1888	135,300,000
1889	131,900,000
1890	135,200,000
1891	154,900,000
1892	141,900,000
1893	155,700,000
1894	127,700,000



On December 31, 1894, the bank note issue was composed of the following denominations:

	LEI.
20-lei notes	22,881,010
100-lei notes	86,584,400
1000-lei notes	18,246,500
Total	127,711,910

This shows that the 100-lei note is predominant.

## RELATIONS OF THE BANK WITH THE STATE.

We stated in the analysis of the by-laws that the State exercises a broad control over the Bank. It originally supplied one-third of the capital; appoints the governor, two directors, and three censors, and is permanently represented by a Government Commissioner. Nevertheless, the Government has been wise enough to abstain from abusing its powers. The balance-sheet shows an entire absence of Government loans. The Bank is simply held to perform the Treasury service free of charge. The State, however, receives the product of discount on loan rates above seven per cent. Besides the share of earnings to which it is entitled in its quality as stockholder, the Government receives twenty per cent. of the net profits, after deduction of twenty per cent. set aside for the reserve fund and six per cent. interest on the shares. The following statement shows the share of the Government in the net earnings of the Bank:

### *Net Result of the Twenty Per Cent.*

LEI.
1881 231,147
1882 180,615
1883 322,820
1884 328,059
1885 366,450
1886 350,069
1887 355,595
1888 342,447
1889 347,660
1890 353,341
1891 389,778
1892 378,078
1893 373,482
1894 397,279

## CAPITAL, RESERVES, AND EARNINGS.

As previously mentioned, the capital of the Bank of Roumania is 30,000,000 lei, of which 12,000,000 lei have been subscribed. Out of this paid-up capital, 8,000,000 lei has been furnished by private subscribers and 4,000,000 by the State. The balance of 36,000 shares, remaining in the hands of the Bank, will be issued, if necessary, in two lots of 18,000 shares each. Each share so far issued represents 1/24000 title to the capital stock.

Out of the profits, the Bank makes up first a reserve fund to set off losses on the capital; this fund serves also to complete a five per cent. dividend, if the year's earnings are insufficient for that purpose. Twenty per cent. is used for the reserve out of the balance remaining after a distribution of a six per cent. dividend to the stockholders. The reserve fund has accumulated as follows:

LEI.
1881
1882 288,933
1883 542,152
1884 996,247
1885 1,481,395
1886 2,004,183
1887 2,580,078
1888 3,174,078
1889 3,793,318
1890 4,443,634
1891 5,143,947
1892 5,923,687
1893 6,727,788
1894 7,578,040

The reserve fund grows, moreover, by the accumulation of interest on Government securities in which it is invested. As Roumanian bonds bring high interest, the reserve increases rapidly, and the time is not distant when it will be on a level with the paid-in capital. The reserve may even be virtually worth more than the figure at which it stands in the balance-sheet, as Roumanian funds have risen in market value since 1881. The accumulation of the reserve fund, to which neither regulations nor laws assign a fixed limitation, begins to attract the attention of the stockholders. On February 16-28, 1892, a demand was made by twenty-seven shareholders that the income of the reserve fund should be distributed as dividends. This proposition was rejected; but it will certainly crop out again and will finally be accepted, as the Bank can scarcely continue to accumulate indefinitely an unproductive capital. The by-laws provide that, after the payment of six per cent. interest on the stock and setting aside of twenty per cent. for the reserve fund, twenty per cent. of the remainder shall go to the State, while four per cent. is allotted to the Council of Administration, three per

cent. to the censors, one per cent. to the provident aid fund of the employees, and the large remainder is distributed as dividend among the shareholders.

*Earnings, Expenses, and Net Profits, 1881 to 1894.*

YEARS.	Product of Discounts.	Product of Loans.	Miscellaneous.	Total.	Assessments and Net Expenses.	Net Profits.
	LEI.	LEI.	LEI.	LEI.	LEI.	LEI.
1881	333,470	550,051	1,803,300	2,687,027	522,360	2,164,667
1882	338,652	838,636	1,364,126	2,541,414	619,571	1,921,843
1883	466,150	1,023,472	1,835,358	3,324,980	587,157	2,737,823
1884	568,247	1,042,262	1,779,822	3,390,331	619,397	2,770,934
1885	811,519	955,879	1,791,009	3,558,407	734,437	2,823,970
1886	880,128	828,008	1,877,858	3,586,894	678,740	2,908,154
1887	1,035,468	716,136	1,920,734	3,672,338	729,523	2,942,815
1888	1,150,337	691,461	1,799,814	3,641,612	780,882	2,860,730
1889	1,081,643	844,100	1,700,785	3,626,528	732,661	2,893,867
1890	1,002,321	553,286	2,140,390	3,695,997	766,646	2,929,351
1891	1,141,515	659,507	2,251,032	4,052,654	896,540	3,156,114
1892	1,386,018	915,894	1,715,660	4,017,572	934,584	3,082,988
1893	996,729	872,329	2,200,331	4,069,389	1,015,128	3,054,261
1894	1,108,037	1,349,255	1,791,977	4,249,269	1,046,273	3,202,996

*Dividends on Shares.*

LEI PER SHARE.

1881	60.00
1882	54.45
1883	73.70
1884	74.40
1885	75.60
1886	77.40
1887	78.15
1888	76.35
1889	76.35
1890	83.00
1891	88.45
1892	86.70
1893	86.00
1894	89.55

The shares are now usually quoted at about 1500 francs, the par value being 500 lei.

## THE BALANCE-SHEET.

The National Bank of Roumania publishes a yearly statement of its transactions, which contains ample information and recapitulatory statistics. There is, though, in

this return, a certain dryness of detail, and many items which might show to advantage if given separately are grouped under one head. It may be here suggested that a great public advantage might be gained if the large European banks of issue should come to an agreement with a view to issuing some uniform method of statement which would admit of easy comparison; and possibly the clear and complete statement of the Imperial Bank of Germany would afford the best model for such a form of exhibit.

Besides its yearly statement, the Bank of Roumania publishes weekly a condensed balance-sheet, in which the status of the principal accounts is given. We copy below, as an example, a statement of October 28, 1895. The various items are sufficiently explicit and call for no special observations.

October 28, 1895.

ASSETS.

	LEI.	LEI.
Metallic reserve—gold	67,115,338	87,571,001
Reserve in gold drafts	20,390,154	
Silver and other coin		2,369,403
Commercial paper out for collection		471,937
Commercial paper on Roumania and abroad		30,810,898
*Loans on public securities		16,263,100
Public securities		11,999,680
Securities of the reserve fund		8,287,289
Securities of the sinking fund for buildings and furniture		1,204,055
Buildings		5,023,482
Furniture and printing machinery		390,994
Running expenses		299,222
Safe deposits		51,594,107
Current accounts		12,932,605
Current accounts on collateral		10,840,023
Total		240,057,796

LIABILITIES.

		LEI.
Capital		12,000,000
Reserve fund		8,287,517
Sinking fund on buildings and furniture		1,204,260
Bank notes in circulation	144,797,030	154,085,862
Cash certificates	9,495,132	
Profit and loss		1,020,302
Interest and miscellaneous profits		640,744
Safe deposits		51,594,107
Current accounts		8,696,543
Current accounts on collateral		2,528,461
Total		240,057,796

\* Loan rate, six per cent.; discount rate, five per cent.

## CONCLUSION.

Although the National Bank of Roumania is the credit establishment of a country less rich and economically advanced than other Latin nations, it is a remarkably well managed institution. Its business is conducted sensibly and sagaciously. The various departments have been organized by agents of the Bank of France, who have introduced the spirit of order and method which pervades that great establishment. With slight alterations, the by-laws of the Bank of France have served as a model for those of the National Bank of Roumania, and the experience of its prototype has served to prevent many errors of administration. The Roumanian Government deserves praise for the intelligent discretion which it has practised toward the Bank. It exercises all rights of control which are the proper domain of the State wherever banks of issue are concerned; but it has exacted no loans from the Bank. Such demands would have prejudiced the run of affairs and shaken the confidence of the public in the paper circulation. The Government and the country have reaped the benefit of this wise action. Exchange has remained favorable in propitious contrast to the unfortunate conditions of exchange in Serbia and Greece.

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## PART VIII.

### THE LATIN MONETARY UNION.

#### CONVENTION OF DECEMBER 23, 1865.

THE Monetary Union which since 1865 has bound France to Belgium, Switzerland, Italy, and Greece, is of such comprehensive importance in its bearings upon the coin and auxiliary circulations of the allied countries, that we deem it essential to present a brief review of its history.

The law of the 7th Germinal, Year XI, which established the French monetary system, provided that "Five grammes of silver of a standard fineness of 9/10 shall constitute the monetary unit, designated by the name franc." Articles 6, 7, and 8 added: "Gold pieces of 20 and 40 francs shall be struck. Their standard is fixed at 9/10 fine and 1/10 alloy. The pieces of 20 francs shall be 155 to the kilogramme and those of 40 francs 77½ to the kilogramme." According to these provisions, gold of equal weight and standard is considered to be worth 15½ times as much as silver. This was the ratio fixed by royal decree of October 30, 1785.

The simplicity and admirable convenience of the French monetary system, with its great advantage of a decimal basis, procured for it adoption by Belgium on June 5, 1832, Switzerland May 7, 1850, and Italy August 24, 1862. In consequence of this identity of system, the moneys of each of the four countries circulated freely in the others, and thus a kind of monetary union was improvised without formal understanding. But in 1850, as a result of the discovery of gold deposits in California and Australia, the monetary circulation of Europe was profoundly disturbed. Whereas gold was abundant and commonly used even for payments of slight importance, silver, whose production had remained stationary, rose in value. The ratio between gold and silver, which during the ten years 1841-50 had averaged 1 to 15.83½, declined in the fifteen succeeding years, falling below 15.5 from 1852 to 1861, the lowest point, 15.21, being reached in 1859. The average ratio of gold and silver during that period was 15.37. The relative increase in the value of silver, amounting to 0.846 per cent., was sufficient to attract speculators, who, by continuous manipulations with large quantities of metal, gained tempting profits. At the very start, the money-changers drained the market of five-franc silver pieces, which disappeared from circulation. The fractional coins were melted, and France suffered from a genuine silver money famine, affecting the supply both of five-franc pieces and subsidiary coins. Among the varied devices suggested for putting an end to the dearth of fractional money, one was seized upon that had eminently the characteristics of an expedient. The intrinsic value was reduced to do away with the profits obtained from melting. Switzerland, by a Federal Act of 1860, lowered the standard of the silver franc and its multiples up to five francs, and of its fractions, to 8/10 fine, so that the franc coin was worth only 0.889 franc. Italy, adopting the French system in 1862, struck coins in denominations below five francs at a standard of 0.835, which gave the

franc an intrinsic worth of 0.928 franc. In France, a law was enacted May 24, 1864, on the model of the Italian measure, adopting the standard of 0.835 for the twenty and fifty centime pieces, but maintaining the 0.9 standard for higher denominations. Belgium made no change in her coinage. These measures, taken without any previous agreement, altered the conditions of the monetary interchange of four nations and opened a new field for speculation. Swiss pieces were exchanged for Belgian, and the latter were brought to Switzerland for recoinage at a reduced standard.

## PROPOSALS FOR A CONFERENCE.

Belgium, taking alarm at these abuses, made overtures to the French Government with a view to a conference in Paris, at which Switzerland and Italy should also be represented, and which should have for its object to establish a uniform system for the coinage and circulation of fractional moneys in the four countries. It was further proposed that the conference should have full liberty of action, and might either confine its work to a consideration of monetary regulations for the four States concerned, or extend its scope by laying the foundations of a uniform monetary circulation for the whole of Europe.

The conference proposition was approved by Switzerland and Italy, and the International Commission began its deliberations in Paris November 20, 1865, under the presidency of M. de Parieu. As a basis for its work, certain questions were drawn up under nine heads, as follows:

1. What are the conflicting elements of the prevailing differences in the fractional silver money systems of the four countries represented in the conference?
2. Would it be advantageous to establish a monetary union of the four countries—a union adapted to facilitate reciprocal circulation of fractional silver money?
3. Would such a union call for absolute uniformity of standard for fractional silver coinage in the four countries, or only for a nearer approach to harmony of standard than we have at present?
4. Should the proposed monetary union have in view uniformity or closer harmony of standard for all fractional coins from the two-franc down to the twenty-centime pieces, or should its purposes be confined merely to some of these coins?
5. Would it be necessary to come to a specific understanding as to what fractional coins of each country should enjoy lawful circulation in each of the four countries separately?
6. Would it be advantageous to determine jointly a fixed wear-and-tear rate for fractional coins which, when exceeded, shall render them refusable by individuals and require them to be recoined by the governments that have issued them?
7. On what joint basis can the circulation of fractional coins be regulated in the four countries?

8. Would it not be convenient to make obligatory the acceptance in the public offices of the four countries of gold coins struck on the standard of the law of the year XI?

9. Is there necessity to modify, so far five-franc pieces are concerned, the double-standard system established by the law of the year XI?

From the beginning, the expediency of a monetary union of the four countries was recognized and resolved upon. In connection with this decision, it was agreed to have uniformity of standard for all fractional silver coins, with a maximum of circulation for such coins to correspond to the population of each country—their intrinsic value being less than their face value. It was also decided that the coins of the contracting States should be receivable in the public offices of each, and this provision was extended to include the gold coins struck on the basis of the Act of the year XI. The ninth question was determined in the negative, notwithstanding the strenuous effort made by M. Kreglinger, the Belgian delegate, to inaugurate the principle of the single gold standard by reducing the standard of the five-franc silver piece to 0.835; which would have been equivalent to placing it in the same category with fractional money.

The question of fixing the standard of fractional coins raised serious difficulties. The different rates suggested were 0.800, 0.835, and 0.850. From the minter's point of view, the higher the standard the better and more durable the coin—and on that score it would have been in order to select the 0.850 standard. But in practice this contention could not sustain the tests to which it was subjected. Switzerland had given preference to the 0.800 standard, Italy to the 0.835 (which was adopted also by France for the twenty and fifty centime pieces), and Belgium alone had held to the 0.900. The representatives of Switzerland energetically insisted upon the 0.800 standard, maintaining that it was more in keeping with the decimal system and would operate more effectively than the 0.835 standard to protect the fractional coins from remelting and exportation. The discussion was carried on principally between the Swiss and the Italian delegates, the latter being discreetly supported by France. If the Swiss standard had been assented to, Italy would have been obliged to convert 100,000,000 francs, and France 16,000,000 francs, while Switzerland's total would have been but 10,000,000 francs.

## AN AGREEMENT REACHED.

After a protracted debate, in which Belgium declared for the standard already established in France and Italy, Switzerland consented to the 0.835 standard. However, the period fixed by the conference for the withdrawal of coins that had been issued by the various countries under conditions other than those provided for, which was to expire on January 1, 1868, was extended in the case of Switzerland until January 1, 1879. After this obstacle had been got over, all parties being in hearty sympathy with the project for a monetary union, the other matters at issue were not such as to cause any decided conflict of opinion. At the meeting of December 21, 1865, the conference adopted the fifteen articles of the famous agreement consolidating Belgium, France, Italy, and Switzerland in a monetary union. The following is a summary of that agreement:



The four contracting States were to issue coins of the same weight, standard, and diameter. The percentage of allowable loss of weight by use was to be uniform in all the States. The standard for the five-franc silver piece was to be 900/1000 fine, and for the pieces below five francs 835/1000 fine. The coins struck by each of the contracting States were to be accepted in the public offices of all, under these conditions: The five-franc pieces without restriction, and the fractional coins up to 100 francs, provided that coins which had been reduced in weight by use one per cent. below the legal limit, or whose effigies have been effaced, might be excluded. In the latter case, if their weight has been reduced by use five per cent. below the legal limit, they were to be restruck by the Government that issued them.

Each of the contracting governments engaged to accept from individuals or from the public offices of the other States the fractional silver coin that it had issued, and to exchange it for an equal value of current money (gold pieces or five-franc silver pieces), provided the sum presented for exchange should not be less than 100 francs. The quantity of fractional money to be issued was fixed at six francs per head of the population. The year of coinage was to be stamped upon the gold and silver pieces of each State. The same agreement conceded the privilege of joining in the compact to other countries adopting the Union's monetary system, and named January 1, 1880, as the date of expiration of the compact; with a tacit extension fifteen years longer, unless notice of withdrawal should be given at least a year before the specified date of expiration.

## DEFECTS OF THE SYSTEM.

These were the broad provisions of the Convention of December 23, 1865. A brief experience made its imperfections and deficiencies felt. Although it will always be a somewhat vexatious thing to have the seigniorage privileges subject to the consent of foreign nations, and to be held to accountability for the home coinage, the Monetary Union is easily defensible on both expedient and substantial grounds. But consequences had to be faced for which no provision was made. With perfect propriety, the most minute details of the fractional money were considered and regulated, because such money is, in truth, of the fiat variety. On the other hand, it was not foreseen that the money market, which in 1865 was favorable to silver, might change and favor gold; and that, in such not improbable contingency, a grave problem would arise respecting the final settlement of the 5-franc pieces, a problem which, indeed, would be much more serious than that of the subsidiary coins. It was, moreover, not taken into account that particular States might throw into forced circulation unlimited quantities of small coins not coming within the range of the Latin Union, and therefore not legitimately current outside the countries issuing them. These various questions, which should have been carefully weighed by the Conference of 1865, were neglected, and the solution of them was left to the course of events.

Several countries that were expected to join the Union entertained misgivings and were slow to decide. Austria, in 1867, seriously contemplated giving in her adhesion, but, finally, only Greece and the Papal States came over. By a law enacted August 10, 1867, Greece adopted the French monetary system, and, profiting by the privilege

vouchsafed by Article 12 of the convention, on November 18, 1868, she signified her desire for membership in the Latin Union, which was accorded to her by the associated governments without any dissent.

## MONEYS OF THE PAPAL STATES.

The Papal Government had watched with interest the proceedings of the Paris Conference, and, from the first, had manifested a disposition to become a participant in the Union. A decree issued June 18, 1866, instituted a reform in the coinage system of the Papal States, establishing the French system, but providing for 2½-franc and 25-centime silver coins, and a 2½-centime copper coin. It is proper to add, however, that the Papal gold and silver pieces corresponding to the French were of the same weight, standard, and diameter, and that, on such grounds, the most to be said unfavorably was that they were often beneath the correct standard. But that was a matter of small importance, and when they were subsequently thrown out of the French circulation, it was for reasons quite apart from those of mintage. The "Moniteur" of February 12, 1867, announced that the Papal Government had just given its indorsement to the Convention of December 23, 1865, and that by virtue of this action a uniformity of gold and silver moneys had been established between the Papal States and the Kingdom of Italy. But two essential requirements had to be conformed to by governments applying for admission into the Union: 1, That the coinage should have full weight and exact standard; 2, that the provision restricting the coinage to the 0.835 standard on the basis of population should be rigidly observed. As we have stated, the first condition was complied with. The Papal coins were worth neither more nor less than the French of the same denominations. The existence of 2½-franc, 25-centime, and 2½-centime pieces was regrettable. The Papal Government retained them on traditional grounds, the 2½-franc piece corresponding to the old écu or half-dollar and the 25-centime coin to the former grosso, or half-paul; but, upon their suppression, the adjustment of matters became easy, as the Holy See showed a conciliatory spirit.

While the negotiations were in progress, at the time of the return of a part of the French troops from Rome, the fractional money of the Papal States found its way in considerable quantities into the south of France. The Treasury officials had been instructed, by a notice inserted in the "Moniteur" of October 4, 1868, to lend their assistance for its circulation; but the Bank of France, not being authorized by any legislation to accept these coins, at first rejected them. This occasioned some trouble and numerous recriminations. Later, on strength of the assurance that the entrance of the Papal States into the Monetary Union was probable, the Bank relaxed its severity and consented to receive the Papal moneys on condition that they should be presented in payment only in small amounts. Thus it became of urgency to reach a decision upon the advisability of receiving the Papal States into the Latin Union. In order to determine that question, it was needful to know how much fractional money had been coined bearing the effigy of the Holy Father. The aggregate was found to be 26,000,000 francs, whereas only four or five millions was allowable under the proviso that the circulation should not exceed six francs per inhabitant. This overabundance of fractional coins was due in part to the peculiar economic conditions prevailing in Rome, which, as a place of pilgrimage, received a very great deal of money of the

various denominations below five francs. But it was still more a consequence of the policy of the Sovereign Pontiff, who had steadfastly abstained from all acts that would imply in any manner a recognition of Italy's absorption of a portion of the Roman States, and who deemed that it would be equivalent to such a recognition of the accomplished fact if the fractional money in circulation should be regulated proportionately to the number of subjects over whom he actually ruled. Under these circumstances, the French Government could not refuse the Papal coins the right of circulation.

The Chamber of Deputies took up the subject on February 5, 1870, the discussion being brought on by a question addressed by M. de Kératry to Count Daru, Minister of Foreign Affairs. M. de Kératry showed himself to be poorly informed, mentioning 0.735 as the Papal standard and 0.840 as the French. The reply of the Minister of Foreign Affairs was likewise somewhat astray; for it did not state the whole truth, and it encouraged credence of the old legend about the debasement of Papal money. Nevertheless, the facts were well reviewed. "The plain truth is," said the Minister, "that there is no monetary convention which binds us to the Papal States. We have monetary agreements with Belgium, Switzerland, and Italy, but the Pontifical Government has decided that it cannot bind itself by a convention. His Excellency, Cardinal Antonelli, has stated in a memorandum, dated December 12, 1868, that he could not accept the terms of the Monetary Union. Notwithstanding this, Roman money has been circulating in France for several years, notably in Lyons, by sufferance of the Government. That sufferance must have an end. I have had the honor to notify the Government of the Holy Father, in a dispatch of the 27th of January last, that in my opinion the French Treasury cannot, without serious disadvantage, continue to concede to the Roman coins the circulating privileges hitherto enjoyed. Measures to correct the evil have been taken during the past fortnight."

As a consequence of these explanations the Bank of France, which had already ordered several of its branches to refuse Papal coins, issued like instructions to its other offices without exception. Soon afterward, M. Buffet, Minister of Finance, instructed all persons connected with his department to reject them. These steps affected numerous interests. The circulation of the Papal coins had been rather widespread, especially in the southern cities. The press took up the question, and an active controversy was waged. One of the Deputies, M. Vendre, as the champion of those aggrieved, interpellated the Minister of Finance on February 25, 1870. M. Vendre took the ground that as the Government had tolerated and even promoted the circulation of the Roman coins, and as the public officials had used them for payments, the State should bear the responsibility for its acts, and indemnify individuals for the losses resulting from the elimination of these moneys. M. Buffet, the Minister of Finance, replied under some embarrassment. He pleaded extenuating circumstances for his predecessors, who, with a weakness that bordered on gross culpability, had permitted the introduction into France of the coins of a Government which had not fulfilled the conditions necessary for membership in the Union. M. Magnin, a Deputy, proposed that the holders of the coins be granted time to exchange them at their face value, or in approximation to it. The Minister of Finance declined to

make such a concession, as he did not feel justified in inflicting the loss upon the Treasury.

On February 27th, a circular was published in the "Journal Officiel" stating that while the public offices were closed against the Papal moneys, there was nothing to prevent the officials from rendering their holders such services as might contribute to the disposition of them at the least possible loss; and consequently that all receivers and collectors would take the Papal pieces at the rate of ninety-one centimes paid immediately. This loss of nine per cent., the reasons for which the public could not understand, caused a merited discontent, and provoked slanderous accusations against the Papal Government. To put a stop to such reproaches, certain persons devoted to the Holy See and several bishops opened offices at which Roman coins were redeemed at par; but as speculators took advantage of the opportunity thus presented, they had to be suppressed, and the coins which the Papal authorities were unable to take up remained floating in France.

After the war, during the financial crisis of 1871, the Roman pieces rendered some service to France. By the middle of September, 1871, five-franc coins and fractional pieces had become so scarce that the public was greatly embarrassed for money to pay workmen and to transact the small business of daily consumption. Thereupon the Bank of France, which had collected about 1,900,000 francs of Roman money, decided to put it to use, and placed it in circulation under a formal agreement, made public November 1, 1871, to take back these coins the same as French in all affairs of payment and exchange. But the temporal power of the Pope was now at an end. Italy, which had seized the residue of the States of the Church, naturally became responsible for the Papal coinages. By a decree promulgated February 18, 1872, the Italian Government announced that after March 16, 1872, Papal money would cease to be current in the Province of Rome, and that after April 30, 1872, it would no longer be accepted at the public offices or by individuals. The period specified was too brief to permit France, compelled, as she was at the time, to utilize the Papal pieces, to profit by the privilege of exchange, and she had to keep them. At the Conference of 1885, the French delegates showed that France had on hand about 10,000,000 francs of the Papal money that had passed out of circulation, and obtained for the French Government authority, as an exceptional matter, to recoin them up to 8,000,000 francs. Thus ended the episode of the Papal moneys.

## THE DECLINE OF SILVER.

The whole policy of the Second Empire displayed a tendency toward groupings of nationalities and the formation of a sort of European confederation. The Latin Union seemed to be a first step in that direction, and the next question opened up was whether the system adopted by the four countries might not be extended to embrace all Europe. The Exposition of 1867 appeared to offer a favorable opportunity. At the instance of the French Government, an international conference was held, at which eighteen nations were represented. It had its sessions in Paris from June 17 to July 6, 1867. As had been done in 1865, a list of questions was made up, which were brought forward successively for discussion. Nothing practical came of this conference so far as the Latin countries were concerned, but useful hints of the inclinations of the

different powers were obtained. Mr. Meinecke, the Prussian delegate, signified his preference for the single gold standard, and the conference, with but one dissenting vote—that of the delegate of the Netherlands—expressed itself affirmatively upon the following question: “Is there a possibility to attain this end (uniformity in coinages) upon the basis and with the condition of the adoption of the exclusive gold standard, leaving to each country liberty to retain temporarily the silver standard?” Indeed, from the opening of the conference, it was evident that there was little prospect for gaining adherents for the system of the Latin Union, whose essential feature was the simultaneous use of gold and silver. This indication was not permitted to go unheeded; for the conclusions arrived at by the Conference of 1867 led Prince Bismarck, promptly after the war of 1870, to substitute in Germany the single gold standard for the old silver standard. This was to have consequences for the Latin Union that will now be examined.

The war was scarcely concluded when the new German Empire instituted a uniform gold money for all the German States. We translate the principal provisions of the law of December 4, 1871, establishing the new monetary system: “The gold money of the Empire shall be struck at the rate of 139½ pieces to each pound of gold fine. The tenth part of this gold piece shall be called mark, subdivided into 100 pfennings. The alloy of the gold money is fixed at 100/1000 copper to 900/1000 gold.” This law was in keeping with the spirit of the Conference of 1867. The moneys provided for were on the decimal basis, like French money, but the values of the ten and twenty mark pieces did not vary much from those of the corresponding coins of England and the United States. Thus:

20 marks at par are worth	24.69 francs.
1 pound sterling equals	25.22 francs.
½-eagle, United States, equals	25.91 francs.

This circumstance of the approximate equivalency of German moneys with English and American, is the practical application of Question 6, submitted to the Conference of 1867, and decided in the affirmative almost unanimously: “Would it be possible and useful to establish uniform or partially coinciding coinages on the basis of gold moneys?”

The twenty-mark piece was also a development of the Conference of 1867, which had highly extolled the twenty-five-franc piece. Besides gold coins, silver moneys were needed. The law of July 9, 1873, made provision for them by ordering the coinage of five-mark, two-mark, one-mark, fifty-pfenning, and twenty-pfenning pieces, on the 0.900 standard. But while creating the indispensable silver coinage, the law reaffirmed the principle of the single gold standard. Article 9 contained the following: “No one is bound to accept more than twenty marks in Imperial silver coin.” This restriction did not apply to the public offices, which were obliged to receive silver money to any amount. The silver coinage was limited to ten marks per head.

## THE SCANDINAVIAN UNION.

Germany was soon followed by the Scandinavian countries—Denmark, Sweden, and Norway—which also profited by the decisions of the Conference of 1867. In the month of September, 1869, pursuant to a vote of the Swedish Diet, a special commission had been appointed to inquire into the monetary question. The Diet had indicated the single gold standard as the basis for the future system, and had manifested a desire to bring about a monetary agreement with other nations as far as possible. The commission presented its report on August 13, 1870. It recommended adopting the gold franc as a unit, on the standard of 0.900. Its proposals were without definite issue. But on December 18, 1872, Sweden and Denmark entered into an agreement to arrange the conditions of a monetary union. Both countries chose gold as the standard of their common system, silver and the baser metals to serve for fractional purposes. The standard of the new gold coinage was fixed at nine-tenths fine. The unit, called the *krona*, is a coin represented by its ten-fold and twenty-fold values, which are worth respectively 13.89 francs and 27.78 francs. This agreement took effect May 27, 1873. Norway, which naturally should have been associated with Sweden and Denmark from the outset, hesitated for some time. However, having on June 4, 1873, fully introduced the Swedish system, she reconsidered her attitude, and on March 4, 1875, joined the union already formed by Sweden and Denmark, which became the Scandinavian Union.

Since 1873, Holland had seriously taken up the coinage question, manifesting a preference for the gold standard, which she accordingly adopted on June 6, 1875. The decimal basis was provided for the new system, but the values of the coins did not correspond closely to those of the French. The ten-florin (gilder) piece is worth 20.83 francs.

## THE GROWING OVER-SUPPLY OF SILVER.

All these transformations were not accomplished without some trouble. Silver, being discriminated against, glutted all markets and depreciated in value. The following figures for Germany will give an idea of the quantities of silver thrown on the market by the monetary reform in Germany alone. In 1880, after 382,501,311 marks had been struck (equal to 458,488,000 francs), Germany had sold 567,139,993 marks of silver (623,853,992 francs), retaining a remnant of 339,353 pounds of fine silver, which she could not put to use in coinage (International Conference of 1881). The effect of these demonetizations was reinforced by a considerable increase in the output of the mines. According to the “Report of the Select Committee on the Depreciation of Silver” submitted in 1876 by Mr. Goschen (p. 5), the estimated annual production of silver from 1852 to 1862 averaged eight to nine millions of pounds sterling, being:

In 1862 £ 9,040,000  
In 1863 9,840,000  
In 1864 10,340,000  
In 1870 10,845,000

From 1868 to 1870, the totals were a little lower, but after 1870 they rose again, being:

In 1871 £12,210,000  
In 1872 13,050,000  
In 1873 14,050,000  
In 1874 14,300,000  
In 1875 16,100,000

Of course, the above statistics are only approximate, but they illustrate the growing ratio of increase in production. A third very effective cause for the plethora of this metal was the diminution of India's demand. In 1865-66 India's net imports of silver aggregated £18,170,000, but after 1870 the excess of imports over exports was on a much smaller scale, being:

In 1870-71 £ 940,000  
In 1871-72 6,515,000  
In 1872-73 705,000  
In 1873-74 2,405,000  
In 1874-75 4,640,000

Meantime China and the other far Eastern countries did not take quantities to at all compensate for the excessive production. Thus three agencies worked together for depressing the price of silver; the change in the monetary systems of Germany, the Netherlands, and the Scandinavian nations, the increase in the output of the mines, and the decrease in the Asiatic demand. Moreover, the price of silver on the London market, which should have stood at 60 $\frac{1}{8}$ d. per ounce if the 15 $\frac{1}{2}$  ratio is correct, took this downward course:

Maximum.	Minimum.
PER OUNCE.	PER OUNCE.
1865 61 $\frac{7}{8}$ d.	60 $\frac{1}{8}$ d.
1869 61d.	60d.
1870 62d.	60 $\frac{1}{4}$ d.
1871 61 $\frac{1}{8}$ d.	59 $\frac{1}{4}$ d.
1874 59 $\frac{1}{2}$ d.	57 $\frac{1}{4}$ d.
1875 57 $\frac{5}{8}$ d.	55 $\frac{1}{2}$ d.

With the right of unlimited coinage allowed to the contracting States, the Latin Union served to drain off the larger part of the surplus silver. As the average intrinsic ratio of gold and silver rose from 15.64 in 1872 to 15.93 in 1873, this left, notwithstanding the loss of interest on mint vouchers, a sufficient margin for speculation, since the piece that circulated for five francs was worth barely 4.85 francs at the rate of the day. The coinage of 5-franc pieces took great strides. In 1873 there were coined—

FIVE-FRANC PIECES.

In Belgium 111,704,795

In Italy 42,273,935

In France 154,649,045

Grand total 308,627,775

This aggregate of 308,627,775 francs represents the coinages of only three governments, Switzerland having for a long time abstained from minting. The oversupply of the depreciated money alarmed the public. The Bank of France rejected Belgian and Italian five-franc coins, as it had the right to do. The Chambers of Commerce, particularly those of Antwerp and Lyons, gave decided expression to their solicitude, and demanded that the gold standard be adopted. To soothe these apprehensions, the French and Belgian Ministries caused a slackening in the coinage of five-franc pieces, but more energetic measures were needful. M. Malou, Belgian Minister of Finance, took the initiative. On November 11, 1873, he presented the draft of a law authorizing the Government to limit or suspend the minting of five-franc pieces until July 1, 1875. Among the reasons given by the Minister for this step, the following explanation is significant:

“While permitting nothing to prejudice my mind as to principles, it appeared to me that, pending the meeting of the Chambers, my duty was to exercise the hitherto undisputed powers granted by existing laws in order to better preserve the Legislature’s liberty of action *and to indicate, though in a manner somewhat inconclusive, Belgium’s good faith in issuing coins, which, in the event of their withdrawal, she would recognize or replace.*” This view, admitting the responsibility of the issuing State, is contrary to the one since maintained by M. Pirmez. After a prolonged discussion, the act suspending the coinage of silver was passed (December 18, 1873). The measure was good, but not adequate; for the money allies of Belgium and France could have made it of no avail by simply increasing their coinage and introducing the product of their mints into the two countries, which latter might have been done with perfect ease, exchange being nearly always against Italy and Greece. The danger could be dealt with only by an international agreement.

## AGREEMENT OF JANUARY 31, 1874.

Switzerland, although less interested than any of the other countries, proposed a call for a new monetary conference. France gave her approval immediately to the Helvetian proposal, which was in the behalf of her own menaced interests, and invited the allied governments to appoint representatives. The conference assembled in Paris on January 8, 1874, M. Dumas presiding. The views of the four governments were successively brought under consideration. The French Government, through M. Dutilleaux, Director of the Circulation Department of the Mint,\* informed the conference that, in order to check the movement of silver into the monetary establishments of Paris and Bordeaux, the daily minting of the white metal had been limited, first, to 280,000 francs, and then to 150,000 francs. M. Dutilleaux added that this precaution would have been sufficient if France had not been tied by reciprocal engagements to the other States of the Union, whose five-franc pieces flowed steadily



into the public offices; and that the limit placed on the coinage of silver did not imply on the part of France either a change in the monetary system, or even a tendency toward any modification whatever. Belgium went farther. Her delegate, M. Jacobs, gave it as his opinion that each government should pledge itself for a certain period to cease the minting of five-franc pieces, or else specify a maximum figure. He urged, with good reason, that this would be the most practicable way to prevent the States of the Union from being used as the outlet for the depreciated bullion and demonetized silver coins of Germany, Holland, and the Scandinavian countries. Italy, whose coin had been rejected by the Bank of France, declared that she did not object on principle to a temporary restriction of silver coinage, but complained of the French refusal of Italian pieces, whereas French pieces enjoyed legal circulation in Italy, and claimed that the action of France was contrary to the spirit of reciprocity. M. Lardy, the Swiss representative, made a masterly argument, and demanded that an investigation be undertaken which should go deeper into the causes of the depression of silver. He was at no pains to much disguise his wish for a consideration, and perhaps an introduction, of the single gold standard. A series of questions was propounded to guide the conference in its deliberations, as had been done on the previous occasions. Omitting those adapted only to excite academic discussion, and others that were thrown out peremptorily by the French delegates, these were principally considered: "Is it possible, by limiting or suspending for a certain time the coinage of five-franc pieces, to find remedies for the embarrassment occasioned by the decline in the value of silver? Is it necessary to institute general legal tender for the current coins of the four countries, in addition to the existing legal tender, so far as the public offices are concerned?" The solution of these two problems was the whole purpose of the conference, and sentiment as to the former had already been strongly prejudiced by the attitude of France and Belgium.

Various opinions were advanced concerning methods for counteracting the injurious depreciation of silver. The most radical was the single gold standard policy, which was consistently advocated by the Swiss delegation. But although some of the French representatives were quite disposed to side with the Swiss, they were unable to entertain any discussion on that subject, since their instructions formally excluded it. M. Dumas, president of the conference, summed up matters as follows:

"The programme that apparently would have the best chance of acceptance, would be to create a fourth variety of legal money. Aside from the gold coins that are abundantly provided to meet the requirements of commerce, the fractional money struck by the four countries in limited quantities, and at an inferior standard and that circulates among them in common, and the copper coins issued by each country for its own home needs, silver coins of a uniform standard of 0.900 might be minted, which, instead of being abandoned to the speculations of trade, would depend upon the will of the governments themselves, like the old coinages that were made in the name of the Sovereign under special laws."

After these plans had been discussed, it remained to determine the coinage allowances of the various States. It was the general sense of the conference that the total of the new coinage, for the year 1874, should not be in excess of 60,000,000 francs, to be apportioned among the four countries. But Italy raised objections which may be

summarized as follows: (1) The Bank of Italy, which holds the monopoly of coinage, has in its vaults 60,000,000 francs in bullion. This metal must be converted into coin, but it was not intended for circulation. The coinage of that silver must not be subjected to the restrictions which will be fixed for the coinage of silver brought to the mint by individuals. (2) The restrictions for silver coinage should not be made to apply to the old Italian coins not on the decimal basis. These coins still (1874) amount to 50,000,000 francs, of which about 18,000,000 are to be reminted during the year. The apportionment, according to population, of the 60,000,000 francs agreed upon for 1874, gave to France 30,000,000 francs, to Italy 20,000,000 francs, to Belgium, 5,000,000 francs, and to Switzerland 3,000,000 francs. Adding mint vouchers to fall due in 1874, and the 60,000,000 francs to be coined for the account of the Bank of Italy, a total of 170,000,000 francs was obtained, of which Italy would have 89,000,000 francs, or twice her 1873 coinage. This concession to Italy, at a time when that country was under a forced currency régime, and was unable to keep her money at home (since it escaped into France and Switzerland almost immediately after being coined), was deemed particularly unreasonable.

At the next meeting the amount was raised to 94,000,000 francs. Finally the conference fixed it at 120,000,000 francs, distributed thus:

FRANCS.

60,000,000	for France.
40,000,000	for Italy.
12,000,000	for Belgium.
8,000,000	for Switzerland.
Total, 120,000,000	

This total comprised the mint vouchers already issued and falling due in 1874. The 60,000,000 francs which the National Bank of Italy desired to transform into coin, in addition to the prescribed quota, constituted a genuine difficulty; for if Italy's wish in that respect had been granted, her coinage would have surpassed that of France. After lengthy debates, the aggregate of the supplementary coinage was placed at 20,000,000 francs. The French delegates were hardly less strenuous in opposing the demand for the legal-tender quality for Italian coins in the various States of the Union than they had been in resisting the Italian claims as to the quota. They made a peremptory protest. "This same demand," said the president, "was made in 1865, and it was not deemed possible to accede to it in France, because of the resistance that such a course appeared to deserve. The general tendency of public opinion in France has become strengthened by our experience with numerous types of foreign moneys which for a considerable time have been a part of the country's circulation. The French Government would regard the recommendation of a law designed to make these moneys legal tender as utterly devoid of the possibility of acceptance by the National Assembly. Neither can the French Government interfere to compel the Bank of France to receive at its offices the Italian silver moneys. Notwithstanding the Government's desire to arrive at an understanding, it can enter into no engagement whatever on that point." The Belgian delegation took the same position. Switzerland, as a disinterested country (for, so to speak, she had no money of her own), supported

Italy's contention, and urged that, in default of legal tender, France and Belgium could at least induce their banks of issue to accept the five-franc pieces—a suggestion that met with unanimous approval. The Minister of Finance consulted with the management of the Bank of France, to ascertain whether the Bank would consent to take the five-franc coins of the Latin Union. The Bank replied, on January 30, 1874, that the policy it had enforced was occasioned by the need of putting restraints upon silver speculation, but that in view of the new decisions of the four associated States, it would discontinue its prohibitions for the year 1874. A like answer was received from the Bank of Belgium. Thus, the object of the conference was attained. The following is the substance of the principal resolutions of January 31, 1874: The five-franc silver coinage for 1874 was limited to 120,000,000 francs, deducting from this amount 49,868,000 francs of mint vouchers issued up to December 31, 1873. Italy was authorized to strike during 1874, for the reserve fund of the National Bank, 20,000,000 in five-franc pieces, all of which coin was to remain in the vaults of the Bank, under the guaranty of the Government not to circulate it, until the next conference, which was to meet in January, 1875. Article 12 of the convention of December 23, 1865, relating to the right of other countries to join the Latin Union, was modified. The privilege of membership in future was made subject to previous agreement by the associated States. Greece, not having been invited to participate in the conference, claimed that she was not bound by the stipulations of the agreement of January 31, 1874. As, however, this question was not raised until toward the end of 1874, it was decided by common consent to leave it for the action of the Conference of January, 1875, to which Greece should be invited.

## CONFERENCES OF 1875 AND 1876.

The next conference came together on January 25, 1875. Its purpose was to determine whether the measures limiting the coinage of silver should be continued. All agreed that such a continuance would be expedient. But Italy demanded the right to coin 40,000,000 francs more, urging the necessity to create a reserve fund for banks of issue and to effect the conversion of a certain amount of non-decimal old money. In addition, she requested authority for the National Bank to place in circulation the 20,000,000 of five-franc pieces that were held in its vaults in obedience to the resolves of the 1874 conference. The conference, while reducing the supplementary quota of Italy to 10,000,000 francs, empowered her to circulate the 20,000,000 francs of the Bank that had been lying idle. Pursuant to the expressed desire of Belgium and Switzerland, the quotas of those countries were increased by one-fourth. As for France, since the agreement of 1874 was essentially restrictive and limiting, with a view to protect her against promiscuous issuance of five-franc pieces, it would have appeared but rational if she had declined for herself the right to increase the five-franc coinage. But her representatives thought that the four contracting States should be on a corresponding basis. Besides, each country was at liberty to waive the privilege conceded. The maximum amount of silver coinable by the Union for 1875 was fixed at 150,000,000 francs. It was resolved that another conference should be called to meet in Paris in January, 1876, and that mint vouchers for 1876 put forth up to that time in the various countries should not be in excess of half the quota for 1875.

With regard to the special circumstances of Greece, it was insisted by that country that her share in the total coinage should be adjusted not alone by the schedule of 1874, but also in proportion to the amounts struck by the several nations previously. This was thoroughly inadmissible. As a matter of fact, no limitation had been imposed upon the coinage of silver in the nations of the Union until 1874, and the more or less large issues had not been dependent upon the joint will of the allied governments, but upon the convenience of single governments. Thus it was quite out of the question, in a conference having for its aim to limit silver coinage, to allow Greece the scope she desired. Entitled to five francs in five-franc pieces per head, she would have been privileged to coin at least 75,000,000 francs if her request had been granted. As the Hellenic delegates were not present when the agreement was signed at the conclusion of the conference, the French Government was empowered to conduct negotiations with Greece on the basis of 5,000,000 francs for 1875. Greece accepted, reserving the privilege to demonstrate at the next conference that the 5,000,000 francs allowed was insufficient.

To complete the work in hand it was requisite to arrange terms for the acceptance of silver coins in the four countries. There were no difficulties to contend with in Italy, which accorded legal circulation to the coins of the Union, or in Switzerland, which struck no five-franc pieces, but used those of the other States. But, in France and Belgium, the circulation of the Union's money had to be provided for by persuading the banks of issue to agree to receive them. The Bank of France, when the matter was laid before it, consented in very guarded terms, dwelling upon the anxiety which the uninterrupted growth of its silver stock had caused. In a letter of February 4, 1875, in behalf of the Bank, the following was said: "It is our opinion that the conditions which superinduced the legislation by the four contracting Powers restricting the coinage of five-franc silver pieces are still in operation. We express the desire that the agreement about to be renewed shall be modified in practice as little as possible. We will continue, for 1875, to take over our counters the coins struck by the contracting nations under the provisions fixed by the agreement." A letter conceived in similar terms, dated January 5, 1875, was received from the Bank of Belgium.

## CAUSES COMPELLING A LIMITATION OF COINAGE.

The conference contemplated by the resolutions of 1875 met in Paris January 20, 1876. The considerations that had rendered limitation of the silver coinage imperative in former years had acquired added strength during 1875. The standard ounce of silver had fallen to 55½ pence on the London market on June 11th, making the ratio of gold and silver intrinsically 16,989. Throughout the year, the ratio ranged above 16.3. The Bank of France saw its stock of silver coin augmented enormously, having increased as follows from 1871 to 1875:

FRANCS.

1871 131,700,000  
1872 145,400,000  
1873 150,300,000  
1874 329,500,000  
1875 508,700,000

Thus, in a period of five years, despite all the endeavors to maintain silver in circulation, the stock had nearly quadrupled. It was consequently needful to preserve the restrictions on coinage. But those restrictions, though absolutely necessary, operated to further abridge the utilization of silver, and thereby to increase its depreciation. At the first meeting of the conference M. Feer Herzog, the Swiss representative, said: "Never since the discovery of America has the relative value of silver fallen so low; and we cannot fail to see in this strange circumstance the evidences of a situation which is most menacing to the future of nations that permit the accumulation within their borders of an already depreciated metal whose decline must necessarily continue from day to day." He concluded by recommending the total suppression of silver coinage and the substitution of the single gold standard. But as France was not inclined to pursue that course, Switzerland urged that the limit of 1875 be reduced to the farthest extent possible. The French delegates, while recognizing the justice of M. Herzog's views, were in a delicate position. The National Assembly that had approved the coinage plan of 1874 had been dissolved and a new Chamber was about to convene. The Government felt itself obliged to leave matters in *statu quo* and do nothing that might be interpreted as binding, or that might embarrass the action of the representatives of the nation. This difficulty was very skillfully disposed of by M. Jacobs, the Belgian representative. Greece had been authorized to strike 5,000,000 francs for the year 1875, which was really insufficient, since that amount did not, as in the other States, provide for the conversion of old coinages. The Greek Government asked, and not without reason, for permission to coin 25,000,000 francs in 1876. This total, manifestly going to extremes—and particularly so if the proposed amount should be minted at once—was reduced to 12,000,000 francs. M. Jacobs proposed to adopt again the basis of 1874, and provide for a maximum of 120,000,000 francs, minus 12,000,000, to be conceded to Greece *pro rata* out of the quotas of the other States. This was agreed to, and the quantities to be coined during the year were apportioned as follows:

FRANCS.

Belgium	10,800,000
France	54,000,000
Italy	36,000,000
Switzerland	7,200,000
Greece	3,600,000
Total	111,600,000

Greece, in addition to the 3,600,000 francs thus provided for, was granted the privilege of an exceptional coinage of 8,400,000 francs to replace the five-franc pieces of old coinages in circulation. It was decided that none of the contracting States

should issue mint certificates for maturity in 1877 in excess of half the 1876 allowance.

The international agreement was signed on February 3, 1876. The Banks of France and Belgium, when requested to pledge themselves to accept the silver moneys of the Union, readily agreed, as they had done in the previous years. The new restrictions laid upon silver coinage had the effect of contributing to the further decline of silver. In the month of June, the metal was worth only 50d, per ounce in London, and on that basis the ratio of gold and silver advanced to 18.69. In England, public opinion, alarmed at such depreciation, which seriously affected the trade with India, demanded an inquiry for the determination of its causes and consequences. A commission was appointed, and Mr. Goschen, after gathering much data, summed up matters in rather vague terms by stating that, as the fall in silver depended upon uncertain elements and contingent values, the future state of the market could not be reasonably prognosticated. In France, M. Léon Say, Minister of Finance, deeming it inexpedient to have the coinage conducted at the sole pleasure of individuals, submitted to the Senate, on March 21, 1876, the draft of a measure authorizing the restriction or entire discontinuance of minting by decree. We quote from his explanatory statement: "Since 1865, there has occurred a certain depreciation in the value of silver. The Powers subscribing to the convention have considered it prudent, since 1874, to put a check upon the coining of five-franc silver pieces. A maximum coinage has been designated for the countries of the Union, amounting in 1874 to 120,000,000 francs, in 1875 to 150,000,000 francs, and in 1876 again to 120,000,000 francs. The share allotted to France was 60,000,000 francs in 1874, and 75,000,000 francs in 1875. This year (1876), it is 54,000,000 francs, with the privilege to coin at least 27,000,000 francs in 1877; which implies that our mints are limited to 81,000,000 francs until a new arrangement shall obtain. But as the home legislation of France has not meantime been altered, the amount which is maximum from the point of view of the State is minimum as regarded by interested individuals. Indeed, from the very day that France was empowered to strike 54,000,000 francs of five-franc pieces, the owners of silver have had a perfect right to insist that the Government neither can nor should deny them the privilege to convert their bullion into coin, so long as the international convention is not violated—in other words, so long as the prescribed bounds are not overstepped. They are therefore entitled to demand that five-franc pieces be minted for them until the quota apportioned to France shall have been exhausted." After calling attention to Belgium's suspension of silver coinage in 1873, M. Say concluded by declaring that, in view of the depression of silver, respecting which it was difficult to form a definite judgment, he believed it to be convenient, without wishing to solve the question whether the single or double standard was preferable, to assume a waiting attitude and not increase the quantity of silver pieces.

On the same day, M. de Parieu discussed the coinage question in an extended interpellation, in which he directed attention to a curious fact. He said, in substance, that the Conference of 1876 limited by resolution, which it was wrong not to submit to Parliament, the issuance of mint certificates in 1876. That would have been a perfect arrangement if individuals had not come forward in France and endeavored to have the Government admit the soundness of the following reasoning: "Though the business year 1876 is provided for, the resolution is silent so far as 1877 is concerned.

Consequently, certificates payable in 1877 may be issued.” In other language, added M. de Parieu, a barrier erected for 1876 had been jumped, and certificates for the year next following were put forth, whereby the future contingents had been anticipated; and this very simple speculation had yielded its originators eight per cent. In his response, the Minister of Finance confined himself to the plea that there were extenuating circumstances for the past, and said that his views concerning the practical matter under consideration were sufficiently indicated by the details of the proposed act for the suspension of silver coinage. On March 29th, M. de Parieu, following up his interpellation, introduced in the Senate a bill more radical than that of the Minister of Finance, ordering the suppression of mint certificates. M. Rouland was appointed to make a report upon the two projects. He approved the course of the Latin Union in guarded terms, and concluded by recommending the adoption of the Government plan. M. Rouland’s report brought out nothing new. He stated that France, by the wide range of its markets and by its generally favorable exchanges, naturally became the collector of the Latin Union’s five-franc pieces. He presented the following statistics, which afford good material for reflection:

Price of Silver in London. Silver Coinage of the Latin Union.	
PENCE.	FRANCS.
1865 611/16	9,000,000
1866 66⅞	2,000,000
1867 609/16	73,000,000
1868 607/16	127,000,000
1869 607/16	141,000,000
1870 60½	137,000,000
1871 60½	92,000,000
1872 60¼	45,000,000
1873 59	307,000,000
1874 585/16	139,000,000
1875 58¾	155,000,000

These figures show that as silver declined the minting increased. The amount coined in 1869 was 141,000,000 francs, which was entirely sufficient; yet, even under the restrictive arrangement, the coinage reached the very high aggregates of 139,000,000 and 155,000,000 francs.

## THE FRENCH LEGISLATURE SUSPENDS SILVER COINAGE FOR PRIVATE ACCOUNT.

The Government scheme hung fire for a long time in the Senate and Chamber of Deputies, and was finally adopted, without modification, on August 5, 1876. On August 6th a decree was issued announcing that bullion and other material for the coinage of five-franc pieces for private account would no longer be admitted. Meanwhile, in the Belgian Parliament, M. Frère-Orban had interpellated M. Malou, Minister of Finance, on the coinage question. It is well to remember that the allowances successively granted to the several countries bore no relation to their

legitimate needs, excepting probably in the case of Greece; and that in various instances they served only as a means to levy a convenient tax upon the circulation of neighboring States, the effect of which was not immediately felt. To levy such a tax, the only thing needful was to buy silver at the rate of the day—ten to twenty-five per cent. less than the nominal legal value—and throw it upon the market after transformation into five-franc pieces at face value. M. Frère-Orban's interpellation bore upon such transactions. M. Malou confessed that he had bought bar silver for 10,800,000 francs with three per cent. consols, for the purpose of making a profit for the State. In his defence he said: "Is the five-franc piece false money? It is worth five francs, and therefore I could not make scandalous profits." This provided his interrogator with an inviting opportunity, which was availed of in the following severe words: "Why has the Government bought and coined for the account of the State? By its own admission, to make a profit. The five-franc piece is always worth five francs; but whence comes the profit? It comes from the circumstance that you legislate in recognition of fundamental wrong, proclaiming against truth, against plain evidence, and against the nature of things—proclaiming, I say, in perpetuity that fifteen and a half kilos of silver shall always exchange for one kilo of gold. The Government, to gain a miserable profit, has swelled the burdens of the State in the event that demonetization shall occur, and has increased the amount of the coinage, as you admit." The incident had no practical issue; but it afforded a demonstration of the spirit of speculation that actuated the demands for unnecessary coinage. M. Frère-Orban enjoyed a sort of satisfaction afterward, when the Belgian Chambers were convoked by the Ministry to vote upon an extension of the law of December 18, 1873, until January 1, 1879.

## ADDITIONAL AGREEMENT OF JUNE 30, 1879.

No monetary conference was held in 1878. The law of August 5, 1876, gave to the French Government the right to limit or suspend the coinage of five-franc pieces until January 31, 1878, and, accordingly, the exchange bureaus of the mints of Paris and Bordeaux had been closed on August 6th. Thus the most imminent perils were warded off, and the Minister of Finance was able to postpone the conference that should have assembled in January, 1877. It was the opinion of the French Government that it would not only be needless to have the conference meet, but dangerous, inasmuch as embarrassing discussions would be raised. The request for postponement was accepted by all the interested countries. Italy, however, claimed the right to complete, in 1877, the coining of the quota assigned to her in 1876. It will be remembered that the agreement of February 3d authorized her to issue 18,000,000 francs of mint certificates in anticipation of the quota to be fixed for 1877. She also demanded that the Banks of France and Belgium should continue to accept Italian coins. As the increase in question was a matter of but slight importance in the aggregate amount of coined silver, Italy's concessions were acceded to by her associates, and also by the Banks of France and Belgium. Greece complained that the 12,000,000 francs conceded to her in 1876 had been almost wholly consumed because of the demonetization of foreign coin circulating among her people, and she obtained permission to mint 5,000,000 francs. Toward the end of 1877, the French Government, much concerned about the monetary situation, was most anxious to avoid as long as possible another conference, whose printed proceedings could not



fail to present a striking disavowal of the double standard policy that she had so long supported. The Government hoped, however, to find a means of escape from its troublesome position, counting upon the moral effect of a decision by Congress at Washington in favor of re-establishing the double standard in the United States, and upon an improvement in the price of silver, which had been indicated for some time by the growing demands of India and China. France, therefore, proposed to the other governments a further postponement until the last months of 1878, promising an extension of the law of August 5, 1876.

It was impossible to go farther in delay, since the convention of December 23, 1865, was to come to an end on January 1, 1880, and it was consequently indispensable that the conference should take place before the close of 1878, both to consider questions of standard and coinage and to reach an understanding respecting the continuance or disruption of the Latin Union. Belgium, whose situation resembled that of France, accepted the French Government's proposal, and Switzerland did likewise; but Italy raised difficulties. She insisted on permission to coin silver up to the same amount as in 1877 (18,000,000 francs), upon the acceptance of Italian five-franc pieces at the Bank of France and the Bank of Belgium, and upon the assembling of the conference in the month of April, 1878. Although it was to be regretted that Italy would not consent to suppress completely the coinage of silver, which certainly could not be useful to her, as her domestic exchange was regulated almost exclusively by forced paper currency, she was able to justify at least a portion of her demands by definite reasons. She had withdrawn from circulation a rather important volume of non-decimal coins, which thus had become a dead capital, the use of which she could not afford to lose permanently. This consideration was of a nature to prevent stubborn opposition by the other countries. By agreement they proposed, and persuaded Italy to be satisfied with, a quota of 9,000,000 francs. It was out of the question to do otherwise, for Italy, by simply allowing matters to take their course and returning to the convention of 1865, would have recovered her liberty and been able to mint as many millions as she desired. The banks, speaking strictly, might have rejected the Italian coins; but that procedure would have involved more inconvenience than advantage, and would have inextricably embarrassed the French State funds. Concession to Italy was the only available solution, and all the governments acted sagaciously in agreeing to it. The banks renewed their promise of assistance for 1878.

## LÉON SAY PROPOSES TO EXTEND THE LAW OF 1876.

As had been promised in the negotiations for postponing the conference, the Minister of Finance, M. Léon Say, proposed to the Senate a measure to extend the law of August 5, 1876. His explanation was remarkable for its optimism. The sole announced reason was the instability of the money market, which, however, it was stated, had improved. M. Garnier, in his report, added nothing of any significance. M. de Parieu, while glorifying the Latin Union, of which he had been one of the founders, regretted that the energetic methods for the suppression of silver coinage which he had advocated in 1876 had not been adopted. The act was voted without trouble, and was promulgated February 1, 1878.

## THE BLAND ACT AND CONFERENCE OF 1878.

On the 18th of the same month, the United States Congress had passed the Bland Bill, authorizing the coinage of silver dollars and making them legal tender. It had, moreover, decided that an international conference should be called to establish an international understanding as to the ratio between the two metals. General Noyes, Minister of the United States in France, made overtures to that effect to the French Government, which led to the resultless international conference held in Paris in August, 1878. As soon as the French Government received the invitation of the United States it sought the advice of the other governments comprised in the Latin Union regarding the reply to be given. All were of opinion that the international conference should be preceded by an exchange of views on the part of the delegates from the Latin Union countries; and for this purpose a conference was called for August 30, 1878, to examine the conditions for a renewal of the compact that was to expire in 1880. At a preliminary meeting, the Italian representatives once more brought forward the old demand for legal tender for gold and five-franc silver coins of each of the contracting States in all the nations of the Union. This Italian demand, rejected in the former conferences, was the logical outcome of the convention of 1865, which required the public offices of each nation to take unrestrictedly and without possibility of exchange and settlement a foreign money which, nevertheless, might be refused by the people to whom the State makes payments, since among them it is not legal tender. If, on the other hand, to forestall this danger, the coins should be invested with the legal-tender quality, individuals would then compulsorily have to receive foreign money—not note money, but actual—struck without the concurrence or surveillance of the Government to which they owe allegiance and which would hold itself responsible without power of control. All this applies equally to gold money; but the ready preference of the public for the yellow metal always assures foreign gold of easy circulation, and so it is the less necessary to pronounce it legal tender in order to keep it current. To finally secure assent to her claim, Italy agreed to a modifying provision, whereby each country, in the case of a breach of the convention, was to take back its own five-franc pieces that might be in the possession of the other States and pay gold for them. Upon this modifying clause turned subsequently the transactions of the Conference of 1885. Having served the desired purpose of an exchange of views, the conference, on October 1st, adjourned.

The Minister of Finance had consulted with the Bank of France about the pretensions of Italy. The management of the Bank did not feel at all satisfied with the outlook, observing that the practical effect would be to deprive the Bank of all right to refuse, if necessary, foreign coins, and thus further swell the stock in its vaults, which amounted already to 270,000,000 francs, whereon the loss in exchange was thirteen to fourteen per cent. Moreover, the question of State responsibility for the redemption of foreign coins held by the Bank had never been settled, and on that score the management had grave anxieties, which found expression in the reply sent, December 5th, to the Minister. In this the Bank, after explaining that the consequences of the 1865 convention were very burdensome, and that the receipts of foreign silver grew daily because of the public's aversion for the heavy and inconvenient five-franc pieces, rejected with all its energy the proposition to establish legal tender for foreign coins, whether silver or gold. It added that, while it had consented temporarily, upon

the State's demand and in the general interest, to take foreign pieces, it would none the less be entitled to protection under the principles of the common law. In plainer words, it intimated that it would be able to throw upon the State the loss that it might have to suffer from the depreciation of silver. Finally, it was stated that although the convention of 1865 had not provided a method for the liquidation of the five-franc silver pieces, the decline of ten to fifteen per cent. which silver had undergone required imperatively that the conference should not leave the question without solution. This letter furnished the Minister of Finance a reason for rejecting the legal-tender proposal, which accordingly was ultimately set aside. Throughout the conference the question of liquidation was the cardinal subject of discussion by reason of the importance of the interests involved. Italy, having been unable to procure acceptance of her special demands, manifested great repugnance toward a liquidation scheme for the five-franc pieces. "There is in the convention of 1865," said her delegate, M. Ressmann, "nothing providing for a final settlement for the five-franc pieces, while on the other hand there is such provision for fractional coins; therefore, by the axiom, *Qui dicit de uno negat de altero*, should it not be assumed that, if the convention of 1865 regulated in so precise a manner the settlements for fractional coins, it deliberately excluded the other from such obligation? If the proposed liquidation cannot be justified on grounds of right, neither can it be on grounds of equity. For, if it is said that forethought of liquidation was impossible in 1865, before the decline of silver, it may be replied that it could, however, have been contemplated in 1874; yet it was so far from contemplated then that recourse was had to limitation of the coinage quotas, which is antagonistic to any idea of liquidation. Therefore a liquidation arrangement can be asked for only on the basis of the reciprocal friendship and good assistance that the States concerned owe one another."

M. Pirmez, who has since changed his mind, answered M. Ressmann in a truly remarkable manner. "It is not," said he, "in the convention of 1865 that we must look for the liquidation obligation, but in the circumstance that Italy has established at home a forced currency. The convention stipulated that there should be no other moneys than those designated therein. If it excluded all moneys having other weight or standard than those determined upon, it excluded with much more reason paper money. What would a monetary convention signify to a country no longer having any money? Italy, by right and by equity, must repair the injury she has done to her associates by the forced paper currency." Notwithstanding the cogent arguments of M. Pirmez, the liquidation clause was not adopted. However, the discussion was not entirely devoid of results, for by the agreement of November 5, 1878, which terminated the conference, Italy declared that it was her intention to put a stop to the emission of paper money of less than five francs, and that, to promote that end, she desired to withdraw the Italian fractional coins from circulation in the other countries. This was a relief of some consequence. The new convention, signed November 5, 1878, reproduced the essential features of the convention of 1865 (expiring January 1, 1880), and was to remain in force until January 1, 1886. It decreed that silver coinage should be suspended, excepting for Italy, which was exceptionally permitted to coin 20,000,000 francs in five-franc pieces during 1879, but was not to resume coinage afterward without the unanimous consent of the contracting States. Attached to the convention was an agreement on the part of the interested nations not to issue mint certificates for the year 1879. The Bank of Belgium and the Bank of France engaged

to receive the five-franc pieces of the Latin Union during the whole period of the convention. But this was conditioned upon the preservation of the actual existing basis, and the engagement was to become void in case the free coinage of silver should be resumed, or in case any of the States wherein the money of the Union was legal tender should abolish the legal-tender policy without substituting engagements similar to those of the Banks of France and Belgium.

## WITHDRAWAL OF ITALIAN COINS FROM OTHER STATES.

The withdrawal of the Italian coins from the other States was a difficult process. The details were regulated by an arrangement dated November 5, 1878, of which we give the outlines: From December 31, 1879, Italian fractional coins were to be no longer current in Belgium, France, Greece, and Switzerland. In the month following the conclusion of transactions, all such coins were to be remitted to the French Government, which was to undertake to pay for them, principal and costs, and to forward them to Italy. The account between France and Italy was to be closed January 31, 1880. The amount of the moneys to be returned to Italy was reckoned at 100,000,000 francs, of which 83,000,000 fell to the share of France, and 13,000,000 to the other countries. Italy was to take back first the 13,000,000 francs, then the 87,000,000, and, finally, the excess, if any. The transactions of the Italian Government were to give rise to a "current account," the interest whereof was to be settled at three per cent. per annum, from the day on which the coins taken out of circulation should cease to be current. The times of payment for the moneys were specified, and the Government of Italy engaged to retire and destroy within six months at latest, from the completion of the fractional coin remittances, all its fractional paper below five francs. Italy also pledged herself to refrain from issuing new scrip of this kind, and to communicate to the other governments a statement of the withdrawals and destruction of fractional paper scrip as they were accomplished.

## A SERIOUS DISPUTE WITH ITALY.

The convention received legislative approval in Belgium and Switzerland. In the French Chamber of Deputies it was on its first reading when a serious complication occurred. Italy, whose Ministry had resigned, made the following demands on the pretext that the convention of November 5, 1878, would not be approved by the Parliament: (1) That Italy be granted the right to coin 80,000,000 francs of five-franc pieces instead of 20,000,000, at the rate of 20,000,000 francs a year, from 1879 to 1882 inclusive, in order to put to use a supply of old Bourbon and Papal coins. (2) That she be not required to engage by international agreement to withdraw absolutely from circulation the small scrip, since it appeared to her that such a requirement would be an interference with her national sovereignty. Italy took this position on the ground that the new convention was less favorable to her than the one of December 23, 1865. By the original terms, she said, the contracting States were allowed two years to take back their fractional moneys and exchange them for current money, which would allow her to distribute her redemptions over the years 1879, 1880, and 1881, without payment of interest; whereas the new convention obliged her to take

back the coins through the years 1880, 1881, 1882, and 1883, and to support an interest of three per cent.

As to the first point made, it seemed strange that Italy, having procured exceptional coinage privileges in the former years, should come forward asking for a supplement of 60,000,000 francs—especially in view of the great reluctance with which the other States had finally yielded her so small an allowance as 20,000,000 francs. Such an augmentation of the coinage would have been viewed very unfavorably by the Bank of France, whose coin stock on hand was more than half silver. For the rest, it was utterly inadmissible to permit Italy to retain her small scrip in circulation and thereby do away with the sole guaranty that the States had against the renewed turning out of her fractional coins. Lastly, the three per cent. which Italy regarded as a sacrifice was but a recompense for the capital that France had to employ for the withdrawal of the fractional moneys. Simple inspection of the 1865 convention shows that the period of two years specified for the exchange of coins was intended for the benefit, not of the debtor State but of the holders of the moneys. The exchange had to be effected as soon as called for, without delay, and thus no interest was to be paid to the holders. The new claims of Italy threatened nothing less than a rupture of the Latin Union. A rupture of the Union would have been disastrous first for Switzerland, where Italian pieces were legal tender, and next for France. From 1867 to 1876, Italy had thrown into France 1,131,000,000 francs of metal and had taken back only 215,000,000 francs. The excess was, therefore, 916,000,000 francs, or at the rate of 83,000,000 a year, employed principally to pay for coupons of bonds. Consequently, if on the basis of the 1865 compact, France could compel Italy to exchange, without delay, 100,000,000 francs of fractional money, she was, however, disarmed so far as the five-franc pieces were concerned, which were forcibly kept back in the French circulation and would have accumulated in the vaults of the Bank and the Treasury. The embarrassments of this situation impressed all minds.

## THE CONFERENCE OF JUNE, 1879.

After an exchange of views among the countries of the Union, it was decided that a new conference should assemble in Paris. The propositions for consideration were: (1) France and Belgium are firmly resolved to maintain the principle of the coinage of silver. (2) Agreeably to this principle the Italian Government will withdraw its demand for five-franc silver coinage. The French Government will thereupon concur, with its associates, in the proposal to be made by Italy for the negotiation of a new act, supplementary to the convention of 1878, which shall permit her to provisionally retain the small scrip in circulation. In all cases, as a measure of safety, and for the purpose of withdrawals, joint action will be taken against the reappearance of fractional silver coins and as to the destruction of small scrip. The conference met June 11, 1879. It held five sessions and came to an end on June 20th, adopting an agreement which gave full satisfaction to Italy so far as it was possible to do so without conceding the important point of the supplementary coinage of 60,000,000 francs. Instead of having only six months' time for the withdrawal and destruction of scrip after the receipt of the retired coins, she was granted all the time she required. She was obliged to repay in current cash 13,000,000 francs of small coins returned by Belgium, Switzerland, and Greece. But she obtained from France an option to take

back the fractional moneys immediately (that is, during the first six months of 1880), or to postpone the taking back, with a storage charge of one and a half per cent. In either case, the sums transmitted to Italy bore a maximum interest of three per cent. from the day of delivery until the day of reimbursement. As a guaranty against the refloating of the fractional coins, it was prescribed that these moneys returned to Italy should be held and could only be put into circulation again when the suppression of the small scrip should be decreed by the Italian Parliament, and then only to serve as redemption money for the scrip. Finally, the conference adopted a resolution giving Italy her choice between the convention of November 5, 1878, and the agreement of June 30, 1879. The Italian Parliament gave its preference to the new arrangement. The additional act and the monetary convention of 1878 were approved by the French Chambers, and promulgated July 30, 1879.

To provide effectively for the amassing and withdrawal of the Italian pieces, the Minister of Finance addressed himself to the Bank of France and entered into a contract with it, under date of September 4, 1879, whose principal terms were as follows: The Bank agreed to amass the Italian moneys taken from circulation and to transmit them to the Italian Government, either immediately or later, as that Government should elect. The French Government agreed to send to the Bank the Treasury drafts and cheques given by Italy in payment, and the Bank was to have the full benefit of the interests paid by Italy. These interests, as determined by an agreement between the Bank and the Minister of Finance, were reduced from 3 to 2½ per cent., the consideration for keeping the moneys on storage (in case Italy should postpone their return) remaining at 1½ per cent. The Bank had to bear the expenses of the withdrawals, provided they did not exceed 250,000 francs. As recompense for the advantages that the Bank might derive from this contract, it was to keep at its own risk and peril a sum of 2,700,000 francs of Papal coins that it had in its vaults, and to sustain, up to a maximum of 130,000 francs, the costs of retiring Italian copper coins from French circulation, which the Minister of Finance desired to bring about. The work of retiring the Italian moneys and forwarding them to Italy was finished in November, 1883. The deliveries amounted to 78,877,000 francs, of which France supplied 70,819,000 francs, Belgium 6,501,000 francs, and Switzerland 1,557,000 francs. Greece took no part in the transactions, as the quantity of Italian coins circulating among her people was without significance.

## ITALY AGAIN REFRACTORY.

It seemed reasonable to think that the convention of 1878, which was entirely favorable to Italy, would settle the coinage question for some time. The result was quite to the contrary. Italy again called for a new coinage allotment, this time on the pretext that her population had not been correctly calculated. Belgium protested. Soon afterward a royal Italian decree (August 12, 1883) modified materially the bimetallic principle established by the Monetary Union. The following is a translation: "The metallic reserves of all establishments of issue which, on June 30, 1883, did not have the proportion of at least two-thirds in legal gold money or gold bullion, shall, within two months from the promulgation of the present decree, be reconstructed so as to have at least two-thirds in metallic legal gold values and not more than one-third in metallic legal silver values. It is prohibited for any establishments of issue to convert

into silver the portion of gold reserve in excess of two-thirds existing on June 30, 1883.” The Italian banks, to conform to this decree, refused silver money—even national silver money—except in the way of payment, and would not accept it either in current account or for exchange in bank notes. Notwithstanding all these predicaments, the convention of 1878 operated as an improvement, since it suspended for a rather prolonged time the coinage of silver.

## AGREEMENTS OF 1885.

In 1881, at the instance of France and the United States, an international conference met in Paris with the object of promoting a common monetary system based on bimetallism. As usual, this conference accomplished nothing definite and afforded no advantages except interesting minutes. The convention of 1878, so laboriously constructed, was to terminate on the 1st of January, 1886, unless extended by general agreement. Early in 1884, Italy showed anxiety for a new convention. The Minister of Finance, Signor Magliani, seemed desirous of creating a situation in which gold should be the predominating element, awaiting circumstances for placing the country on a basis of absolute bimetallism. Switzerland, having suffered some losses from the convention of 1878, demanded, on January 11, 1884, the calling of a new conference, to consider details for a new understanding. The conference, after being several times delayed, began its deliberations on July 20, 1885. The wishes of France were: 1, The continuance of the Latin Union; 2, insertion of a settlement clause; 3, provision of taking measures to ensure equal treatment of gold and silver; 4, prohibition of all the States of the Latin Union to issue or maintain in circulation small scrip as injurious to the circulation of silver; 5, revision of the per capita basis of fractional coins. Items three and four had reference mainly to Italy. Her decree concerning the composition of the metallic reserves of the banks had been an interference with the equality of treatment due the two metals, which was indicated by the spirit, if not the letter, of the Union’s conventions. By preserving 350,000,000 francs of small scrip in circulation, she arbitrarily narrowed the field open to five-franc pieces and fractional silver coins. But the principal matter of difficulty was the proposed settlement clause—a clause which should bind the different countries, at the expiration of the Union, to take back the silver pieces struck by them and, after making mutual exchanges, to settle balances in gold or equivalent values. It is easily understood how strong an interest France had in urging such a clause (which, by the way, Italy and Switzerland approved) when it is stated that on November 5, 1878, the Bank of France had on hand 1,031,700,000 francs of silver, and on July 20, 1885, 1,150,900,000 francs—an increase of 119,200,000 francs. Of the 1885 sum, according to an estimate made at the time, 28.76 per cent. was in foreign pieces. The depreciation of silver, which in 1878 was ten to twelve per cent., had reached seventeen to eighteen per cent. in 1885. But the reasons that caused France to be so solicitous for a settlement clause were precisely the reasons inducing Belgium (which, more than any other country, had contributed to the plethora of silver by coinages far beyond her needs) to oppose the plan. Consequently, at the meeting of January 23, M. Pirmez, the Belgian delegate, in a lengthy explanation, showed why the settlement clause should be rejected; and, strange to say, he made use of arguments presented in 1878 by M. Rössmann, the Italian delegate, and resisted by him on that occasion. As these representations were of much importance, we here quote them:

“The Latin Union was founded on the basis of bimetallism and of stable relationship between gold and silver. This was done out of regard for France and despite the preferences of Belgium, which inclined to the single gold standard. Silver coin suffered a double loss—a decline resulting from the circumstances and a loss from wear. If each of the associated countries had coined silver money on the same scale, the losses would be equally divided and nothing would oppose itself to settlement; but such has not been the case. Switzerland has no national coin, and Italy has less of her own than that of other nations which she uses. But Belgium has coined more gold and silver than her requirements called for, and thus the heaviest loss would fall upon her. It would not be equitable, however, to compel her to bear it. As a matter of fact, the individuals, whether resident in the country or foreigners, who brought bullion to the mint ought to be the losers. In transforming that bullion into five-franc pieces the Government has enjoyed no profit; it has simply guaranteed standard and weight. There the responsibility should end; and the Government should no more be obliged to suffer the loss consequent upon the decline of silver than the loss caused by wear. At most, a claim might be maintained for settlement for pieces struck since 1874, since the agreements of that year and the subsequent years assigned to the various countries proportionate coinage quotas. It is proper to add that, by the striking of money, Belgium rendered services to the Union—services to Switzerland, which has minted no five-franc pieces, and to France, whose mints were stopped by the events of 1870-71. Should Belgium have to pay for services done? Moreover, to demonstrate that the States of the Union are not held to any guaranty respecting five-franc pieces, it suffices to remember that they are, on the contrary, formally held respecting fractional money. In the case of fractional money the situation is altogether different; the small pieces have no intrinsic value corresponding to their face value. Only the State utters them and profits by the operation. They are money taken on trust; and it is but reasonable that the State, which has put them forth, shall make them good when the reckoning comes. Nothing akin to this can be said of five-franc pieces, and here applies the principle, *Qui de uno dicit de altero negat*.”

This, as will be perceived, is a repetition of the reasoning of M. Rössmann in 1878. “Belgium,” concluded M. Pirmez, “is free from all engagement as to the five-franc coinage she has issued. A demand is made upon her to contract a new agreement and to assume a retroactive obligation to redeem in gold the excess of silver money circulating abroad. Belgium cannot consent to that, and she would prefer the disbanding of the Latin Union, however troublesome that might turn out to be. Belgium is ready, however, to engage to put no obstacle in the way of the return of her moneys through the channels of commerce and exchange, and to carry the spirit of conciliation to its farthest limits.” M. Pirmez had shown himself a skillful advocate of a difficult cause, and it was not easy to contend with him on the narrow ground he had chosen. His opponent, M. Luzzatti, the Italian delegate, did not even attempt to do so. Joining in the debate, he said: “Whatever may be determined upon, genuine balancings must be made, and will be made. In conference one may refuse to receive in payment the five-franc pieces which one’s government has struck, or to accept them at par with the more highly valued metal, but one speaks in such cases only on the line of theory, which is never put into practice. Each State takes the five-franc pieces of its coinage which are presented by its people; it cannot hedge itself in from the obligation, written or unwritten, to take them when they return from abroad. It will



take them back, it will pay them in some form—in money, merchandise, drafts, interest on the public debt, or otherwise; but it will get them back; that material outcome is certain. Only it is of the highest importance to know how the result will be attained. Final balancing may be transacted in two very different ways: by contract, or in the natural course. The latter method might be a severe one under some circumstances. If by contract, all signers of the agreement are assured of ultimate settlement by the settlement clause, which fixes, in advance, an equitable and normal procedure for all concerned at the termination of the monetary pact.”

Signor Luzzatti’s reasoning did not suffice to convince M. Pirmez, who replied that his instructions would not permit him to subscribe to the view of the Union governments so ably defined by Signor Luzzatti, and he withdrew from the conference. The settlement clause, satisfactory in principle to all the countries but Belgium, was adopted on July 24th, but, to give Belgium time for reflection, it was decided to have the signing of the protocol remain in abeyance.

When the conference held its next meeting, July 30th. the Belgian delegates had received new instructions, and, besides, they perhaps viewed with alarm the probable consequences of a disorganization of the Union. They proposed various expedients: that the settlement clause be stricken from the agreement, leaving the signatory Powers to make separate arrangements among themselves; that the convention of 1878 be extended for a year, which would allow time to reach an understanding on the disputed points, etc. All the alternatives proposed by Belgium, which at bottom were only dilatory devices, were rejected, and the Belgian delegates withdrew permanently. The labors of the conference were suspended after August 5th, at the desire of the Italian representatives. At the concluding meeting, an agreement was formulated by which all the contracting parties—France, Italy, Switzerland, and Greece—were brought in accord except as to some points held open. The protocol had a strong menace for Belgium, whose coins were not to be received by the other countries three months after the expiration of the convention of 1878.

## THE CONFERENCE RECONVENES.

The conference did not reconvene until October 22d. In the interim, negotiations were undertaken by France to persuade Belgium to come back into the Union; but the language that had been used by M. Duclerc, president of the conference, and, still more, the settlement scheme, threatening Belgium with considerable loss, had angered the Belgian people. The views of M. Pirmez were approved by all parties; and M. Frère-Orban, who had interpellated the Minister of Finance about the action of the delegates in leaving the conference, coincided with M. Malou in highly approving the attitude of M. Pirmez.

M. Pirmez now suggested a plan which could not be accepted, since it offered no remedy; but it illustrates how difficult it was to deal with the settlement clause. This project stipulated that each country should be free to step out of the Union at pleasure, assuming the responsibility to transact the settlement for its coins and bearing the losses resulting therefrom. This plan was laid before the conference rather inexplicitly. M. Pirmez went at length into the question, without coming to a

conclusion. The conference continued its work without the co-operation of the Belgian delegate, who, after an interview with M. Duclerc, decided that his immediate return would be useless, neither side being disposed to yield anything. However, it was understood that upon the signing of the articles of the convention, the Belgian Government should be advised, so that it might either concur in them or submit proposals. The articles were signed, November 6th, by France, Switzerland, Italy, and Greece. The Belgian Government was notified at once. It suggested another arrangement, in substance as follows: "If a settlement shall occur, France will amass the Belgian coins circulating in the States of the Union and will herself proceed to exchange them with Belgium. If, after balancing, Belgium shall still be debtor to France, the difference shall be divided into two parts. The Belgian Government will, within five years, pay for the one-half in gold or drafts on France, and the other half will be sent back through commercial and exchange channels. Belgium shall make no change in her monetary system of a character to interfere with this taking back of coins, and she guarantees that the balance to be settled shall not be in excess of 200,000,000 francs." This was regarded as an acceptable offer, and it was approved by the French Government in principle.

But another stumbling-block had to be got over. In the protocol of November 6, 1885, it was said in substance: "In the event that one of the governments of the Union, either directly or through the instrumentality of banks of issue, shall effect an arrangement with the Belgian Government for repatriating the five-franc pieces, such arrangement shall be submitted to the other States of the Union for approval. In case of non-approval, each of the other States will have, with regard to the State effecting such arrangement, the choice between agreeing to the arrangement or acting in pursuance of the settlement clause already adopted." The Italian Government, informed of the understanding arrived at between France and Belgium, claimed the right to reserve to itself the privileges granted by the protocol. This gave rise to a possibility that circumstances might come to pass which would make it preferable for France to hold Italy to the settlement clause, and to send back the Belgian pieces at the risk and peril of France. Nevertheless, as it was all-important that Belgium should stay in the Union, it was determined, after long negotiation, that France and Italy should mutually claim the benefit of the conditions given to the Belgian Government as to the regulation of their accounts, so that the maximum balance of the repatriated coin should be 200,000,000 francs so far as Belgium was concerned. Greece reserved the right of choice at the time when she should abandon the régime of forced currency.

To provide for the special case of Switzerland—which, having struck no five-franc pieces, might have suffered from dearth of coin under the proposed mode of settlement—it was decided that France, Italy, and Belgium should settle "at sight" in Swiss five-franc pieces and ten-franc gold pieces and higher denominations for the moneys presented to them by the Swiss Confederation.

## THE SETTLEMENT CLAUSE AND PROLONGATION OF THE UNION.

The settlement clause being thus adjusted, thanks chiefly to the energy of the distinguished governor of the Bank of France, M. Magnin, the other matters were of but secondary interest. The Union of 1865 was prolonged to December 31, 1890, by the terms of the additional Act of December 12, 1885, which restored Belgium to membership in it. Silver coinage was further suspended, not to be resumed without the unanimous assent of the contracting States. Any State desiring to have free coinage again was required preliminarily to redeem in gold and at sight the silver coins of its mintage that circulated in the other nations. The proportion of six francs per head of fractional money was preserved; but the Italian Government, as always previously, under pretext of withdrawing its non-decimal pieces, obtained permission to issue a supplementary amount of 20,000,000 francs in fractional silver. Switzerland—quite justly, in view of the requirements of her situation—was granted a quota of 6,000,000 francs. France was empowered to remint, up to 8,000,000 francs, the Papal coins which she had been unable to have Italy repatriate in 1872.

The terms of the convention of 1885, which in general respects were an improvement upon those of 1878, were particularly reassuring to the Bank of France. Conditions of settlement for the foreign moneys held by that establishment had never been determined, and it had been feared that the coins would ultimately remain wholly or in part on its hands, inflicting a loss that States of the second class would scarcely be able to make good. The Minister of Finance, in a letter dated October 31st, asked the Bank to receive the five-franc pieces of the Latin Union during the period that the convention had to run, and stated that at the end of that time the settlement for the foreign five-franc pieces then in the Bank's vaults would be undertaken for the account of the Government. This time, the rights of the Bank were fully recognized, which was but proper, since the Bank had taken the coins of the Union only upon the demand and in the interest of the Government. The Bank consented to lend its co-operation to the State as formerly, but a proviso was made in the agreement that it should not be bound by the tacit extension clause.

## CONTINUATION OF THE UNION AFTER 1890.

The convention was for five years, and therefore was to expire December 31, 1890. But none of the contracting States had any interest in its dissolution, and it was extended from year to year by tacit agreement. Since December 31, 1890, the Bank of France has yearly engaged to receive over its counters the coins of the Latin Union for the account of the Treasury.

Incidental reference may be made to the International Conference of 1892, which met at Brussels in response to the invitation of the United States Government, to establish a uniform international ratio between gold and silver, and to increase the employment of the latter metal in the world's circulation. Twenty governments were represented. The debates were long and interesting, but nothing practical was realized. The conference adjourned *sine die* on December 17, 1892.

## THE CONFERENCE OF 1893.

A conference concerning the Latin Union exclusively was held in 1893, at the request of the Government of Italy. The rise in Italian exchange had caused exportations of the fractional coins, which were taken in payment at the receiving offices of the other associated countries. These constituted a means to settle international debts, even such as were payable in gold, since it was sufficient for Italy to send fractional money into France, drawing upon French bankers and dispatching the resulting drafts (worth par in gold, and even a little more) to creditors. But these proceedings had exhausted the fractional moneys at home, and Italy became much embarrassed because of the scantness of the medium for every-day business. The Italian Government, tied by the conditions of the Latin Union, which fixed the amount of fractional coin utterable at six francs per head, had not the power to coin any more. To exercise that power it would be necessary to abrogate the convention of 1885, which would imply obligation to pay in gold a sum that might reach one hundred and fifty or two hundred millions, and to risk a formidable rise in exchange. The Government, in view of these perils, sought to make a remedy for the meagre supply of small silver by issuing copper and nickel coins, not provided for in the convention of 1885; but this device did not meet the case. The Minister of the Treasury, Signor Grimaldi, put forth a decree, on August 4, 1893, authorizing the issue in scrip, secured by fractional coin, of 30,000,000 of the denomination of one lire. The project was a good one, for the small notes would have no circulation outside Italy, and were a substitute for coin, which was being constantly exported, and which, being represented by redeemable paper, would have to remain at home. But the Italian Government did not possess thirty millions of fractional coin, and it resolved to provisionally emit a portion of the thirty millions of Treasury scrip *secured by gold or silver money having legal-tender currency in the kingdom*. This feature of the decree was a manifest infraction of the convention of 1885, which rigorously limits fractional coins, and it excited complaint, chiefly on the part of Belgium. As a way out of the difficulty, Italy opened negotiations to have the contracting Powers return the fractional coins struck by her which circulated within their dominions, and, moreover, to have them pronounce those coins noncurrent, so as to prevent their outflow. France, Belgium, and Switzerland received these overtures favorably. A conference assembled in Paris on October 10, 1893, and drew up an agreement by which Belgium, France, Greece, and Switzerland were to withdraw from circulation Italian two-franc, one-franc, 50-centime, and 20-centime pieces, and send them to the Italian Government, which thereupon was to pay for them half in gold coins of ten francs and over, and half in drafts upon creditor countries—the drafts not to run longer than three months. Each of the four States was empowered to prohibit the entry of Italian coins, but the Italian Government reserved the right to have the old state of affairs re-established later.

The coinage quota fixed by the old agreements was expressly maintained, and it was understood that the Treasury scrip of denominations less than five francs should be secured by keeping back in the Italian Treasury vaults an equal sum in Italian fractional silver money.

The amounts sent back to Italy were:

FRANCS.

On account of France	57,232,000
On account of Belgium	4,941,000
On account of Switzerland	12,860,000
Total	75,033,000

Since this transaction, the career of the Latin Union has been without episode. The monetary treaty to which Belgium, France, Italy, Switzerland, and Greece are parties is not partial to any of the members in particular. It survives mainly because the circumstances of the associated nations render it impossible for them to dissolve it. Switzerland, having coined but a practically insignificant amount of five-franc pieces, might step out without harm; but Italy and Belgium would be exposed to very grave embarrassment if they should be obliged to take back the five-franc pieces that France holds. As for France, she fears that by giving notice of her retirement from the Union the exchanges of her neighbors would be deranged, and she would suffer from the countershock. Notwithstanding, therefore, the precarious footing on which it stands, the Latin Union is renewed from year to year tacitly, and the probability is that it may continue for a long time to come.

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## PART IX.

### DYNAMICS OF CIRCULATION.

*The Author hopes that the following Essay, recently read before the Statistical Society of Paris, may with propriety be presented, at the close of his Treatise, as illustrating principles regulating the use of monetary instruments in the Latin nations.*

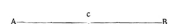
CONNECTED with a great number of the problems of political economy and statistics, we find an abstract and rather vague concept suggested—the concept of dynamics, or rapidity. The idea of dynamics, so plain when it concerns bodies in motion, becomes confused when applied to social phenomena. It is nevertheless impossible to misconceive its importance. In commerce, in industry, the rapidity with which products are used is a vital matter. You will remember the remarkable discourse of our colleague, M. Edmond Duval, in which he showed that in prosperous periods the pledges at the *mont de piété* (pawnshops) were redeemed promptly, while in times of embarrassment the redemptions were very much less numerous. We have here a phenomenon for which we shall find an analogy by considering this subject of monetary dynamics.

Political economy teaches us that the usefulness of money depends upon two factors; first the mass of the money, and second the rapidity with which it circulates, meaning the number of times that it changes hands in a given period. One may say, to draw upon mechanical technology, that the service rendered by money stands in proportion to its quantity of motion (*quantité en mouvement*). This is why the most energetic commercial nations have striven, by artifices, to augment the rapidity of the money circulation. They effect a saving on the handling of money, which is very costly, and yet obtain equal results. On the authority of Palgrave and Martin, England, thanks to its cheques and clearing-house, balances all its accounts with less than £75,000,000 of gold and £21,000,000 of silver. France, on the other hand, with a lesser trade, possesses, according to De Foville, a stock of money comprising 4,500,000,000 francs of gold and 2,500,000,000 francs of silver; the difference between the two nations being as 96 to 280. The explanation of this difference is that England makes up for lack of money by rapidity of circulation. The valuation of the mass of money in a country is a delicate but not an impossible task. Palgrave and Martin in England, and De Foville in France, have arrived by different processes at satisfactory approximations which have been confirmed in practical ways. As to the rapidity with which this mass of money moves, in its varying forms of specie, bank notes, credit transfers, and settlements, nothing is known in the existing state of statistics; and notwithstanding the somewhat ambitious title of this treatise. I shall not deal with that problem in its general aspects, but shall confine myself to particular phases, the solution of which can be given with entire certainty.

One part of the great movement of money is effected through the medium of banks by open accounts; which constitute a very wide branch of the stream of circulation—a

branch with which we are perfectly familiar in every respect. The banks receive from their customers funds on deposit, which are termed “credits.” Upon the order of a depositor, given in the shape of a *transfer*, the bank transfers to a new account all or part of a credit, and, by a mere stroke of the pen, and without the displacement of a coin or a note, effects a payment of any amount. For instance, in the Bank of France, in 1894, such transfers amounted to 50,000,000,000 francs. The amount of money kept by the banks is not altered by the transfers; it is only distributed in a different manner. Funds deposited in a bank may also be moved by cheques, which sometimes may occasion money transfers, but usually bring about a withdrawal of cash. The sums paid on transfers or cheques form the “debits” of current accounts. The difference between the credit and debit is called the “balance.” This balance occasions the movement of funds through changes of ownership; and it may be said that it is the active and circulating part of the open accounts. The system of open accounts may be represented correctly as a reservoir receiving a stream (credit), which flows through an orifice (bank). The balance is the level of the supply in the reservoir; the portion that has flowed out is the debit. The rapidity of the outflow is what I propose to figure out.

To arrive at this, let us say that A B is the distance separating a debtor from his creditor.



I call this distance 1. A payment will have to traverse the distance 1 to the sum paid. If I interpose a bank “*c*” at an equal distance from both creditor and debtor, and if the payment is made through the medium of this bank, the payment traverses one-half the entire distance from the debtor to the bank and one-half from the bank to the creditor. This reasoning remains correct whatever may be the number of debtors and creditors. It can, therefore, be extended to the totality of payments made into the bank and the totality of payments made out of the bank. If we designate these respectively by  $m$  and  $m^1$ , the total displacement of funds passing through the bank will be  $\frac{m+m^1}{2}$ . As the bank can displace only that which it holds, *i. e.*, the daily balances,  $\frac{m+m^1}{2}$  is the sum of the daily displacement of balances, or, expressed more simply, the displacement of the average balance of the year. If  $S$  is the average balance and  $V$  its annual displacement—*i. e.*, its rapidity—we have the equation

$$VS = \frac{m+m^1}{2};$$

or, in ordinary language: Half the combined amount of annual credits plus annual debits is equal to the quantity of movement of the average balance of the year. From the preceding equation we obtain

$$V = \frac{m+m^1}{2S}.$$

This shows the value of  $V$ ; and on the basis of the above formula the accompanying illustrative charts\* have been prepared. It should be added that all the bank figures to which the formula is applied are official, and that the statistics of rapidity of circulation thus derived are therefore scrupulously exact. In examining the

fluctuations of the charts a simple glance will be sufficient to distinguish those relating to countries with sound finances from those which concern countries with disordered finances.

The following table gives the rapidity of circulation during the last eleven years for France, Germany, and Belgium:

YEARS.	Bank of France.	Bank of Germany.	Bank of Belgium.
1884	110	170	112
1885	107	165	102
1886	98	138	96
1887	115	128	112
1888	125	135	123
1889	113	157	153
1890	135	190	146
1891	138	170	141
1892	116	148	130
1893	120	165	118
1894	127	161	129

It would have been interesting to include in this exhibit the rapidities of circulation for the Bank of England and the banks of the United States, but no data have been obtainable from these institutions except the balances of open accounts, which are not sufficient to admit of conclusions such as I desire to draw. Moreover, in those two countries the banks of issue pay none but clearing-house balances, and it is probable that calculations of rapidity from such figures as can be had would show results corresponding but little to the rapidities of general circulation. For the banks represented in the foregoing table the rapidities are easily computed. Germany has a slight advantage arising from the fact that in that country cheques and transfers (giro accounts) are more in use than in France and Belgium. These rapidities are reckoned from movements and highest balances, which are as follows for the last eleven years (in millions of French money):



YEARS.	BANK OF FRANCE.		BANK OF GERMANY.		BANK OF BELGIUM.	
		S		S		S
1884	42,660	387	26,469	155	3,632	32
1885	40,504	378	26,924	162	3,502	34
1886	45,517	463	28,615	206	3,370	35
1887	42,764	371	29,422	229	3,727	33
1888	47,531	378	31,912	235	4,312	35
1889	52,263	461	37,838	240	4,438	29
1890	54,318	402	39,825	209	4,523	31
1891	60,194	433	40,506	238	4,485	32
1892	48,715	419	39,107	264	4,031	31
1893	48,809	405	41,182	249	4,017	34
1894	56,867	445	42,222	262	4,128	32

The importance of the factors involved demonstrates that they must have a real influence on the economy of a country.

Passing now to the countries with disordered finances, we find low rapidities of circulation, testifying equally to the feebleness of exchange and irksome contingencies generally. I have traced, as far as possible, the deviations of rapidity of the Banks of Portugal, Spain, and Italy, and likewise of the Bank of Greece. In the case of Greece, however, the curve nearly approaches a parallel to the axis of the abscisses.

YEARS.	Bank of Portugal.	Bank of Spain.	National Bank of Italy.	National Bank of Greece.
1884	48	14	83	8
1885	52	16	60	6
1886	20	14	50	5
1887	31	13	46	7
1888	35	12	45	3
1889	29	14	43	3
1890	54	16	36	4
1891	22	14	30	5
1892	18	13	25	4
1893	18	14	29	3
1894	12	15		

The movements and balances which I give below, although less important—at least in relative value—than those of the Banks of France, Germany, and Belgium, represent nevertheless a large aggregate of circulating fund of the countries under consideration.

YEARS.	BANK OF PORTUGAL. Contos of Reis.	S	BANK OF SPAIN. Millions of Piastres.	S	NATIONAL BANK OF ITALY. Millions of Lire.	S	NATIONAL BANK OF GREECE. Millions of Drachmas.	S
1884	83,912	1,743	2,648	182	2,998	36	31	4
1885	63,441	1,199	4,018	244	2,826	47	25	4
1886	72,785	3,549	4,075	273	3,078	61	52	10
1887	98,194	3,008	4,238	326	3,169	68	42	6
1888	65,724	1,856	4,251	343	2,952	65	57	16
1889	89,325	2,979	5,167	361	2,881	67	49	14
1890	77,376	1,420	6,142	365	2,550	70	64	16
1891	49,752	2,254	5,783	413	2,095	69	48	10
1892	24,438	1,358	5,207	388	1,900	76	50	11
1893	25,820	1,402	4,884	336	2,260	78	64	20
1894	27,274	2,123	4,828	319				

It remains to remark that in general the more the condition of a country deteriorates, the more the average balances of current accounts grow.

Hitherto, I have taken into consideration only such accounts as do not bear interest, which are the true indices of the course of commerce. It is well also to examine how the case stands in respect to interest-bearing accounts. I give now the rapidities of some banks of issue that permit deposits of this kind:

YEARS.	Imperial Bank of Russia.	National Bank of Italy.	National Bank of Greece.
1884	8	3	0.13
1885	8	3	0.14
1886	8	4	0.08
1887	9	7	0.06
1888	9	9	0.07
1889	9	8	0.08
1890	9	7	0.06
1891	9	6	0.06
1892	9	5	0.10
1893			0.05

There are two explanations for the slowness of money displacement in accounts at interest: First, the character of the clientage, which for the most part is not a commercial one, but lives on the income of the funds deposited in the bank; and second, the employment of interest money so placed as a kind of reserve, which is used after other resources are exhausted. Oftentimes the great banks of issue have been criticised for refusing to grant interest on deposits. A study of this question of rapidity of circulation leaves no doubt that they act wisely, for the payment of interest has a definite deadening tendency. Besides, the whole of the nation would have to pay for the handling of money on which the depositors alone would enjoy the profits

coming from a granting of interest. This opinion is fortified by examination of the rapidities of circulation in several French credit associations that allow interest. Their rapidities bear no comparison to that of the Bank of France.

YEARS. Société Générale. Crédit Industrie et Commercial. Société Marseillaise.

1884	13	38	17
1885	11	35	19
1886	12	29	18
1887	10	37	17
1888	12	31	16
1889	12	30	18
1890	11	28	17
1891	12	33	17
1892	11	29	16
1893	9	31	15

A comparative study of rapidities of circulation is not merely interesting as a matter of curiosity, but has practical utility. I have undertaken it to ascertain what economies may be effected by perfecting methods of payments. In 1893, if at the Bank of France the rapidity of circulation had been the same as at the Crédit Industriel et Commercial, the balance necessary to bring about a movement of specie of 48,809 millions would have been 1577 millions. As the Bank had used only 405 millions, there were 1172 millions for which no other employment was found. Again, if we could have been able to give to our cash the same rapidity as in Germany, we would have required only 295 millions.

Without entering upon a discussion as to the relative merits of circulations based, respectively, upon coin and upon the use of cheques and balancings, I simply present my general deduction that preference attaches to the latter for reasons of cheapness, and that a judicious use of the same gives to the country concerned the free handling of hundreds of millions of capital, with interest corresponding. I content myself, however, with merely suggesting this subject of economy in the use of money capital. The purpose of the present inquiry does not go beyond seeking a method for the calculation of rapidity of circulation; and, after having determined the fluctuations of rapidity, I have noticed without surprise that, in the Bank of France, their conspicuous aspects correspond with great fidelity to the periods of "crises and settlements" given by M. Juglar. M. Juglar defines a crisis as "the stoppage of rise in prices," and a settlement as "the stoppage of a fall in prices," and remarks that these phenomena find easy connection, by a process of cause and effect, with other phenomena readily observable, amongst which he mentions the following: (1) When a crisis breaks out, the discounts of banks of issue rise to a maximum; (2) the cash on hand reaches a maximum; (3) importations come to a minimum. On the other hand, when the contrary movements come about, the effect of the crisis is broken and a settled state begins. Movements of capital and balances of accounts apparently escape the influence of crises and settling stages, although the latter are often attended by a maximum of average annual balances.

I shall not depend for my conclusions upon this theory of crises; for classical though it has become, it is not yet fully accepted by all minds; and, besides, we well know that rules are sometimes reversed by accidenta causes. So far as France is concerned, the fluctuations in the rapidity of circulation afford an absolutely reliable test and leave no room for uncertainty. The following is M. Juglar's list of crises and settlements since 1810:

1810 Crisis.  
1811 Settlement.  
1813 Crisis.  
1814 Settlement.  
1818 Crisis.  
1820 Settlement.  
1826 Crisis.  
1828 Settlement.  
1830 Crisis.  
1832 Settlement.  
1836 Crisis.  
1839 Crisis.  
1841 Settlement.  
1847 Crisis.  
1849 Settlement.  
1857 Crisis.  
1859 Settlement.  
1864 Crisis.  
1868 Settlement.  
1873 Crisis.  
1877 Settlement.  
1882 Crisis.  
1886 Settlement.  
1891 Crisis.  
1892 Settlement.

Taking into consideration that the beginning of a period of crisis and the termination of a period of settlement are always comparatively slow in movement, and may encroach upon years antecedent or following, my calculations still show that the rapidity attains its maximum in critical times and its minimum when times become settled. The theory of M. Juglar is therefore verified by this new test, verified without exception or qualification during a term of eighty-five years, wherein the phenomena under observation have presented themselves twenty-five times. In view of all this, it appears very unreasonable to see in these circumstances mere coincidences; and, indeed, we seem to be dealing with a general economic law from which practice may derive benefit.

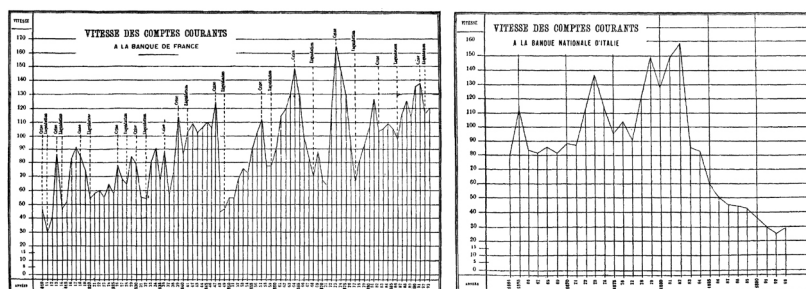
May it not be possible to so make use of the law of fluctuations of rapidity as to determine when we are approaching the acme of business? The answer to this question is difficult, for we have to do entirely with a problem of future phenomena that may or may not be reproductive of the past. Meanwhile, it is perhaps not too bold to apply, in our “Economic Meteorology”—to use M. de Foville’s term—the methods employed for forecasting the weather. The indications of the rapidity lines are identical with the barometric ones. The rising of the barometer is assurance of fine weather; and increase of circulation rapidity foretells activity of business. In the two cases the probability of the foreseen event is equally trustworthy. In examining the fluctuations in rapidity of circulation for the Bank of France a slight rise is observable for the year 1893, which continues in 1894. Now, the year 1894 was, at least for exchange operations, more active than the preceding year, and it may also be said that general commercial affairs showed an improvement; for, according to official statistics, the revenue on stamps for commercial paper surpassed that of 1893 by more than six millions—corresponding to an aggregate of ten to eleven billions in commercial paper. The rise of the wave, although not rapid, is rather marked, but it had not much opportunity for decided progress in 1895. Accordingly, it is presumable that we have entered on a period of relative prosperity. It is very desirable to reinforce these indications in any given case by the signs of M. Juglar’s barometer.

I make no more pretension than does M. Juglar to prophetic powers. I do not in any manner believe that the prognostications of the rapidity lines are to be taken as an infallible guide; but I think that, on consulting them carefully, they may supply, all other considerations being favorable, a valuable aid in forecasting an opinion of the future, with some chances of decided eventual justification.

The foregoing comments do not apply alone to the Bank of France. The credit associations in general do not obey the same influences, as is shown by the fluctuations of the *Crédit Industriel et Commercial*, the amplest wave that I have been able to trace so far as these establishments are concerned. Neither can I affirm that the lines of rapidity abroad have the same significance as with us; for methods of bank operation differ. However, the maxima and minima seem to come about under the influence of analogous causes. One of the waves is particularly interesting—that of the National Bank of Italy.\* It reflects, in a way, the economic history of the country. In Portugal, Spain, and even Greece, crises of exchange are preceded by a maximum of rapidity, which, in all probability, does not happen by mere coincidence. In Belgium and Germany the maximum rapidities of 1889 and 1890 seem to point to the Argentine crisis, and, in a more general manner, to the national crises from which these two countries suffered so much as creditors of nations with straitened finances.

The suggestions I have here submitted are the result of attentive study and long-continued reflection. I have undertaken to estimate, in a concrete form, the importance of a factor which, though hitherto not exactly ignored, has been little considered. In seeking to understand, in their dynamic manifestation, phenomena which have been known heretofore only in their static aspects, I have been so fortunate as to verify a remarkable law and to contribute to the evidences of its precise workings. To the extent, therefore, that I have been able to furnish my contribution to the edifice erected by my savant colleague, M. Juglar, I do not deem my trouble in vain.

Subjoined are charts showing, respectively, the rapidity of open accounts at the Bank of France and at the National Bank of Italy.



Banks of Alsace and Lorraine, AFTER THE ANNEXATION.

BY ARTHUR RAFFALOVICH, correspondant de l'institut de france; agent of the imperial russian ministry of finance at paris.

NEW YORK. 1896.

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## PART X.

### THE BANKS OF ALSACE-LORRAINE

#### AFTER THE ANNEXATION.\*

THE portrayal of the economic history of the provinces which the war of 1870 so severely separated from France is a task of great interest and much difficulty. We need not dwell upon the obstacles which would probably be encountered by a student who should go into those provinces from France and seek access to the necessary documents, and devote himself to a personal inquiry upon the spot. We must, therefore, be content with the information contained in works published in Germany.

That which forms a special chapter of this history involves an inquiry into the method by which the laws and institutions of the conqueror have been introduced, and the manner in which they have operated in a country that had become great and prosperous under the régime of French laws and customs. If we bear in mind the all-important rôle of the Bank of France and the influence it exercised upon the organization of credit in the country, we shall be anxious to see how it was replaced, how it has been possible to substitute the machinery of other institutions for that of an establishment so justly popular. For twenty-five years the Bank of France, represented by three branches, was a factor of the greatest importance in the development of Alsace-Lorraine. Its methods and usages were known and liked, and commerce had so entirely adapted itself to them that the Bank of Prussia, when it superseded the Bank of France, was impelled to carry out the policy inaugurated by the latter. Some new principles were indeed introduced; but, even in this process, it was necessary to take account of the sentiments of the annexed provinces and their patriotic attachment to ancient memories.

The Bank of France was the central point toward which converged the whole system of credit; the inexhaustible source from which private banks and bankers drew the resources needful for commerce and industry. There must, of course, be an intermediary between the bank and those seeking credit. They do not come into immediate contact; there are several steps between them; such as bill-discounters and brokers, who facilitate transactions among the various banks as well as between them and the public.

M. von Lumm, author of an interesting work on the subject,\* calls attention to the fact that the circulation of bills of exchange is more general in France than in other countries. The merchant often finds it to his advantage to take a bill for his merchandise instead of debiting the purchaser upon his books. The retail merchant or the artisan buys the articles necessary for his trade or his production with a short-time bill drawn to order. The seller can realize upon the credit he has given by discounting the bill of the purchaser; the latter meanwhile utilizes his credit, and when the due date arrives he pays with the money resulting from the sale of his goods. Thus the

French merchant needs, as cash in hand, a smaller money capital than is required in those countries where the system of book accounts prevails, or where long dating of bills is practised. The advantage of this system is that it encourages habits of prompt payment and gives to the seller a means of proceeding summarily if the bill is not met at maturity.

This custom has had a considerable influence upon the number and the amount of bills of exchange in France. One effect of it has been to develop the business of discounting far beyond the point it has reached in Germany. In Alsace-Lorraine the circulation of bills of exchange has always been larger than on the other side of the Rhine, both as regards the sum total and the number of bills. The use of credit has been more general and its organization broader.

In 1840, commerce in Lower Alsace had become of so great importance that the citizens insisted that an institution of credit should be established among them capable of meeting the needs of the district. The Strasburg Chamber of Commerce petitioned that a branch of the Bank of France be established there. In Upper Alsace the same desire arose on the part of a powerful cotton industry. On January 2, 1844, was opened the branch of Mulhausen; on August 20, 1846, that of Strasburg. In 1848 the Departmental banks were abolished, or rather they were incorporated with the Bank of France, which was thus enabled to be more liberal in the extension of its branches and to found one on June 29, 1849, at Metz. There was a constant and rapid increase in the business of these branches, and in 1868 Strasburg held fifth place among the sixty branches of the Bank of France, with a business exceeding 200,000,000 francs per year.

The disastrous events of 1870 were reflected immediately in the economic world. The people were in the hands of the enemy; their relations with France were severed, and the uncertainties of war prevented an influx of capital from Germany. A crisis was precipitated mainly by these three facts: a suspension of operations by the branches of the Bank of France, a forced extension of the due date of bills, and the suspension of the savings-banks. Immediately after the surrender, the business of the Bank at Strasburg was suspended and the employees were held prisoners in their homes. This unfortunate measure resulted from a mistake of the German authorities in supposing that the Bank of France was purely a governmental institution. The Germans acknowledged their blunder, insisting at the same time, however, upon a right to supervise and control the Bank. They found themselves face to face with the forced circulation secured to the bills of the Bank by the law of August 12, 1870, and they wished to prevent a new issue.

On November 4th, the Civil Commission of Kuhlvetter ordered the liquidation of the affairs of the Strasburg branch, which was followed by the liquidation of the branches at Mulhausen and Metz. Those banks afterward renewed their activity, but in a very restricted form. Their most important task was to convert their bills and acceptances into money (17½ millions of francs at Strasburg, 2 millions at Mulhausen, and 4 millions at Metz). This liquidation was accomplished without loss to the Bank, and was finished at Strasburg shortly after December 31, 1871. The branches having thus stopped discounting, the reservoir was closed from which the citizens had drawn their



resources, and there followed a veritable credit famine, especially as private bill-brokers and bankers were also refusing to discount any paper. On October 26, 1870, the Strasburg Chamber of Commerce demanded of the Civil Commissioner that the Bank be allowed to renew its discount operations and that the Government place at its disposal a sum sufficient for that purpose. There was a complete stagnation of business, accumulations of merchandise with no outlet, and a large population of workingmen consigned to idleness. If the branches of the Bank of France were not allowed to renew their operations, then it was demanded that a new institution of credit be established as the only means of escaping total ruin. Considerations of general politics stood in the way of the desired concession, but permission was given to the branch to make certain indispensable discounts.

The extension of the due date of bills, by virtue of the law of August 13, 1870, proved to be another source of mischief. Debtors living in France to whom merchandise had been shipped took refuge behind this enforced opportunity of delay. The citizens of Alsace-Lorraine requested that the same extension be granted for their benefit. The German authorities yielded, but with bad grace. An order of the Governor-General of Alsace-Lorraine, dated March 20, 1871, postponed for seven months the payment of bills falling due between August 13 and November 12, 1870, and those of November 13, 1870, to April 12, 1871, were put forward to June 13 to July 12, 1871, the debtor being required to pay six per cent. per annum to the creditor from the original due date.

The suspension of the savings-banks affected other classes than those injured by the liquidation of the Bank and the extension of the due date of bills. In 1868, there were, in the departments of the Moselle, one depositor out of every fifteen inhabitants, with an average deposit of 252 fr. 82; in the departments of the Lower Rhine, one depositor out of every twenty-one inhabitants, with an average of 348 francs; in the departments of the Upper Rhine, one depositor out of every thirty-three inhabitants, with an average of 411 francs. The savings-bank of Strasburg had 18,180 depositors, and that of Metz 25,590; in these two provinces there were twenty-two savings-banks in full operation. The suspension of payments by this class of institutions resulted from the peculiar organization of French savings-banks, the money belonging to them being kept by the State and not by the banks themselves, as in Prussia. Their moneys were kept together in the Deposit and Consignment Office, which pays an interest of four per cent. There was due to depositors, in 1870, 22,110,896 francs, but the money was in Paris. The banks thus deprived of their resources and reduced to an insignificant amount of ready money, could not pay their depositors. But they declined to accept any further deposits, inasmuch as they did not know whether the new administration would acknowledge the same obligation that the French Government had observed. Under these circumstances, the German authorities made advances to the savings-banks, on account of the sum due from the Deposit and Consignment Office, to the extent of 4,200,000 francs. In November, the Strasburg savings-bank was enabled to pay all deposits below fifty francs, and to pay dividends upon larger deposits. At the close of 1871, when the financial situation seemed to be more stable, the German authorities, being assured of reimbursement on the part of France, committed to the Landeskassen (provincial treasuries) the powers of treasurers-general and those of deposit offices. In 1872 and 1873, the sums due to savings-bank depositors were once

more intact and ready to be paid over; 1,230,000 francs had been remitted in French rentes. Little by little, the savings-banks, which had recently confined themselves to paying off their depositors, began once more to accept deposits.

In proportion as business resumed its normal course, the disappearance of the Bank of France branches was more severely felt. In order to avoid a real catastrophe it became necessary, at all hazards, to establish the business of credits upon a basis similar to that which had disappeared. The Prussian Parliament had merely skimmed the surface of the problem. At Strasburg, those most concerned took it upon themselves to settle the question by private initiative. Certain capitalists and bankers formed a syndicate to found, with a capital of thirty millions of marks, a bank to take the place of the branches of the Bank of France. A complete charter was drawn up; the bank was to have its headquarters at Strasburg, with branches at Metz, Mulhausen, and Colmar; bank notes were to be issued expressed in francs, and the establishment was to be independent and self-governing. The Strasburg Chamber of Commerce discussed the matter at several sittings. In default of permission to establish for the provinces of Alsace and Lorraine an independent bank, modeled upon the charter of the Bank of Wurtemberg and authorized to issue notes payable in francs, it was determined to ask for the establishment of branches of the Bank of Prussia. A delegate was sent to Berlin to submit the first of these propositions to Prince Bismarck; but on his arrival the question had already been determined by the Prussian Government, and, naturally, upon a basis opposed to the dreams of provincial autonomy. Alsace-Lorraine was provided with branches of the Bank of Prussia (law of February 26, 1872). On July 26, 1871, representatives of the Bank of Prussia had opened their doors at Strasburg and at Mulhausen; on August 21st, at Metz.

Were the form of organization and the charter of the Bank of Prussia such as to promise an effective substitute for the services rendered by the Bank of France? Were the advantages equally great? By the organic Constitution of October 5, 1846, the State not only took part in the management of the Bank of Prussia and shared its profits, as is the case to-day with the Bank of Germany, but it was an actual shareholder to the extent of 1,900,000 thalers, while the individual shareholders had paid in 20,000,000 thalers. The right of issue was unlimited, provided one-third of it was covered. The Bank had under its control the money of wards and funds in the custody of the courts, for which the State was responsible. The Bank of Prussia had only 3,780,000 thalers in public funds, in addition to a reserve of 6,000,000, whereas before 1870 the Bank of France had very nearly 113,000,000 francs in rentes. The influence of the State was preponderant. The stockholders, or their representatives, were entitled to be informed of the doings of the Bank, and to give their advice, but they had no decisive part in its management. The employees were servants of the State, though they were paid by the Bank. The actual management was in the hands of a directory, consisting of a president and five members. In addition to these, there was a Central Committee, elected by the two hundred largest stockholders; this committee exercised a general supervision, but the continuous special supervision was in the hands of three deputies chosen from it. The head of the Bank was the Minister of Commerce, and his decision was final in case of a difference of opinion between the directory and the shareholders' representatives. He it was upon whom the responsibility rested in the last instance. The branches were governed by two officers,

usually chosen for life, and a manager, who was at the same time the legal adviser of the institution. These three drew up each year a list of the credits to be opened, which was submitted for ratification to the directors in Berlin. The shareholders were represented by a Provincial Committee of six to ten members, each holding at least three shares, and chosen from two lists drawn up respectively by the manager of the Bank and the Central Committee. The Provincial Committee met once a month. The directors were interested in the proper management of the Bank by a certain percentage of the profits. This sum was invested each year in public funds. They received the principal on leaving the service, and meanwhile they were entitled to the interest. They were forbidden to own shares in the Bank.

The various departments of the establishment were practically the same as in the Bank of France. We have already said that the system of book credits in Germany condemns to idleness a certain amount of capital, which in France is kept in circulation by the custom of drawing bills. The average value (per piece) of bills of exchange has been in certain years as follows:

At the Bank of Prussia.		At the Bank of France.	
1870	2,275 francs.		1,524 francs.
1875	2,512 francs.		1,612 francs.
1879	2,022 francs.		930 francs.

Confiding in the wise administration of its directors, the Bank of Prussia, summoned to replace an institution highly and justly popular, did not modify its usual customs, notwithstanding the larger circulation in Alsace. No embarrassing or complicated formalities for it; no certificate of solvency required from one presenting bills of exchange at its counters; no discount committee meeting three times a week to pass upon the purchase of bills. The bearer presents himself at the wicket; the bill is examined by the two directors; and, if they consider it good, the money is paid immediately. Moreover, the Bank of Prussia bought bills drawn upon foreigners. Loans were made upon the precious metals, personal property, and merchandise. The warehouse receipt was unknown to the German law. Thus, then, there were fewer formalities than under the French system. The intervention of a representative of the stockholders was not deemed necessary; the opening of a credit account was determined solely by the two functionaries placed at the head of the branch, to the extent of their instructions, given at the beginning of the year.

The branches at Strasburg, Mulhausen, and Metz were endowed with the same powers as those already in existence, namely: The discount of bills drawn upon places in which there was an office, agency, or representative of the Bank; the purchase of bills of exchange on Hamburg, certain cities in Southern Germany, London, Amsterdam, and Brussels; loans on the precious metals, and on securities; payments at Berlin, or at any of the branches; collections, and the sale and purchase of securities.\*

With the German invasion and conquest, German money, the thaler and the silver groschen, had come into the country. One of the earliest measures of the generals had been to establish the comparative value of the thaler and the franc. An order of the Governor-General, dated November 8, 1870, directed that in all payments the creditor

should be compelled to accept the thaler as the equivalent of 3 fr. 75, and the franc as the equivalent of 8 groschen.\* The thaler had a legal circulation, and was a sufficient tender upon this basis of exchange with French money. In these circumstances, the Bank of Prussia authorized the discount of bills on Metz, Strasburg, and Mulhausen, expressed in francs, on condition that the bill should also bear upon its face the sum expressed in thalers or in groschen at this fixed rate of exchange. Besides, as the country was still subject to the Code of Commerce, the branch banks were authorized to discount not only bills of exchange, including bills drawn to order, but also paper not requiring acceptance. Bills of exchange calling for thalers could be paid in francs (gold or silver), but they could not be paid in notes of the Bank of France, which thereby suffered a loss. Subsidiary coins need not be accepted except to the extent of fifty francs; sous only to the amount of one franc.

At first the branches confined themselves to purchases of bills on London, Amsterdam, and Brussels; the forced circulation existing in Russia and Austria caused them to refuse bills drawn in roubles and florins. For the same reason, they declined to accept paper drawn upon Paris, Lyons, and other French cities until after the month of September, 1871, when forced circulation had been abolished in Alsace-Lorraine, and when the leading merchants of Mulhausen demanded that such paper be accepted. After this date, the Bank of Prussia authorized the purchase of bills drawn on France, taking as a basis of exchange the official rate of the Berlin Bourse. So long as the short rate on Paris remained below seventy-nine, little advantage was taken of this privilege.

Moved by a desire to gain the good will of the commercial classes, and to establish closer relations between Germany and the conquered provinces, the Bank of Prussia took pains to deal liberally in the matter of credits, and, provided the signatures were good, to exceed the sum which the Bank of France had been willing to allow. The Bank attempted the same liberal policy in making loans upon securities. That this benevolence might not be merely nominal, in the absence of German securities, which had no existence in that country, the Bank accepted in pledge three per cent. rentes and the stock and bonds of the chief French railroads, placing the maximum loan at sixty per cent. of the nominal value. These favorable terms remained in force only one year; but subsequently the maximum was even raised for the shares of the Northern, the Paris-Lyons, and the Orleans railroads. The business of accounts current was much more restricted at the Bank of Prussia than at the Bank of France. The former accordingly made every exertion to offer to its clients in Alsace-Lorraine the same advantages they had formerly enjoyed.

The payment of the war indemnity by France to Germany had caused fluctuations in the rate of exchange. Paper on Berlin was in demand and increased in price; the same was true of thalers, while exchange on Paris and the value of twenty-franc pieces were current at a discount. The twenty-franc piece had maintained itself at a high rate throughout the war; but on September 12, 1871, the Napoleon was quoted in Berlin at five thalers eight groschen, and Paris short exchange at  $77\frac{3}{4}$  (for 300 francs), whereas on July 5th the latter quotation had been 80. On October 24th it had fallen to 77?; on December 16th to 77,\* to rise gradually to 80 on January 20, 1872. Following the second large loan (4136 millions of francs) in July, 1872, exchange on Paris had once

more drifted downward. In 1873, the extreme rates were 78 $\frac{1}{2}$  on May 30th, and 80 $\frac{1}{4}$  on December 13th. To the same period belong the abandonment by Germany of the double standard, the adoption of the gold standard, and the fall in the market price of silver bullion. At the time when the Bank of Prussia established itself in Alsace-Lorraine, it was not foreseen that any harm would result from the permission given it to accept French gold or silver at the fixed rate of 80 thalers for 300 francs. But the fluctuations in the rate of exchange just noted placed the Bank in a dangerous situation, and exposed it to loss as soon as exchange had fallen to 77 $\frac{3}{4}$  thalers, and that at a time when the amount of French money in the two provinces was increasing. Speculation found it remunerative to buy French pieces where they were to be had at a low price, and to present them at the counters of the Bank in Strasburg, Mulhausen, or Metz, where they were accepted at the rate of 80 thalers for 300 francs.<sup>†</sup> German money-brokers would draw upon Alsace-Lorraine, the bills would be discounted, and when they fell due the drawee would pay them in five-franc pieces. The obligation of the Bank to accept such large sums in five-franc pieces imposed upon it, in addition to the risks of exchange, a heavy expense for transportation. Discounting became very active, the business world making the most of a situation that allowed it to exchange at par thalers for French money. The Bank of Prussia undertook to protect itself against these losses by refusing to discount bills savoring of arbitrage, but that was a matter not easy to determine. Its most efficacious remedy consisted in restricting, as far as possible, the issue of its bills and in making payments in francs, except when cashing its own notes. Alsace-Lorraine was overflowing with French money; the more especially as the South German governments had received in five-franc pieces part of the sum coming to them from the war indemnity, and had made haste to send them into Alsace-Lorraine. In 1873, with the constant and rapid amelioration of the situation in France, exchange on Paris rose, and beginning with 1874, there was a very natural efflux of French money toward its home country. The field was thus left free for the bills of the Bank of Prussia and for thalers and silver groschen, until they were replaced by marks. But the franc was still a legal tender; books and accounts were kept (as they are for the most part even now) in terms of French money.\*

The German occupation had found the bill of the Bank of France endowed with a forced circulation by virtue of the law of August, 1870. After the annexation, the question arose whether this law had become obsolete. Opinions differed. The public treasuries refused to accept bills of the Bank of France, to which decisions of the tribunals of commerce (Strasburg, October, 1871) had imputed a legal-tender power. The Bank of Prussia appealed to its charter as an excuse for refusing them, being obliged by this document to receive nothing save its own notes. There was great exasperation among the people. They supported their contention by Article 143 of the Code of Commerce, which provided that any bill of exchange might be paid in the money named upon it; and they held that, in view of the forced circulation of French bills, they were entitled to pay with them. An attempt was made to explain the altered circumstances to them; but many persons from whom the Bank had refused to accept payment in notes of the Bank of France calmly allowed their drafts to go to protest. There was no doubt of their good faith, but the results were disastrous. In the months of August and September, public sentiment at Strasburg and Mulhausen was openly hostile to the Bank of Prussia; which, however, encountered less opposition at Metz. The law of September 28, 1871, which went into effect on October 14th, expressly

abolished the forced circulation of the notes of the Bank of France. In order to furnish protection against Treasury notes issued during the war, a law of January 7, 1872, forbade payment in any paper money except German, a temporary exception being made in favor of notes of the Bank of France for fifty francs and over. The result of the law of September 28, 1871, was to cause French bills gradually to fall below par. Immediately there sprang up an arbitrage business, having for its object the purchase of these notes in Alsace-Lorraine.† Investments of Alsace-Lorraine capital in France also absorbed large sums, and gradually the notes disappeared from circulation.

On January 1, 1872, occurred the final incorporation of Alsace-Lorraine with the German Zollverein, with all the consequences arising from customs and other fiscal laws. The transition was not effected without weighing heavily upon commerce and industry, suddenly deprived of their ancient outlets and compelled to create new ones. At the time of this incorporation of the two provinces, all the German laws became effective in them, including the German Code of Commerce, which differed in some respects from the French Code. In one respect especially, there was a very marked difference; the Bank of Prussia was not allowed, for the future, to discount either bills drawn to order or drafts not requiring acceptance, imperfect bills of exchange which the German law did not recognize. Nevertheless, in small commercial transactions, the bill drawn to order had taken firm root under the French régime, and it has held its ground notwithstanding its exclusion from the privilege of discount. German manufacturers, money-brokers, and commercial houses make use of the bill of exchange drawn in legal form. But, on account of this strict requirement as to form, the Bank of Prussia lost a part of the discount business which the Bank of France had enjoyed, and that paper found its way into the hands of private banks or bankers.

The Bank of Prussia was in operation in Alsace-Lorraine from 1871 to 1875. The abnormal condition of affairs under which it was established, the disappearance of the branches of the Bank of France, the general need of credit, assured to it at the beginning a large amount of business. In 1872, the three branches bought bills of exchange aggregating 171 millions of marks; in 1873, 201 millions; in 1874, 189 millions; in 1875, 153 millions. The profits were 668,000 marks in 1872, 821,000 marks in 1873, 505,000 marks in 1874, and 403,000 marks in 1875. In its earlier years, the Bank of Prussia had practically no competition; but this monopoly was brief.

In 1872 and 1873, Germany fell a prey to the wildest speculation, which resulted in a severe and prolonged period of depression. This Alsace-Lorraine escaped. In 1875, the Bank of Prussia disappeared. It was replaced by the Bank of Germany, which was organized under the tutelage of the Empire and upon a larger basis, and which became to a fuller extent the central reservoir of monetary, note, and credit circulation among the German States. The offices of the Bank of Germany (the Reichsbank) are divided into head offices (Reichsbank-Hauptstellen) and ordinary offices (Reichsbank-Stellen), and into simple branches and agencies. Each of these administrative subdivisions has its own special line of business; some merely loan upon securities, while others not only make such loans, but also buy bills of exchange and do a full banking business.

The branch at Strasburg became a head office, and those at Mulhausen and Metz became ordinary offices, on January 1, 1876. On the same date, the mark became the official money of the Empire, and from October 1, 1875, French silver and copper pieces lost their legal-tender quality. Nevertheless, bills are still drawn and circulate in Alsace-Lorraine expressed in francs; money-brokers have continued their former habit of keeping their accounts in francs and marks, using the fixed rate of 100 francs to 80 marks, which is favorable to them. All this paper expressed in francs escapes the Bank of Germany. In addition to this, that bank is subjected to the competition of local banks, those of southern Germany especially, which discount paper at less than the official rate, and accept bills drawn for a longer period than three months. Such was especially the custom of those banks having a right of issue, which discriminated according to the signatures upon the paper, and did not confine themselves to one rate of interest. The Bank of Germany lodged a protest with the Federal Council, but that body was unable to find any provision of law to protect the complainant. There was nothing better for it to do, therefore, than to imitate its rivals and discount paper at less than the official rate, as the only means of keeping its capital fully employed. This reform dates from January, 1880; thanks to it, the Bank exercises a greater influence over the money market, with which it is in closer touch. Moreover, as soon as exchange becomes unfavorable to Germany, and a drain of gold is threatened, the Bank stops taking paper below the official rate, and even raises that rate. The competition of private banks and bankers with the central institution is very active, especially in the collection of bills of exchange. The Bank of Germany is thus deprived of the means of supervising credit transactions and the circulation of commercial paper. It strives, nevertheless, to attract to itself short-time drafts by reducing the commission upon drafts for small amounts, which is especially favorable to small tradesmen.

The sum total of the bills discounted by the three branches in Alsace-Lorraine was 133 millions of marks in 1877; 126 millions in 1878; 152 millions in 1881; 171 millions in 1883; 143 millions in 1886, and 175 millions in 1889. Thus there is a considerable variation in the size of the figures, a variation corresponding with the state of the markets and of general business throughout the Empire. It is difficult to secure statistical information regarding the extent of the competition which the Bank of Germany has to meet. It is stated, however, that the branches in Alsace-Lorraine discounted in 1888, 86,935 bills of exchange aggregating 168,362,200 marks, and that they collected 33,985 bills aggregating 7,631,300 marks, while five large independent banks handled 1,371,502 bills of exchange representing 735,881,300 marks. In this latter total, however, are included bills drawn on foreigners. M. von Lumm estimates at forty per cent. the proportion of bills not bankable at the Bank of Germany. These bills must be handled by these independent banks, which have a paid-up capital of twenty-six millions of marks, and by the sixty-seven banks and bankers of less importance.

In spite of their forcible separation from the mother country, the bankers and the people have maintained the closest relations with her. Many bills of exchange drawn in francs and payable at Paris or some other French city or town are sent into France for discount when the rate of interest there is favorable to this course. The average amount of the bills discounted by the Bank of Germany at Strasburg is greater than



that of those discounted by independent banks in the proportion of about four to one. Germans are very proud of the rapid increase in the business of accounts current, cheques, and payments by book entry at the Imperial Bank. It has covered the country with a veritable net, within the meshes of which it gathers all unemployed funds, brings them together in its treasuries, and makes them the instruments of a continuous transfer of property, thus economizing the use of metallic money and its own notes. Beyond an amount fixed, once for all, its note circulation, not covered by metallic money, is subject to a tax of five per cent. per year. In ordinary times, therefore, when the discount rate is below five per cent., the Bank seeks to avoid the necessity of increasing the circulation of its notes, and for this reason it has every motive to encourage the opening of accounts current and the use of cheques.\* Transactions relating to accounts current are carried on exclusively by means of cheques furnished by the Bank. To make a transfer from one account to another, whether at the same or another branch of the Bank, the depositor makes use of red cheques, similar to the book-entry slips used by the Bank of France, cheques made payable directly to the beneficiary, and not transferable; these must be presented at the counters of the Bank before half-past four in the afternoon. The withdrawal of funds is accomplished by means of special white cheques, and the Bank collects upon these withdrawals one-fifth per thousand. It undertakes to see that bills sent in by the owner of an account current are accepted at the Bank itself or at a branch, at the option of the owner. The sums deposited to the credit of accounts current are handled by the Bank without charge, but it pays no interest upon them. Following the example of English banks, it requires that a certain amount shall always be kept on deposit, the exact sum depending upon the importance of the account.

The money-brokers of Alsace-Lorraine, accustomed to this method of doing business as a result of their relations with the Bank of France, immediately carried their patronage to the Bank of Germany; but the latter wished especially to have accounts current opened by the commercial and industrial classes, who, however, were much slower to avail themselves of its services. The Bank is employed to collect bills of exchange for very small amounts, even as low as five or six marks, which subjects it to considerable expense, and compels it to charge a commission of twenty pfennigs upon any bill returned unpaid. It was the special ambition of the Bank to become cashier-general, relieving the public of the necessity of keeping any considerable sums on hand. It was equally ambitious to become the banker of the State, of the general and local authorities, civil and military. In England and Belgium, the national bank is cashier for the Government. In Germany, the Bank is compelled to gratuitously accept payments for the Empire, and to make up such to the amount of the Empire's credit, and it must grant the same privilege to the various States. It must handle gratuitously the money of the Empire and keep account of all payments made or received in its behalf. The business of the main treasury of the Empire is managed by it, and the Treasury itself is connected with that of the Bank. The Federal governments may equally avail themselves of the facilities of the Reichsbank; but the minimum of collections and payments made for their account is fixed at 10,000 marks. It is well known that the gratuitous management of its treasury is not the sole benefit which the Imperial Government secures from the constitution of the Bank; to that there must be added certain special dues and a participation in the profits.



In Alsace-Lorraine, the Bank of Germany has maintained close relations with the principal treasury of the province (Landes-Hauptkasse) in Strasburg, since 1890,\* with the chief treasury of the railroads belonging to the Empire, and with the Post-office Department (postal orders drawn in favor of depositors having accounts current are credited directly to them by the Bank, and are not paid in specie). In 1887, the Minister of War directed, as an experiment, that accounts current should be opened by the various military treasuries in order to lessen the amount of funds to be handled in actual money and to decrease the responsibilities of the officers. It seems that the results thus far have been encouraging, and much more so in Alsace-Lorraine than in other parts of the Empire.

The independent banks have not remained idle. They cultivate assiduously the branch of the business relating to deposits and cheques. If they cannot offer to the public facilities for transferring money gratuitously from any part of the Empire to any other, they yet furnish to the depositor an opportunity to draw interest upon his deposit, paying as a rule one per cent. From this, it results that the sums in accounts current in the large independent banks of Alsace-Lorraine are very much greater than those in the Bank of Germany. The General Alsatian Banking Company had, in 1883, 885 accounts subject to cheque, whereas to-day the branches of the Imperial Bank have only 286 depositors with accounts current. Loans upon securities have not hitherto been a source of much profit for the branches; the reason being that the public of Alsace-Lorraine lack confidence in German funds and securities. When the public have any money to invest they buy foreign funds, French rentes, upon which the Bank makes no loans; besides, they are less given to speculation than the people beyond the Rhine.

The forcible incorporation of Alsace-Lorraine with Germany has resulted in a considerable modification of the organization of banking. So long as Alsace-Lorraine was French, private banking houses, backed by the unlimited liability of their owners, had practically the whole field to themselves, and the number of stock corporations had been very small. But uncertainty as to the future, resulting from the conquest, the emigration of a part of the inhabitants, the very natural desire among men of wealth to keep their capital in a form as convertible as possible—these are the factors which brought about the adoption of various forms of association, including corporations, to carry on undertakings that formerly had prospered in the hands of individuals, or to establish new enterprises intended to meet the requirements of commerce and industry. M. Engel Dollfus has an interesting chapter upon this phase of the history in his account of the industry of Mulhausen and its economic evolution between 1870 and 1881. With the good sense and equipoise habitual with them, the citizens of Alsace-Lorraine have been shrewd enough to escape the follies and losses of stock-jobbing, of founding corporations solely for the purpose of issuing stock and securing the profits to be realized from fluctuations in its price. This transformation into stock companies has resulted from changes brought about by annexation. It has arisen in response to the necessities of a new situation so grievous for the conquered. The special object of the change was to facilitate the settlement of estates. In case of death, the heirs of the deceased find it very easy to divide the shares among them. Thus, dealings in the stocks are rare. They are sold in the presence of a notary or at the bank; few of them are quoted at Basle or Frankfort.

It is deserving of remark that the natives of Alsace-Lorraine have been able to preserve their superiority and maintain their supremacy, and that branches of independent German banks have not succeeded in acclimating themselves, or in taking root among them. Three failures have occurred successively by the Bank of South Germany, the Union Bank of Berlin, and the Provinzial Disconto Gesellschaft, all of which have been compelled to close their doors and wind up the affairs of the branches they had established in Strasburg. The merchant or manufacturer in the two provinces preferred to continue his relations with his former banker, or with banks established by his fellow-citizens, rather than to ally himself with Germans, newcomers into his land, ignorant alike of its usages and traditions, whom he would have been compelled to initiate, to some extent at least, into the privacies of his business affairs.

In 1871, four old banking houses of Strasburg combined to form the Bank of Alsace-Lorraine, with a capital of 12,000,000 francs.\* In 1872, the chief manufacturers of Mulhausen transformed the house of M. A. Schlumberger Ehinger into a corporation under the name of the Bank of Mulhausen, with a capital of 12,000,000 francs. Alsatian capital, in order to replace the Crédit Foncier of France, established in 1872, at Strasburg, the Société de Crédit Foncier et Communal d'Alsace-Lorraine, chartered by imperial decree. A few months later the Bank of Alsace-Lorraine established a branch at Metz, and in 1874, a second at Mulhausen. The fusion of two banking houses existing since 1852, Ch. Staehling and L. Valentin & Co., resulted in the establishment of a limited liability company. All of these corporations are still in existence. While these new banks were springing up some old houses disappeared (Lamey & Co., Coulaux Sutterlin, Bastien & Co., Grouvel & Co.). But some houses of importance have continued under the names of individuals, one of the most important being that of August Nanheimer, at Colmar. Among the establishments antedating annexation may be named the Mulhausen Bank of Discount (1848); the General Banking Company of Alsace-Lorraine at Strasburg, Colmar, and Mulhausen, which had been a branch of the General Banking Company of Paris, but which had severed its connection therewith and been re-established on an independent basis; and, finally, the Discount Bank of Mayer & Co., at Metz (1856). The Bank of Discount of Colmar (1848) failed disastrously in 1884, as the result of too liberal credits and general bad management. This is the only failure to be recorded as occurring among the banking and credit establishments during a period of twenty years.

In 1852, everything was ready for the establishment of the Crédit Foncier of the department of the Lower Rhine at Strasburg, with a capital of 2,000,000 francs, when the law of December 10, 1852, intervened to substitute, instead of local mortgage banks, a central and privileged institution, the Crédit Foncier of France. Under the Empire, the Alsatians demanded the decentralization of mortgage credits. About 1866 or 1867, the agricultural convention of the Mulhausen district had suggested the idea of a mortgage and agricultural bank at Mulhausen. It was found that a powerful institution having its headquarters at Paris could not adequately supply the demand for credit in that district. In the absence of a local institution certain notaries acted as intermediaries to secure the money of individuals for farm-owners who wished to borrow, under which arrangement small holders were compelled, by many of the lenders, to pay usurious rates of interest.

As we have said above, the German conquest had deprived Alsace-Lorraine of such assistance as it had received from the operations of the *Crédit Foncier* of France. Here was a gap to be filled up. Accordingly, a group of Alsatian capitalists and bankers, with the assistance of some German and Swiss bankers, founded in 1872 the *Société de Crédit Foncier et Communal d'Alsace-Lorraine*, conforming it much more closely to the type of the great establishment which had disappeared than to that of the mortgage banks of Germany. The nominal capital was fixed at 12,000,000 francs, divided into 24,000 shares, with the privilege of increasing it to 24,000,000 francs. The powers of the corporation are very extensive, being modeled very largely upon those given by the charter of the *Crédit Foncier* of France. The minimum of loans is fixed at 375 francs. The amount loaned is not to exceed two-thirds of the estimated value of country property, nor fifty per cent. of the value of improved property. The company is authorized also to make loans to the communes, to clubs, to societies for the improvement of agriculture, and to corporations. It may issue mortgage and communal bonds, the sum total of the former being limited to twenty times the amount of the paid-up capital of the company. All the bonds it issues must first be covered by mortgage security. The supervision and control are in the hands of a Government official, who has his office at the company's headquarters. The company is authorized to receive deposits, which help to maintain the business of its banking department, properly so called (discounts, loans upon securities, etc.). As regards registry of its mortgages and executions against delinquent debtors, the corporation has rights and privileges very much the same as those of the French *Crédit Foncier*. Some years passed before the public fell into the habit of applying to the company for loans; but from the very beginning its bonds were in demand as an investment, and as early as 1879 its 4½ per cents. were quoted at 103. An imperial decree of 1876 gave permission to communes and to public institutions to invest their money in mortgage or communal bonds issued by the company. But, as the sum total of its mortgage loans was only 10,000,000 marks, in 1880 a meeting of the stockholders authorized it to extend its operations to include the Grandduchy of Baden, Bavaria, Wurtemberg, Hesse, and the province of Nassau; the result being that, in 1889, its mortgage loans amounted to 37,500,000, serving as security for 35,000,000 of bonds. The corporation conducts its business with great care, insomuch that the number of forced sales it is compelled to make of the property of delinquent debtors averages only ten a year. The value of unsold property on its hands was 197,000 marks in 1884, and this had been reduced to 184,000 marks by 1888.

Up to 1886 the *Société de Crédit Foncier et Communal* was intrusted with the receipt and temporary investment of Government deposits. A law of 1872 had transferred to the provincial treasury of Alsace-Lorraine the rights and obligations of the French Treasury—that is, of the Consignation and Deposit Office, relatively to the receipt, management, and repayment of securities furnished by Government employees, money in the custody of the courts and administrative officers, unemployed funds of local authorities, savings-banks, etc. The president of the provincial treasury had been authorized to enter into a contract with some banking house under which the latter would manage these funds, paying a fixed sum for the privilege. On November 15, 1872, President Moller entered into a ten years' agreement with the *Société de Crédit Foncier et Communal* and turned over to it the sum of 17,022,000 francs, to be kept separate and managed independently of the company's mortgage dealings and under

the direct supervision of a State commissioner. The interest to be paid by the corporation was fixed at 3 per cent. upon all sums turned in by public institutions, 4 per cent. upon money belonging to savings-banks, and  $4\frac{1}{2}$  per cent. on deposits made by mutual benefit societies (1875). The corporation was liable, to the extent of its capital, for all Government deposits.

The care and investment of such large sums, for the prompt repayment of which provision had to be made, compelled the corporation to perfect the banking features of its business, in order to secure an adequate return for its trouble. For this return it depended upon the discounting of bills and dealings in the highest class of securities, French and German. At the close of 1885, against 55,000,000 deposited by the Government and public institutions, it had on hand 22,500,000 in bills of exchange and 24,000,000 in securities. Beginning with 1879, the tax receipts were turned immediately over to the corporation and a right was given to the Imperial Government to overdraw its account temporarily. The result was that the company was subjected to the necessity of providing for very large withdrawals upon a moment's notice. The general decline of interest rates in Europe, the prosperity of the country, and other causes resulted in a very rapid increase in savings-banks deposits, for which the company was bound to pay interest at the rate of four per cent. (In 1873 these deposits aggregated 8,000,000 marks; 18,000,000 in 1876; 26,000,000 in 1880; 43,000,000 in 1885, when about 78 per cent. of the sum total of public moneys was on deposit with the company). The management of these sums was very expensive and imposed a heavy burden upon the shareholders. So, in 1885, the company expressed dissatisfaction with its contract, which had been renewed in 1882. A modification in the terms of the agreement resulted. There was a change in the conditions under which savings-banks deposits were received, and the latter were compelled to reduce from  $3\frac{1}{2}$  to  $3\frac{1}{4}$  per cent. the interest paid to their depositors. The Société continues its management of deposits made by the State and by public institutions; but the maximum amount on which it is compelled to pay 3 per cent. is fixed at 15,000,000, and this amount forms an ordinary account current, the sum to the credit of which must not fall below 10,000,000 marks. The payments which the company formerly made on Government account have been turned over, except in Strasburg, to the Post-office and the Imperial Bank. One result of the new contract has been a diminution in some branches of the company's business. Its bills and acceptances and its securities are fewer, but it now has the advantage of being always assured of a deposit of 10,000,000 marks on State account.\*

There are seventy-two banks and bankers in Alsace-Lorraine, sixteen being in Strasburg, seven in Mulhausen, four in Colmar, and eight in Metz—that is to say, thirty-five in the four large cities; the others are scattered throughout the provinces.

Nine stock companies are engaged in the banking business, with a nominal capital of 51,800,000 marks (29,500,000 being paid in). We should not be very wide of the mark, probably, in estimating at 100,000,000 the responsible capital of independent bankers.

We have already called attention to the fact that in Alsace-Lorraine books and accounts are kept both in francs and marks; we may add that a large proportion of the

bills of exchange drawn in those provinces are written in French. Out of 2510 bills held by the branch of the Bank of Germany at Strasburg on January 24, 1890, no less than 1405, or fifty-six per cent., were in French (not in francs, however, for in that case they would have been excluded from discount by the Bank). Thus we see how, even in this matter, the native element holds out against assimilation with the German. It is a thorn in the flesh which the Germans beyond the Rhine would gladly pluck out, but this is a wish much easier to cherish than to realize. Again, the sympathies of the people show themselves very plainly in their investments, inasmuch as they always seek for this purpose either local securities or such as are bought and sold in France. This explains why the crisis of 1882 was more seriously felt in Alsace-Lorraine than that of 1873; the earlier affected Germany particularly, while the more recent was especially severe at Paris.

Arthur Raffalovich.

Banking in Canada,

BY

BYRON E. WALKER,

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NEW YORK,

1896.

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## BANKING IN CANADA.

### AUTHOR'S PREFACE.

ALTHOUGH it is only since the customary decennial revision of the Bank Act in 1890 that the Canadian system of banking can be said to have been a subject of interest to any but the citizens of that country, the history of currency and banking in Canada is of considerable antiquity, dating as it does from the early part of the seventeenth century. And from the point of view of development, it has the advantage of beginning with the simplest conditions of barter, followed by a currency limited to moose and beaver skins, and passing by intelligible stages to a condition of sufficient perfection to be worthy of consideration as one of the half-dozen best systems in the world.

But the total wealth involved in Canadian banking is only about \$320,000,000, a sum very small when compared with the great trading nations, such as Great Britain, France, Germany, and the United States. In its early stages, indeed, the actual money involved was so trifling that it seems scarcely worth while to record such facts in history. Principles, however, are more important than the range of their application, and in the history of the development, of Canada, whether we consider banking, or representative government, or any other important branch of society, its people have always shown a strong disposition to discuss the reasons of things, whether the application at the moment was important or not. If there are any general principles lying at the foundation of banking they will assert themselves as well in a small volume of business as in the transactions of a great nation.

In attempting to set forth the history of the currency and banking of Canada, up to the last revision of the Bank Act, the facts fall naturally into the following groups:

1608-1760, New France. Card money and other paper issues—1685-1719, 1729-1749, and 1750-1760.

1760-1791, British occupation. Country without paper money. Coins of several countries a legal tender.

1791-1812, Representative government established in 1791, but attempts to obtain charters for banks of issue unsuccessful.

1812-1817, Paper money issued by the Army-bill Office.

1817-1867, Joint-stock banks under provincial charters.

1867-1890, Dominion of Canada. Charters issued by the Federal instead of Provincial Government.

The writer has endeavored to deal with these periods as succinctly as possible in order that he might write more fully regarding the nature of the act now in force.

The space at disposal does not permit of the present work being more than a study of the development and principles of Canadian banking, but care has been taken to make such references as may enable the reader to obtain access to histories which deal fully with the various periods, and present in detail all important incidents. The writer has also been careful to avoid the mention by name of banks or individuals, excepting so far as such a course was necessary in writing a mere history of development.

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## CHAPTER I.

### CURRENCY EXPEDIENTS.

#### 1608-1760, CARD MONEY OF NEW FRANCE; 1760-1812, RESORT TO FOREIGN COIN; 1812-1817, ARMY-BILL ISSUES.

NO theory supported the issue in 1685 of the first paper money in Canada. The little communities at Quebec, Three Rivers, and Montreal had existed for three-quarters of a century, presenting the strange contrast to their present industrial habits of a distinctly mediæval civilization, at war, externally, with the savage Indian and the primæval condition of nature, and when for a moment the Iroquois had disappeared, internally, about petty questions of political and social precedence; as to whether brandy should be sold to the friendly Indians who had furs to exchange; to what extent the unhappy colonist should be bled by the so-called Trading Company, to which an ignorant king had given a monopoly of both export and import trade, and by priests illegally trading in furs, etc. While religious zealots in France saw only the opportunity to convert Indians for the glory of God, civil and military servants in the colony and the Government in France actually exacted tribute from New France. But had there been before the colonists merely the problems of food and clothing and such public improvements as necessity demanded, they would doubtless have been unable, as all new countries now are, to export enough to pay for their imports. And so, such coined money as came to the colony, chiefly for military and civil expenditure by the Government, quickly returned, and for many years beaver-skins, the most important product, served as the chief money, other furs being also either recognized standards of value or readily exchangeable by barter, while a decree was not necessary to make brandy a most satisfactory medium of exchange with the Indians.

### EARLIEST MONETARY EXPEDIENTS.

The difficulty was not always, however, with the trapper and agriculturist in finding a satisfactory exchange for the imported goods sold by the merchant. The colony was so poor that the products often had to be exported to France and sold before the necessary supplies could be sent in return. To enable trade to be carried on with some degree of comfort, the French West Indies Company, which had the control of the trade of Canada in 1670, brought about the issue of a coinage of subsidiary silver and copper for use in the French colonies; but even these change-making coins returned at once to France.

The next expedient was a decree, in 1672, for the avowed purpose of keeping coined money in Canada, according to which the coinage of the colonies and of France was to be taken at one-third more than the face value. This did no good whatever, and in addition to enabling the Trading Company to exact unfair profits, it created two



species of money, the French standard (*monnoye de france* or *livre tournois*) and the colonial standard (*monnoye du pays*). In 1674 another decree annulled the action of 1672 regarding the difference between the face value and the value in trade of the coinage, but the custom of paying for furs and similar merchandise by giving twenty-five per cent. less in coined money remained until 1719.

All expedients having failed to retain the one satisfactory kind of currency, in 1679, the farmers, who were now evidently making themselves felt politically, were permitted, for a period of three months, to pay their debts in wheat at the fixed rate of four livres per minot (three French bushels). And, in like manner, about 1684 moose-skins were a legal tender in paying debts already incurred, at rates named by the authorities.

## CARD MONEY.

For a few years previous to 1685, the Government of France had supplied in advance the money and goods necessary for the support of their civil and military establishments in Canada, but for this year these failed to arrive. The Intendant, Jacques de Meulles, evidently more fertile in resource than his predecessors, after having spent all the money he had or could borrow, resorted to the following expedient: Instead of silver he paid soldiers by notes made of playing-cards cut in four pieces. The denominations of these were four francs, forty sols, and fifteen sols, with which three kinds he could pay a soldier's monthly wages. He ordered the people to accept, and personally undertook to redeem them.\* They are said to have borne simply the written amount of their value in *monnoye du pays*, the signatures of the Intendant and the Clerk of the Treasury, and the crowned fleur-de-lis impressed in wax. The new currency must have solved many of the difficulties of trade, and we are not surprised to learn that thereafter France made no effort to send supplies a year in advance, while resort to this *monnoye de carte* became the recognized means of carrying the debts of the Colonial Government over the year, or until the ships arrived in the autumn from France. Subsequent issues appear to have been very carefully guarded. The Governor and the Intendant, for their respective disbursements, might employ the aid of card money, and the notes, therefore, bore the signature of the Governor, the Intendant, and the Clerk of the Treasury. After the necessary decree establishing the legal-tender quality of each issue, the Clerk of the Treasury receipted for them in the same manner as for actual remittances from France. Until 1709 the cards for the year were redeemed in specie when the ships arrived, or, if preferred by the holder, drafts on the French Treasury could be obtained at any time during the year. The success of the expedient, thus far, was not unmerited, and the currency cannot be regarded as entirely unsound, since it was merely a series of issues limited to the amount of the annual remittance and redeemed in specie on arrival.

In 1709, however, in consequence of the bankrupt condition of France, owing to European wars, drafts already given in exchange for the cards were refused and the regular remittances discontinued. The legitimate basis of the card money was now gone, while the necessity for its issue was greatly increased. Instead of issues restricted to the amount of a year's expenditure, the unredeemed cards of one year were succeeded by those of another until the volume increased fourfold, the total

outstanding in 1714 being computed at 2,120,000 livres, while the population was only 19,000. At this time it was decided to redeem them gradually at one-half, and during the ensuing three years bills of exchange were drawn on the French Treasury for five-sevenths of the above amount. But the French Treasury did not resume remittances for current expenditures, and for this purpose new issues were necessary, so that by 1717 the total outstanding was 1,730,000 livres. In this year, however, arrangements were made not only for the redemption of all cards at one-half, but for the cessation of future issues, and the return to the currency standard of old France in exchange for the *monnoye du pays*.

## RETURN TO COIN MONEY—THEN A RELAPSE TO CARDS.

By 1719 the redemption of the card money was accomplished, and for about ten years, during which period there were many unsuccessful efforts to interfere by decrees with the natural course of things, coined money was the only currency—always scarce, and with a persistent tendency to return to old France. By 1728, we find the Governor suggesting a new issue of card money as the only relief, and early in 1729 the King, by ordinance and in accordance with the wish of the colonists, created again for Canada a card currency. The new cards were limited to 400,000 livres, were issued in seven convenient denominations, were a legal tender, receivable for all goods sold by Government, and were redeemable by drafts on the French Treasury. This issue was thus surrounded by careful regulations, but was distinctly a *fiat* currency, to be reissued as soon as redeemed—a permanent loan to the Government. It was not actually redeemable in specie, although as long as the volume was restricted, redemption by drafts on the French Treasury was practically quite as satisfactory. But the population had increased to 30,000, and the volume of currency being deemed quite insufficient, the King, who now controlled the issue, was induced in 1733 to increase the limit to 600,000 livres. In 1742 it was again increased to 720,000 livres, and in 1749 to 1,000,000 livres. Thus far, the issues were promptly redeemed by drafts on the French Treasury, and from history we do not learn that anything but good arose from this reasonable use of paper money.

From this time until the capitulation in 1760, the colony was constantly increasing its expenditures in order to carry on its struggle with the English colonies. The annual expenditure, which in 1749 was less than 2,000,000 livres, by 1758 reached nearly 28,000,000 livres, and during the seven years 1749 to 1755 inclusive, the exports did not amount to thirty per cent. of the imports. The receipts of money from France were quite insufficient for such unusual expenditure, and, to the high prices attendant upon the over-issue of paper money to which we are about to refer, there was added the cost to the Public Treasury of the corrupt extravagance of the Intendant Bigot.

## BIGOT'S DUE-BILL CURRENCY (*ORDONNANCES*).

The limit of 1,000,000 livres being too small and the issue of cards being illegal, unless sanctioned by the King, Bigot resorted to a new species of currency. He issued printed due-bills called *ordonnances* for even sums from 20 sols to 100 livres. The

notes were signed by the Intendant only, and there was practically no limit except the ability of the community to absorb such issues. They were not redeemable in specie, but were redeemable in card money under certain circumstances. In the autumn the moneys and credits supplied by the French Treasury were available to redeem the authorized card money. This card money, being reissuable as long as the limit of 1,000,000 livres was not exceeded, was used to redeem as far as it would go the ordonnances of Bigot, and for such portion as could not be redeemed by card money a third species of obligation was issued in the shape of bonds of the Canadian Treasury, payable in one year in card money.

A disparity in value was thus created between the card money and the ordonnances, and in 1754 this was removed by taking away from the former any priority in the conversion into bills of exchange on the French Treasury, both cards and ordonnances being redeemed on the same level, as far as redemption was effected at all. Instead of raising the ordonnances to the level of the cards, this measure reduced the latter to the level of the former. In 1756 an attempt was made to fix at twenty-five per cent. the depreciation of the paper currency relatively to specie. But the pressure of war upon France in several parts of the world made financial reform impossible, and matters grew steadily worse, little restraint thereafter being attempted in the volume of paper money emitted. The drafts on the French Treasury for 1758 and 1759 were not paid, and cards and ordonnances fell to a discount of sixty to seventy per cent. At the capitulation in 1760, there were outstanding 34,000,000 livres of ordonnances and 7,000,000 livres of cards and Treasury bonds, while other evidences of debt brought the total liability of the Canadian colony up to 80,000,000 livres.

The new British rulers insisted upon a settlement by France of such evidences of debt as were held by the Canadian people, and notwithstanding the bankrupt condition of France, this was brought about by a convention, signed in 1766, under which bills of exchange and anything subject to redemption in them were paid at fifty per cent. of the face value, while ordonnances and other forms of debt were paid at twenty-five per cent., and there was added to this a bonus on the whole settlement of 3,000,000 livres. Payment was made, however, in French public securities, which in May, 1766, sold as low as 74, and which rapidly declined in a few years until they became almost completely worthless.\*

## CURRENCY UNDER BRITISH RULE.

One of the first acts of the new British Governor was to warn the people not to take the paper issues of the old régime, and as early as 1764 we find importations of Mexican dollars with which to pay the troops. At the same time gold and silver coins of England, Spain, Portugal, France, and Germany were in circulation, and these miscellaneous coins furnished the only currency. It was thought necessary that the money of account should now bear English names in addition to French, but with as little alteration in the actual significance as possible. It was therefore decided that from and after January 1, 1765, the livre should be estimated at the same value as a shilling of the new Canadian currency, and that six livres or shillings should be the equivalent of a dollar. Accounts were to be kept in pounds, shillings, and pence, Canada currency (not sterling), and the same law made legal tender, and settled the

value in pounds, shillings and pence, Canada currency, of the various gold, silver, and copper coins already referred to, which formed the actual currency. In 1777, a new law was passed changing all these values on the basis of five Canadian shillings instead of six for the Spanish or Mexican silver dollar, and this established the Canadian currency which existed until the decimal system, expressed in dollars and cents, was adopted.

But the silver coins of the various countries were, because of their worn condition and for other reasons, unsuitable for shipment abroad, and therefore gold coins were sought for this purpose, and complaints as to the unsatisfactory state of the currency were still frequent. In 1791, constitutional government, instead of government by a Governor and Council of State, was conferred on Canada, the country being divided into Upper Canada (now Ontario) and Lower Canada (Quebec). The Parliament of Quebec in 1795 passed an act increasing the value of the gold coins which were a legal tender, hoping thereby to prevent their export, and requiring payments in excess of £50 to be made in gold. The new law also declared that the new American dollar should be counted like the Spanish and Mexican, at five shillings, and all other silver coins likewise remained unchanged. In 1796 Upper Canada passed a similar act. Another act was passed in 1808 still further enhancing the value of some of the foreign gold pieces; but, without a coined currency or a banking system, no satisfactory solution could be found.

Joint-stock banks of the modern type—that is, banks of issue, deposit, and discount—had been established in the United States, despite the bankruptcy of all legal-tender issues, colonial and “Continental.” In 1781, the Bank of North America of Philadelphia, still flourishing, was chartered. In 1784, Massachusetts chartered a bank. In 1791, the first United States Bank began its career, and thereafter many banks sprang into existence.

## INTRODUCTION OF BANKING.

The merchants of Canada were not blind to what was going on elsewhere. Montreal had already become more important commercially than Quebec, and on October 18, 1792, the “Official Gazette” contained an announcement looking to the establishment in the former city of a bank under the name of the “Canada Banking Company.” It was proposed that the company should transact the business “usually done by similar establishments,” viz., to receive deposits, issue notes, discount bills, and keep cash accounts with customers. It was further proposed to open branches—“to extend the operations of the bank to every part of the two provinces where an agent may be judged necessary.” The scheme, although supported by the leading merchants, failed in its main purpose; the result being a private bank without the legislative authority to issue notes.\* Canada was enjoying its first year of constitutional government, and although the author has seen no record of Parliamentary debate, we must suppose that such an important proposal was fully discussed in one way or another before it was abandoned. One able writer has attributed the lack of success to the disturbed state of Europe and political apprehension of trouble; but we must remember that in 1792 there were many living who had personally experienced loss by the repudiated paper currency of the old régime, while opponents of the plan might cite the universal

bankruptcy at the time of the revolution of all paper issues in the United States. It was therefore only natural that the right of issue should have been withheld. The merchant of Canada at that time suffered greatly through the confusion arising from a currency consisting of the coins of other countries, but he hesitated to abandon this position of comparative safety for one which must have seemed to him to be full of known as well as unknown dangers. The effort to issue bank notes was not renewed until 1807, this time at Quebec, but again without success.

In 1808, citizens of both Montreal and Quebec asked Parliament to grant a charter for the "Canada Bank," and after reference to a committee a bill was introduced. The capital of the bank was to be £250,000 currency (\$1,000,000), divided in shares of £25 currency (\$100). There were to be twenty-four directors elected by the shareholders, one half to attend to the affairs of the bank at Montreal, and the other half at Quebec, these being the two most important offices. The directors were to elect the president and vice-president. But the charter was refused. In the Legislature it was argued that the creation of a bank with power of issue would drive out all specie, would foster speculation founded on imaginary capital, that the people were too ignorant to understand the denominations of notes or guard against counterfeits, etc.

## RESORT TO ARMY BILLS AS CURRENCY.

In 1812 Canada was suddenly plunged into war with the United States. War was declared on the 29th of June, and on July 16th the Parliament of Lower Canada met and remained in session until August 1st. During this time they passed an act to meet the financial requirements of the army. It was very elaborate in details and bore evidence of a strong desire to preserve the rights of the public as far as compatible with the object of the issue. The features important from our point of view are:

1. The Governor, as Commander of the Army, was authorized to issue bills in suitable denominations, to be called "Army Bills," and to be limited in the aggregate to £250,000 currency.
2. Bills of \$25 each and upwards to bear interest at four pence per hundred pounds per diem.
3. The principal of bills of \$25 each and upwards to be payable, at the option of the Commander, in cash, or Government bills of exchange on London, at thirty days' sight, at the current rate of exchange. Upon such payment of principal the interest to be payable, at the option of the holder, in cash or army bills.
4. Within the prescribed limit of £250,000 currency, the Commander was empowered also to issue bills of \$4 each, to be payable to the holder in cash on demand, and therefore not to bear interest.
5. All army bills to be issued as cash, *i. e.*, not sold at a discount or premium.
6. The current rate of exchange for bills on London to be established by a committee of five, named by the Governor, and to be advertised fortnightly.
7. No army bills to be re-issued except those of \$4 each.
8. The revenues of the province were pledged, in preference to all other claims, for the interest on the army bills.
9. Army bills, with interest accrued, were receivable by all collectors of Government dues.
10. Various regulations referring to arrest for debt, attachment, *capias*, etc., had the effect of making the army bills practically a legal tender.
11. On fourteen days' notice by authorities bills became redeemable and interest ceased.
12. At expiration of five years all notes became due and payable in cash out of moneys in the hands of the Receiver-General of the province. If such moneys were not sufficient,

then out of first moneys received thereafter. Payment might be had at any time by bills of exchange on London, but this provision was made to enable the army bills to be held by Canadians as an investment. 13. During this period of five years no gold, silver, or copper coin, or “molten gold or silver in any shape or shapes whatever,” were to be exported under penalty of forfeiture of the whole, and also of a fine levied upon the exporter of £200 currency, and double the value of the coin or metal exported. Permission to carry on the person £10, or a larger amount if authorized by the Governor.

On the passage of the act and the opening of the Army-bill Office, bills were issued of the denominations of \$25, \$50, \$100, and \$400, and evidently of \$4 also. These were readily accepted by the people, and the issue was not only successful as an expedient of war finance, but was a boon to the commerce of the country, which had been struggling along with the mixed currency of foreign coins already mentioned. After the manner of war expenditures, however, the amount was insufficient, and another bill was passed at the next session of Parliament and assented to February 15, 1813, under which the aggregate of the issue was raised to £500,000 currency.

Denominations of 1, 2, 8, 10, 12, 16, and 20 dollars were added to those already authorized, to be non-interest-bearing, in accordance with the provision of the first act. The total of non-interest-bearing notes, *i. e.*, notes of denominations smaller than \$25, was, however, limited to £50,000 currency.

But the war did not come to an end, and in 1814 a third act was passed enlarging the limit to £1,500,000 currency. The only new provision of importance rearranged the issue of small notes in denominations of 1, 2, 3, 5, and 10 dollars, non-interest-bearing, but payable, like the larger denominations, by exchange on London, and required that as much as £200,000 currency and not more than £500,000 currency of the entire issue should be in these denominations. Holders of these smaller denominations could exchange them for interest-bearing issues. In the second and third acts the provisions cited in paragraphs 9 and 13 of the abstract of the first act were not extended to any issues beyond the first £250,000 currency. In February, 1815, the Parliament was about to pass another bill increasing the limit to £2,000,000 currency, when news arrived announcing the treaty of peace between Great Britain and the United States signed at Ghent December 24, 1814.

The public accounts show that on March 27, 1815, the entire amount of army bills outstanding was £1,249,996 currency. By December 4, 1815, this had been reduced to £396,778 currency, and by April 22, 1816, to £197,974 currency. The time originally set for the retirement of all army bills was August, 1817, but by various orders this was extended until December 24, 1820, at which time the Army-bill Office was closed, the entire issue of notes having been practically redeemed. Of the £1,300,000, or thereabouts, outstanding in 1815, only about £800,000 was in interest-bearing notes, while as much as £500,000 was in notes of change-making denominations not bearing interest. In view of this fact much credit was taken by the army officials for the low rate of interest which the issue, as a whole, cost the Home Government.

The elaborate nature of the various Army-bill Acts, the intelligent discussion at the time they were passed, and the criticisms in the press regarding the effect of the issues

on the trade of the country, all show that the Canadian people held sound views on currency questions and were very much more intelligent than fifty years previously when the French card money was being redeemed. The provision by which the public could exchange notes of large denominations bearing interest for notes of small denominations not bearing interest, ensured a sufficient amount of currency for the trade of the country; while on the other hand, the reverse condition, under which non-interest-bearing notes could be exchanged for interest-bearing notes, ensured the redemption of all currency not required for trade purposes, by its conversion into what was practically an investment security. This quality of elasticity in the currency is very distinctly referred to in the contemporaneous discussions.\*

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## CHAPTER II.

### 1817-1841. BANKING UNDER JOINT-STOCK CHARTERS.

#### LEGISLATION BY THE PROVINCES.

#### EXPERIENCE OF TREASURY NOTES.

WE are now approaching the period of joint-stock banking, and it will have been noticed that we have dealt with the currency history of only one portion of the present Dominion of Canada, that now known as the province of Quebec. In considering the conditions of banking preceding the confederation of the British North American provinces and territories, which took place in 1867, we shall have to deal with the portions of the present Dominion now known as Quebec, Ontario, Nova Scotia, and New Brunswick, but before doing this it is necessary to refer briefly to the early conditions in Nova Scotia.

In 1801 an attempt was made in that province to obtain the monopoly of banking for a proposed company with a capital of £50,000 currency, but without success; and in 1811 an effort by the Halifax Committee of Trade to found a bank also failed. In 1812 the Treasury, however, made an issue of £12,000 currency of notes bearing interest at six per cent. and not reissuable. This was a simple and apparently harmless borrowing expedient, but, perhaps because of the absence of a sound bank of issue, the province went early astray. This issue was redeemed, but in 1813 it was followed by an issue of £20,000 currency *not* bearing interest and *reissuable*. From this year until confederation, in 1867, Nova Scotia never ceased to issue currency, and when its debts were assumed by the Dominion the total outstanding in this form amounted to £605,859. After 1812 the notes were not redeemable in gold unless it suited the Treasury, the option of funding them in interest-bearing notes being the alternative, and a date was fixed, generally three years from the date of the notes, before which redemption in any form could not be exacted.

In 1819 the Government tried the experiment, though in a very cautious manner, of lending on land through loan commissioners. Loans were not to exceed £200 currency on real estate supposed to be worth three times as much, repayable in three, six, and nine years, with six per cent. per annum interest.

In 1826 the Government took a further downward step by providing that notes must be received by the public in payment of warrants on the Treasury, whenever the Treasury was not in possession of coin with which to make such payments. The next step, naturally, was to require the Treasury to retain all coin in order to make payments in connection with the funded debt, and this was soon followed by the requirement that the public must pay customs duties in coin. In 1834, the latter provision was somewhat ameliorated by permission to pay in Treasury notes—the pound in paper money being reckoned at sixteen shillings for customs payments.



Various efforts at reform were made, and by 1846 customs duties were payable in coin and Treasury notes, but not in bank notes; and in order to aid in floating the Treasury issues, banks were not allowed to issue notes smaller than £5 currency (\$20). The remaining evil features were not removed by the legislation of 1846, and practically continued until the redemption of the whole by the Dominion Government, beginning in 1867.

## CREATION OF BANKS IN LOWER CANADA.

Returning to the province now called Quebec, it will be remembered that from 1815 to 1820 the army-bill issues were being retired. The people had experienced the benefits of a well-regulated and elastic paper currency, but it was based upon the war requirements of the Government, and not upon the requirements of trade; these war requirements being at an end, trade must get along once more with the miscellaneous coinage of foreign countries, unless a basis for paper money issues could be found. The outcome of this fact was the Bank of Montreal, now possessing a capital and surplus of \$18,000,000 and enjoying the distinction of being the most important monetary institution in North America. Without awaiting the consent of Parliament, articles of association were signed June 23, 1817, under which the capital was to be limited to £250,000 currency. In August, the Bank commenced business, and at the next session of the Legislature, an act incorporating it was passed, but was withheld by the Governor in order to obtain the royal assent. This was refused. In Quebec (city) another bank was founded on June 9, 1818, called the Quebec Bank, which is still doing a large business. Its capital was limited to £75,000 currency. It also began as a private bank, applied for incorporation in 1819, and, like the Bank of Montreal, failed to obtain it. A third bank, not now in existence, was established in Montreal in 1818, called the Bank of Canada, which also failed at this time to obtain incorporation. Its capital was limited to £200,000 currency.

During the session of 1820-21, however, the Legislature was again asked to grant charters to these three banks in conformity with their articles of association, and with such further regulations as Parliament might impose. The application was successful, and charters were granted by the Legislature in 1821, but did not receive the royal assent until 1822.

## CHARTERS GRANTED TO THREE BANKS—THEIR PROVISIONS.

As regards the development of banking, what we are most interested in at the present time is the nature of the charters granted to these three banks. They were all practically alike, and that granted to the Bank of Montreal may be taken as the type. It may safely be said that these first charters are the substructure on which all subsequent improvements have been built, and that no very radical changes have been at any time necessary. Indeed, there are very many provisions in these charters which were subsequently included, almost unchanged, in the general Banking Act. Among the provisions, which are not essentially different in principle from the present act, are the following:

1. The charter was to continue for ten years.
2. The directors were to be British subjects. The qualification in stock-holding was quite small, viz., four shares of £50 currency each, or \$800 par value. The directors were not to act as private bankers. They were to be remunerated only by compensation voted by shareholders at an annual meeting.
3. The directors were to appoint the officers of the bank and to take surety bonds for faithful performance of duties. They were to declare dividends, when profits were earned, as often as half-yearly. They must not, in paying dividends, encroach upon the capital. They must keep proper stock-books. They had the right to inspect all books, correspondence, and funds of the bank. They were obliged to submit a clear annual statement of the bank's position to the shareholders at the annual meeting.
4. The bank might receive deposits, deal in bills of exchange, discount notes, buy gold and silver coin and bullion, etc.; but might not engage in business other than banking.
5. It could not lend money directly upon real property. It could, however, take such as further security for loans already made. It was not permitted to lend money to a foreign country.
6. It could issue notes to circulate as money, but with no limit other than the general limit for all obligations.
7. The Government might require at any time, for the protection of the public, a statement, under oath, of the position of the bank.
8. Transfers of shares in the bank were not valid unless registered in the stock-book of the bank, and the bank had a prior lien on the stock for ordinary debts due by the holder.

The following regulations, on the other hand, are different in principle from the general act now in force:

1. The total liabilities were not to exceed three times the capital stock actually paid in, and directors were personally liable if they permitted such excess. Any director might save himself by publicly protesting within eight days after the transactions causing the excess took place.
2. The shareholders were exempt from any liability except that of payment for the stock for which they had subscribed, with a penalty of five per cent. for non-payment after installments matured.
3. Voting by shareholders was not, as now, in exact proportion to shares held, the number of votes diminishing by a scale as the holdings increased; so that while one share gave one vote, ten shares gave only five, and thirty shares only ten. No holding gave more than twenty votes.

The banks soon opened branches and agencies, and, imperfect in detail as it was at this time, the present system of banking began its career. From the first the banks exercised, under the scrutiny of Government and press, the great franchise of note issues unsecured by any special pledge; they possessed the identity given by separate charters and clearly distinguishing titles; they opened branches and assumed the widest functions of banking without discussing the precise powers accorded by these charters. Possessing capital quite as large relatively to the community as they have now, they assumed, without hesitation, a national position as clearing-houses for the exchange of the country's products.

## BANKS FOUNDED IN UPPER CANADA.

Leaving the province of Lower Canada (Quebec) and turning to Upper Canada (Ontario), we find that the people clearly saw the benefits of the paper issues of the War of 1812, and were strongly influenced by the growth of banking in Great Britain and the United States. In March, 1817, the House of Assembly was asked by the business men of Kingston to incorporate the Bank of Upper Canada; so that the people of this province were not behind those of Lower Canada in seeking such privileges. The act was passed by the Provincial Parliament, but was reserved by the Lieutenant-Governor in order to obtain royal assent. This was not granted until April 21, 1821. Because of this delay the people of Kingston asked in June, 1819, for the incorporation of the Bank of Kingston, which was granted so far as the Provincial Parliament was concerned; and the people of what is now Toronto, in July, 1819, asked for the incorporation of the Upper Canada Banking Company, which was granted, but reserved for royal assent. The delay still continuing, the House of Assembly, on April 5, 1821, passed resolutions looking to the establishment of a Provincial Bank; but the assent to the charter of the Bank of Upper Canada being proclaimed on the 21st of that month, no further action was necessary. In the nature of its charter, the Bank of Upper Canada did not differ materially from the banks of Lower Canada. Its capital was, after some discussion, settled, in 1823, at £100,000 currency, of which only a small proportion was actually paid in specie. Its head office was to be established at the seat of government, and the power to establish branches was directly stated. It became a semi-State institution by the fact that the Government subscribed for 2000 shares (£12 10s. 0d. currency each), thus owning one-fourth of the stock, and was allowed to name four of the fifteen directors. The Bank could buy real estate only for its own use, whereas in Lower Canada there was only a provision as to the annual value of real estate held by a bank. Inability to pay its notes in specie involved stoppage of business or forfeiture of charter until payments were resumed. The return to the Government was periodic instead of occasional, but was required only once a year. The charter extended to June 1, 1848.

In 1818, apparently, while awaiting a charter for the Bank of Upper Canada, the promoters in Kingston established a private bank under that name, as had been done by the originators of the Bank of Montreal and the Quebec Bank. When the charter was finally granted, the Provincial Government had subscribed for shares, and other changes had taken place, so that the chartered institution did not take over the business of the private bank, and the latter has, for this reason, been called the "pretended" Bank of Upper Canada. These two ventures are all, however, that

resulted at the moment from the desire on the part of the people of Upper Canada for bank accommodation.

## BANKS ESTABLISHED IN NOVA SCOTIA.

Early in 1820, royal assent was given to a charter for the Bank of New Brunswick at St. John, with a capital of £50,000 currency. In Nova Scotia, although there had been, as we have said, agitation for a bank early in the century, the issue since 1812 of a Government currency acted as a deterrent, and it was not until 1825 that the Halifax Banking Company commenced business. It did so as a private bank, although since 1872 it has been a regularly chartered body, and it was not until 1832 that the first joint-stock bank, the Bank of Nova Scotia, was chartered. The capital of this bank was to be £100,000 currency, of which £50,000 was to be paid in in specie or Treasury notes before it commenced business. The important feature in which its charter varied from those granted in Lower and Upper Canada was in the introduction of the double liability of shareholders, or the liability, in the event of failure, to pay assessments sufficient, after exhausting the ordinary assets, to meet all liabilities, provided such calls in the aggregate did not exceed the original amount of capital paid in. It was prohibited from issuing notes under 26 shillings, in order to preserve to the Government the exclusive issue of its notes for denominations from \$5 downward.

We have now referred to three banks chartered in Lower Canada, one private and one chartered bank in Upper Canada, one chartered bank in New Brunswick, and one private and one chartered bank in Nova Scotia—in all, six chartered and two private banks. Of these several ventures, two, the Bank of Canada in Lower Canada, and the private or “pretended” Bank of Upper Canada, passed out of existence in a few years, so that banking in the various provinces now merged in the Dominion was practically inaugurated by the following institutions: the Bank of Montreal, the Quebec Bank, the Bank of Upper Canada, the Bank of New Brunswick, the Halifax Banking Company, and the Bank of Nova Scotia, and these are all successful institutions to-day except the Bank of Upper Canada, the failure of which in 1866, after a career of half a century, is the most serious calamity in the history of banking in Canada.

When we look at the map, the extent of country to be served by these six banks seems very great, but when we consider the population and the nature of the commerce, it is difficult to understand how they managed to survive. A scanty population settled here and there at seaside ports and on the shores of rivers and lakes, without means of communication worthy the name, without manufactures, with agriculture so little advanced that the products of the chase and the forest were still more important as exports than the results of farming, there was but little basis for sound banking, and its development lacked interest until many years after this period. In Lower Canada the volume of business considerably more than doubled, apparently, between 1820 and 1830, but in the latter year the figures, exclusive of the Bank of Canada, which was almost liquidated, were very trifling. The resources were as follows: Capital, £304,000; notes in circulation, £217,000; deposits, £163,000, while other items made the aggregate a little more than £700,000 currency. The assets to represent this were loans, £602,000, and cash, £103,000. In the same year a return of the one bank in Upper Canada shows resources as follows: Capital, £77,000; notes in circulation,

£156,000; deposits and other debts due, £38,000, making an aggregate of less than £275,000 currency. This was represented by loans of £214,000, cash £23,000, and other assets of about £30,000.

## GROWTH OF BANKING IN THE VARIOUS PROVINCES.

We will now make a rapid survey of the growth of banking in the various provinces, pausing only to note the additions to the principles of banking, which were gradually being built up by experience. We have referred to the creation in 1820 of the Bank of New Brunswick; in that province the next charter was granted, in 1825, to the Charlotte County Bank at St. Andrew's, with a capital of £15,000 currency. These charters were for twenty years, and the total liabilities were restricted to twice the paid-up capital, instead of three times, as in the other provinces. Otherwise they did not differ materially from those granted elsewhere. In 1834, the Central Bank of New Brunswick, at Fredericton, obtained a charter which contained the following conditions, resulting, apparently, from the recommendations of the Committee for Trade of His Majesty's Privy Council for 1830 and 1833:

1. No bank notes to be issued until one-half of the authorized capital stock was paid in (in the case of this bank this amounted to only £7500 at first, the capital being but £15,000, but in 1836 the capital was increased to £50,000).
2. Public commissioners to count the cash in the vaults and ascertain that it was actual capital paid in.
3. The principle of double liability of stockholders, which had already been introduced in Nova Scotia.
4. Loans on pledge of Bank's own stock forbidden.
5. Liabilities of directors, directly or as sureties, limited to one-third of the paid-in capital.
6. Semi-annual returns to the Government.
7. No bill offered for discount to be refused by vote of a single director—a very doubtful provision.
8. A director with debts in default to Bank not to attend board meetings.

While these were very considerable changes from the charters previously granted in New Brunswick, they did not materially advance the principles of banking, as most of these conditions already existed in one form or another in other provinces. In the same year, the Commercial Bank of New Brunswick, and in 1836 the St. Stephen's Bank, were created. In the charter of the latter it is provided that no stockholder should own more than twenty per cent. of the capital stock, and that the lien for a debt due the Bank upon shares in the Bank owned by the debtor shall not have priority to that of a creditor who seizes and sells under execution. The limitations as to proportion of the

aggregate of debts to capital were materially altered by excluding deposits from the liabilities to be considered. In the same year authority was granted to the City Bank, with a head office at St. John, and a capital of £100,000, but it merged, in 1839, with the Bank of New Brunswick, which in 1837 had doubled its capital.

From this time until confederation, in 1867, the banking legislation of New Brunswick has little interest for us. Existing banks renewed their charters, accepting the new provisions, and sometimes increasing their capital, new banks were authorized, few of which actually began business. The result was that in 1867, when the province gave up its power to legislate regarding banking, there were in existence four banks, while there were five available charters not put in actual operation.

The history of banking in Nova Scotia prior to confederation is even more barren of incident than that of New Brunswick, but it is interesting because of the interference by Government in the business of banking in order to keep in circulation the Government issues already referred to, and the development of private banking, owing, doubtless, partly to the restrictions imposed by the Government in granting charters. Except that, in 1837 and 1838, the Bank of British North America, to be referred to hereafter, obtained permission to do business in New Brunswick and Nova Scotia, respectively, the latter province for many years depended for banking on the Bank of Nova Scotia and the private banks, and for currency on the issues of the Government, the Bank, and the private bankers. The private bankers were apparently only restricted in issuing notes by the condition that no note should be for less than £5 currency, which restriction was created by a statute of 1834 and also applied to the Bank of Nova Scotia. From 1841 to 1847, the charter of the Bank of Nova Scotia was several times extended for periods of one or two years at a time, and in 1847 it was renewed for ten years, the main addition being the penalty of loss of charter for an issue of bank notes causing the liabilities to exceed the legal limit of three times the paid-up capital. In 1856, it was again renewed for fifteen years and the authorized capital increased to £400,000 currency. Between this year and confederation, several charters were granted, but as they did not differ in principle from that of the Bank of Nova Scotia we need not refer further to them. At the time of confederation (1867) there were five banks doing business under charters from the province and one charter not yet in use.

It will have been observed that there was during the period of provincial charters very little growth in banking principles in these two provinces, and it will not be necessary in a mere history of development to refer to them again.

## NEW LEGISLATION RELATING TO NOTE ISSUES.

In 1841, the provinces of Lower and Upper Canada (Quebec and Ontario) were united in the Province of Canada; but before considering the growth of banking under the legislation of that province, we must refer to facts of considerable importance which took place from about 1830 to 1841 in the two old provinces.

In Lower Canada, in 1830, an act was passed prohibiting, under forfeiture of the amount involved, the issue or use in payment of any note payable to bearer or for less

than five dollars, except by a chartered bank. In renewing the charter of the Bank of Montreal in this year, which was only extended to 1837, there were also some interesting additional provisions. No notes were to be issued of less denomination than five shillings (\$1), and the total of notes for smaller denominations than £1 5s. od. currency (\$5) were not to exceed one-fifth of the capital stock. The Legislature might also at any time further restrict the issue of these small notes or suppress them entirely. The penalty for violating these two restrictions was forfeiture of charter. Improvements were made in the form of the return to Government, and in order that the province might not be left with a chartered institution enjoying the monopoly of banking, it was provided that in the event of the charter of the Quebec Bank not being renewed, the charter of the Bank of Montreal should also cease. These were somewhat illiberal provisions, and not very creditable to the legislators who imposed them. In 1831, the charter of the Quebec Bank was renewed until 1836, and later this was extended to the same day in 1837, on which that of the Bank of Montreal expired. The new provisions in the charter of the latter bank were also added, and it may be well to notice here that thus early there is the tendency to make all charters of banks expire at the same time—a feature, whether wise or not, which is very conspicuous in the present system.

Thus far, while the Bank of Montreal had a branch in Quebec, the Quebec Bank had no branch in Montreal, and in order to avoid monopoly, in 1831 a charter was asked for the City Bank. From the date of the founding of the original banks until Lower and Upper Canada merged in the Province of Canada, in 1841, this was the only proposal to establish a new chartered bank in Lower Canada, and yet it met with opposition, almost strong enough to defeat it, from the French members of the House of Assembly, whose naturally conservative instincts were still strongly averse to banks of issue. For reasons not material to our subject, royal assent was not granted until 1833, and the charter was to expire on the same day as those already granted—June 1, 1837. The conditions only differed from previous charters regarding the manner of paying in the capital, the two banks in existence having commenced as private ventures. The capital was to be £200,000 currency, and before commencing business must all be subscribed and £40,000 currency be paid up and actually in possession of the Bank in current coin of the province. The whole capital must be paid within four years.

Owing to the Rebellion of 1837, there was created a body known as the “Special Council of the Province of Lower Canada,” which, for the time being, governed the country. There was therefore no Parliament in 1837 to renew the three charters. The difficulty was got over by the Bank of Montreal continuing for a short time without incorporation and then having its charter extended for four years by this Special Council, while the other two banks secured royal letters patent, which continued their existence until one year after the next session of Parliament. The Quebec Bank subsequently obtained from the Special Council an express extension of its charter until 1842.

It will be remembered that private bankers, of whom there were doubtless many of one kind or another by this time, were forbidden to issue notes in Lower Canada intended for use as money. But the disorganized state of trade and finance, consequent

upon the rebellion, had, notwithstanding the penalty, caused a flood of paper issues by private bankers and merchants, and the Special Council endeavored to improve the situation temporarily by granting licenses to issue such notes, for one year, to private bankers who complied with certain regulations. The issue of such illegitimate currency and the suspension of specie payments at this time, which will be referred to elsewhere, are, I believe, the only evidences which can be quoted of failure on the part of the bank note issues, taken as a whole, to provide adequately for the currency requirements of the country, and these defects were entirely the result of the disorganization growing out of the rebellion.

## BANKS WITH EXCEPTIONAL CHARTERS.

We have next to refer to the creation of two institutions with charters possessing unusual features. When a general banking act was considered by the Dominion Government after confederation, these banks were the subject of various exemptions and requirements, because of the peculiar nature of the privileges they had already obtained. In 1835 a private banking firm was formed called Viger, DeWitt et Cie., also known as "La Banque du Peuple." It was simply a partnership of a kind frequently found in Europe. The twelve principal partners, who alone were to manage the business, were subject to the unlimited liability of ordinary partners in any firm, but they could have an indefinite number of special partners, or "commanditaires," whose liability ended with the payment of whatever shares in the venture they subscribed or accepted by transfer. This institution eventually became one of the chartered banks, but, as we have indicated, without losing its peculiar features. The "twelve principal partners" became practically the directors, retaining their unlimited liability, and the "commanditaires" became shareholders, without the double liability which inhered to stock held in other banks chartered by the Canadian Parliament. After a career of sixty years, this bank suspended in July, 1895, and having practically retired its note issues is, at the moment, endeavoring to arrange with its depositors to form a small bank of the ordinary character, thus removing from our system one of the few remaining anomalous features inherited from the legislation preceding confederation. In 1836 a bank was formed in England to do business through branches in the various North American provinces, a thing not done at the moment and which would require legislation in each of the provinces. Partly in order to avoid this, it secured a royal charter and thereafter obtained whatever local legislation was at the time necessary, and began business as the Bank of British North America, with a nominal capital of £1,000,000 sterling, which was eventually paid up in full, but without double liability of shareholders, and with power to issue no notes smaller than £1 currency.

## BANKING PROGRESS IN UPPER CANADA.

In Upper Canada we have to deal with very different conditions and a different people. At present the wealthiest of the provinces, it was at the time of the founding of the Bank of Upper Canada little more than a primæval forest, broken along the lakes and rivers by a few communities where the people struggled bravely for a livelihood, for the most part without the aid of roads or any public improvements. They were not,



like their French-Canadian brothers, unwilling to try joint-stock banking; they were only too willing to try anything which promised to oil the wheels of trade. In this spirit they began in 1825 the building of that series of canals which aided so much in making the lakes continuously navigable, and while they had to wait many years for the realization of their schemes, the expenditure of so much money and the immigration which at this time flowed in from Great Britain gave a great impetus to the development of the province. As might be expected, it was the day of strong rather than of scrupulous men. The government was in the hands of a powerful clique bent on controlling the religion, education, and the settlement as well as the legislation of the country. With this body the Bank of Upper Canada was closely allied, and, whether justly or not, was accused of using its power in politics. Be this as it may, in 1830-31 a bill for the creation of a bank was rejected by the Legislative Council, which is said to have been controlled by this clique, and in 1833 two bills were also rejected after having been passed by the Assembly. But the paid-up capital of the Bank of Upper Canada, which in 1823 was only £10,640 currency, had been increased until in 1830 it had reached the limit of £100,000 currency. It had paid dividends at eight per cent. per annum and had twice paid bonuses of six per cent. While the Legislative Council refused charters to new corporations, this one bank was permitted in 1831-32 to increase its capital by another £100,000 currency. At the same time one of the bills referred to above as having been rejected was passed, creating the Commercial Bank of the Midland District, with its head office at Kingston and an authorized capital of £100,000 currency. The improvements in principle in the bills passed at this time, regarding the two banks, were not very important. They were forbidden to lend on their own stock on penalty of forfeiting their charters, and more elaborate returns to Government were required than hitherto. So ready were the people to aid in extending banking that the subscriptions for the £100,000 currency of new stock of the Bank of Upper Canada, the books being open for but one day and no subscription permitted for more than eighty shares (£12 10s. od. currency, or \$50 each), amounted to £320,987 10s. od. currency. The premium received was sufficient to enable a bonus to be paid to original shareholders of eighteen per cent. in addition to the ordinary dividend of eight per cent.

We have already referred in dealing with New Brunswick to certain recommendations of the Committee for Trade of the Privy Council made as early as 1830, regarding colonial bank charters. These had not been considered in the recent bank legislation of Upper Canada, and there was in consequence a threat of royal disallowance unless the proposed conditions were added. But the banks had acted for a year under the new legislation and had already as many as fifteen or sixteen branches or agencies, with discounts amounting to £450,000 currency and notes in circulation of about £300,000 currency, so that the mere possibility of disallowance caused financial trouble. The people protested and petitioned the King, and in the end a compromise was reached. The recommendations, mostly excellent in themselves, were in substance as follows:

1. Bank charters to be forfeited by suspension for sixty days consecutively, or during a year.
2. Note issues to be dated where issued and to be redeemed in specie there and at head office. No branch need redeem notes issued at another branch or at head office.

3. One-half of capital to be paid in at commencement, the remainder at discretion.
4. The directors not to become liable on obligations to bank exceeding one-third of the total discounts of bank.
5. Bank not to hold its own stock or lend money thereon.
6. Half-yearly statements to Government of average assets and liabilities made from weekly balance-sheets, with particulars of dividends and reserved profits. Special returns might be called for and must be verified under oath if required.
7. Shareholders subject to double liability.
8. Banks not to lend on real estate.

These were referred to a special committee of the Upper Canada House of Assembly, who heard bankers and merchants in evidence and eventually reported strongly against the interference, particularly against the 1st, 2d, and 6th of the recommendations. On the 7th they did not agree, and the 8th was already incorporated in existing charters, while the 3d, 4th, and 5th were admitted in principle and acted upon. With the concurrence of the new Commercial Bank, a bill was reported adding to its charter the 3d, 4th, 5th, and 7th provisions, but at the same time an address to the King was prepared deploring the royal veto and praying that the new provisions be not required. As the address passed by a vote of thirty-one to one, action was delayed on the bill amending the Commercial Bank charter, and in consequence of the feeling aroused, the original legislation was not disallowed. What is noticeable at this time is not the rejection by the Upper Canadians of recommendations good enough in themselves, but their intelligent appreciation of the value of banks and their determination to manage their own affairs.

In 1835, the Gore Bank was incorporated, with its head office at Hamilton, and an authorized capital of £100,000 currency. In its charter the 2d, 5th, 7th, and 8th of the recommendations were included, and royal assent was promptly given. In the same year the Commercial Bank increased its authorized capital from £100,000 currency to £200,000 currency, and the 4th and 5th recommendations were added to its charter, the 8th already being included. The others were not included, yet the legislation was not disallowed.

These evidences of growth do not represent fully the desires of the people at this time, but rather the meagre extent to which a powerfully entrenched government chose to meet the public demands. The opposition apparently clamored for legislation to make banking "free." In 1831, 1831-32, 1833-34, 1835, and 1836, measures were proposed looking toward uniformity in the system of banking and freedom to all to engage in the business who should conform to the proposed laws. But it was still quite easy to establish a private bank which might issue notes, no act prohibiting private issues being yet in force in Upper Canada. Aided by this fact, in 1835 some politicians opposed to the present banking system organized, by a deed of settlement, a private bank known as the Farmers' Joint-Stock Banking Company, with a capital not larger

than £50,000 currency; and later, in the same year, the Bank of the People, which, in the course of a year, got together a capital of about £13,000 currency, began business. At the same time some Americans opened the Niagara Suspension Bridge Bank, with an agency at Lockport, N. Y., and one in Canada, at Chippewa, and with even less capital than the last-named concern. Messrs. Truscott & Green also began business as the Agricultural Bank. Very naturally, this brought forward for prompt consideration the question of private note issues, and in 1837 legislation was obtained prohibiting the issue without legislative authority of notes intended to pass as money. It was found expedient, however, to make an exception in favor of the four private banks above referred to.

## PUBLIC CLAMOR FOR MORE BANKS—RESTRAINT FROM THE COLONIAL OFFICE.

The people of the province were in many ways contributing toward the creation of the commercial panic of 1837, which left its mark for many years on the trade of North America. They were speculating in land, making public improvements on an ambitious scale, attempting to manufacture a few articles, and trading generally much beyond their financial capacity. They were, therefore, in the state of mind which has so often characterized American communities when deeply in debt—they wanted banks, because they thought that the creation of such institutions would make it easier to borrow, and they wanted paper money, of any sort, for equally unsound reasons. During the ten years preceding the union of Lower and Upper Canada, in 1841, there were about twenty-five public bills in Upper Canada on the subject of banking and currency which did not pass, while in 1833 the Assembly did pass a bill authorizing the Receiver-General to issue currency, and in 1835 a committee reported favorably on a plan for a provincial bank, which was to issue notes based on the public debt and use its profits to pay the interest on the same. Fortunately, these schemes did not become law. In 1836-37 bills were passed which, if assented to, would have increased the banking capital from £500,000 currency to £4,590,000 currency, and have added nine new banks to the number doing business in a province which contained only about 400,000 people. The province did not as yet enjoy the benefits of home rule, and consequently resisted bitterly all interference on the part of the Colonial Office in England, but every intelligent Canadian must now see quite clearly that had we been allowed our own way in banking and currency legislation at this time, we should doubtless have tried, one after the other, the entire round of unsound experiments, and would to-day be perhaps not very anxious to discuss the soundness of our banking system. When bills were passed in the various provinces they were given the force of law by the Lieutenant-Governor, without waiting to ascertain whether or not they were to meet the fate of royal disallowance, and, consequently, contracts having been entered into on the faith of the legislation, it was found impracticable, or at all events unwise, to insist on disallowance. To avoid this difficulty the Colonial Office, in 1836, succeeded in having instructions sent out to the Lieutenant-Governor not to permit legislation bearing upon any kind of notes intended to pass as money to go into effect without first receiving the royal assent. The House of Assembly, of course, resisted, and the home authorities were very conscious of the danger of interference; but any student of joint-stock banking in England will understand how honestly

alarmed the British authorities must have been at the wild pace of joint-stock banking throughout North America at this time. The Colonial Office therefore persisted in demanding a reference of such measures for royal allowance before legislation was put in force, and as a result, the extraordinary Acts of 1836-37 were not allowed, but were referred back for further consideration by the Upper Canadian authorities. None of the bills were again approved in Canada, the period of inflation having passed its meridian. The Government of Upper Canada having refused to be guided by the series of recommendations by the Committee for Trade (of which an abstract has already been given), and being deeply irritated by the instructions to refer all currency measures for royal allowance before putting such legislation in force, the Secretary of State for the Colonies forwarded a second series of recommendations by the Committee for Trade, upon the observance of which by the Canadian Parliament reference for royal assent in advance of action upon legislation became no longer necessary.

## UN SOUND BANKING.

There is little to be learned by a study of the kind of business transacted by the banks of Upper Canada at this time. In the nature of things, it was not very sound banking. The people were chiefly concerned in actually clearing up the forest or in improving the first rude conditions of settlement. Therefore, the results were apt to show mainly in connection with real property, and there were not only too many loans asked and granted where there was no intention of creating or moving merchantable products with the money, but there must have been a constant tendency for loans made on the basis of creating or moving merchantable products to drift into loans resting on real property. Still the fact remains that there had not been, nor was there destined to be for many years to come, a failure of a joint-stock bank in this province. The system was in many respects bad, but there must have been more good than bad in an actual practice of banking which, for the first forty years of its history, escaped the disgrace of failure. That this was partly due to the high credit enjoyed by the few joint-stock institutions, especially when compared with the private concerns, there is little doubt. The volume of business in 1837 was as follows: Capital stock paid up of the three chartered banks, £476,978; of the four private banks, £98,023; notes in circulation respectively, £319,244 and £71,148; deposits, £204,571 and £12,328; specie, £78,884 and £14,457; loans and discounts, £895,039 and £143,718. If we multiply the paid-up capital of the three chartered banks by three, we find the aggregate of their permissible liabilities to be £1,430,934, and as their deposits amounted to only £204,571, there was left the sum of £1,226,363 to cover debts due to foreign correspondents and notes in circulation. Their debts to foreign correspondents, if any, were inconsiderable, and, therefore, while they had legal power to circulate notes to the extent of £1,000,000 to £1,250,000 currency, they had notes outstanding for only £319,244. In 1826 the Bank of Upper Canada was able to keep out notes to the extent of two and a half times its capital; by 1831 this had fallen to one and seven-eighths, and by 1837, because of the competition of other banks, and doubtless also because of better means of communication, all of the banks circulated much less than the amount of paid-up capital. None of the banks issued notes payable at any point except at the head office, but there were seven branches in existence performing the same functions as branches do now, while there were agencies with limited functions numbering at

least twelve, and probably several more. These were all connected with the Bank of Upper Canada and the Commercial Bank, the Gore Bank having as yet opened no branches or agencies.

## THE PANIC OF 1837.

This was the condition of banking in Upper Canada when it was called upon, in common with Lower Canada, to meet the financial troubles arising from the rebellion at home and the business panic in the United States in 1837. Early in May, 1837, there was a general suspension of specie payments in the United States, and, within a week, the banks in Lower Canada also suspended payments in specie. There had been a great expansion of credit throughout North America, and now that the inevitable contraction had set in, gold was required for export. Canada already made a large proportion of its sterling purchases and other money settlements in New York, and was at once affected by the collapse of credit and consequent suspension of payments in exportable money. But in Upper Canada, whether from ignorance, sentiment, or intelligent courage, the banks continued to redeem. By the middle of June the circulation of the three chartered and four private banks had fallen from £508,896 on May 15th, to £390,392, while in the same month the specie fell from £120,789 to £93,341, although the Bank of Upper Canada had imported £40,000. At this time, the public, suffering from two bad harvests, unable to obtain any discounts from the banks, or advances on products shipped to Lower Canada, were in a bad way; and to add to their troubles, the fiscal agents in England of the province failed. On the 19th of June a special meeting of the Legislature was held because of the financial situation. Sir Francis Bond Head, the Lieutenant-Governor, urged that the banks pay in specie until forced to stop. He begged them not to yield to what he believed to be dishonorable and a breach of contract. But the Legislature, by the 11th of July, passed a measure of relief for the entire seven banks, chartered and private. On procuring from the Governor-in-Council an order of authority, a bank was relieved from the necessity of closing its doors on refusing to redeem its notes. The bank might be forced to expose fully to Government the state of its affairs, and special conditions might be imposed in the discretion of the Lieutenant-Governor. The suspension might last until the end of the next session of Parliament, and during this period banks were not to issue notes beyond the amount of paid-up capital, and were to use all specie in their possession for purposes of redemption excepting only what might be necessary for change-making purposes.

## SUSPENSION OF BANKS AND POPULAR REBELLION.

But the banks did not hasten to take advantage of the offered relief, and it is evident that they intended to pull through, if at all possible, without discredit. In September, however, the Commercial Bank took advantage of the act and was permitted to suspend payments in specie. In November, the private bank of Truscott, Green & Co., known as the Agricultural Bank, failed, the partners leaving the country. Later in the year, the Farmers' Bank suspended for about two months. The Bank of Upper Canada and the Gore Bank still continued to pay, although the notes of the former in circulation fell from £212,000 in May to £80,000 in December. Apparently, they were

now anxious to suspend, but the Lieutenant-Governor was obstinate regarding the Bank of Upper Canada, claiming that it was, in a sense, a Government bank, and the Gore Bank desired to act in harmony with its more important neighbor in that part of Upper Canada. In November there was actual armed rebellion in Lower Canada, which, however, was put down by the middle of December. Early in December there was similar trouble in Upper Canada, which lasted only a few days. This was followed by an invasion by Americans, also of small proportions, but sufficient to cause the Government to require large advances from the Bank of Upper Canada. The Bank stood up for a time against the strain, but early in March, 1838, it received permission to suspend specie payments, in which it was immediately followed by the Gore Bank. At the same time, an act was passed extending the limit of note issues to twice the paid-up capital and permitting the disposal of specie for other purposes than the redemption of notes.

## RESUMPTION OF PAYMENTS.

By June, 1838, the banks in the United States and in Lower Canada, generally, resumed specie payments, but the Bank of Upper Canada objected to such an early resumption in the province of Upper Canada. By November there was another rebellion in Lower Canada, necessitating another suspension there. After much discussion resumption was effected in Lower Canada in June, 1839, and in Upper Canada in November of that year. During the periods of suspension there was evidently considerable practical redemption by the sale of bills of exchange on England, although the rate charged amounted to redemption at a discount of one to two per cent. and for some months at three to eight per cent., and while discounts were by some banks much restricted, the business interests of the country were at no time actually paralyzed, and the banks continued to earn handsome dividends. Nevertheless, all the usual facts concurrent with rebellion and panic had to be borne, such as a general decline in exports, a fall in prices, stoppage of immigration, etc.

During 1838, the Bank of Montreal, at this time legally incapable of doing business in the province of Upper Canada, purchased the private bank known as the Bank of the People, and thus began the enormous business now done by the former bank in the province now called Ontario.

The Government was not altogether free from the desire to issue paper currency during this trying period, but, owing to the determination of the home authorities, such proposals failed to obtain royal assent and no such issues were made. The Government was obliged during this period to borrow on its stock in the Bank of Upper Canada, and in 1840 the Receiver-General was authorized to sell the stock, thus ending the connection of the Government with the Bank so far as holding stock is concerned. In February, 1841, the provinces of Lower and Upper Canada were united in the "Province of Canada."

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## CHAPTER III.

### 1841-1867. BANKING IN OLD CANADA.

#### STEPS TOWARD UNIFORM REGULATION OF BANKING.

THE first Governor-General of the new province was Lord Sydenham, who held the same currency views as Lord Overstone, and the time was that in which the controversies were being carried on which resulted in England in the Bank Act of 1844. Lord Sydenham favored for Canada a provincial bank of issue, and he outlined a scheme under which he proposed to cancel the right of issue by the chartered banks, remunerating them therefor; and by giving it to this institution, which was not to do a general banking business, he hoped to make a large profit for the Government. He proposed a gold reserve of one-fourth of the issue, to which a maximum was fixed, with Government bonds for the balance, and he claimed that such a system would ensure ready convertibility. But the Canadian people were intelligent enough to see the defects of such a system, and, apart from other faults, the lack of elasticity alone condemned it. It was opposed, of course, by the banks, but also on many grounds by the general public, and did not become law. The Legislature, however, took advantage of the opportunity to impose a tax on bank notes of one per cent. per annum on the average in circulation.

The union of the two provinces emphasized the importance of uniformity in banking, and a committee on banking and currency, after considering the recommendations of the Home Government, contained in the dispatch of Lord Russell of May 4, 1840, already referred to, reported in favor of the following restrictions:

1st. The amount of capital of the company to be fixed; and the whole of such fixed amount to be subscribed for within a limited period, not exceeding eighteen months from the date of the charter or Act of Incorporation.

2d. The bank not to commence business until the whole of the capital is subscribed, and a moiety at least of the subscription paid up.

3d. The amount of the capital to be paid up within a given time from the date of the charter or Act of Incorporation, such period, unless under particular circumstances, not to exceed two years.

4th. The debts and engagements of the company, on promissory notes or otherwise, not to exceed at any time thrice the amount of the paid-up capital, with the addition of the amount of such deposits as may be made with the company's establishment by individuals in specie or Government paper.

5th. All promissory notes of the company, whether issued from the principal establishment or from the branch banks, are to bear date at the place of issue, and to be payable on demand in specie at the place of date.

6th. Suspension of specie payments on demand at any of the company's establishments, for a given number of days (not in any case exceeding sixty) within any one year, either consecutively or at intervals, to forfeit the charter.

7th. The company shall not hold shares in its own stock, nor make advances on the security of their own shares.

8th. The company shall not advance money on security of lands, or houses, or ships, or on pledge of merchandise, nor hold lands or houses, except for the transaction of its business; nor own ships or be engaged in trade, except as dealers in bullion or bills of exchange; but shall confine its transactions to discounting commercial paper and negotiable securities and other legitimate banking business.

9th. The dividends to shareholders are to be made out of profits only, and not out of the capital of the company.

10th. The company to make up and publish periodical statements of its assets and liabilities (half-yearly or yearly), showing, under the heads specified in the annexed form, the average of the amount of its notes in circulation, and other liabilities at the termination of each week or month, during the period to which the statement refers, and the average amount of specie or other assets that were available to meet the same. Copies of these statements are to be submitted to the Provincial Government, and the company be prepared, if called upon, to verify such statements, by the production, as confidential documents, of the weekly or monthly balance-sheets from which the same are compiled. And also to be prepared upon requisition from the Lords Commissioners of Her Majesty's Treasury, to furnish in like manner such further information respecting the state or proceedings of its banking establishments as their Lordships may see fit to call for.

11th. No by-law of the company shall be repugnant to the conditions of the charter or Act of Incorporation, or the statutes of the province.

12th. As the insertion in charters or Acts of Incorporation of provisions relating to the detailed management of the business of the corporation has, in several instances, been found to render the documents complicated and unintelligible, and has been productive of great inconvenience, it is desirable that such insertion should be avoided, and that the provisions of such charters or Acts of Incorporation should be confined, as far as practicable, to the special powers and privileges to be conferred on the company, and the conditions to be observed by the company, and to such general regulations relating to the nomination and powers of the directors, the institution of by-laws, or other proceedings of the company, as may be necessary, with a view to public convenience and security.



13th. No company to be allowed to issue its promissory notes payable on demand, to an amount greater than its paid-up capital.

form of return referred to in regulation 10.

Return of the average amount of Liabilities and Assets of the Bank of — during the period from (1st January) to (30th June) 184—.

Promissory notes in circulation not bearing interest	£—
Bills of exchange in circulation not bearing interest	£—
Bills and notes in circulation bearing interest	£—
Balances due to other banks	£—
Cash deposits not bearing interest	£—
Cash deposits bearing interest	£—
Total average liabilities	£—
Coin and bullion	£—
Landed or other property of the corporation	£—
Government securities	£—
Promissory notes or bills of other banks	£—
Balances due from other banks	£—
Notes and bills discounted or other debts due to the corporation not included under the foregoing heads	£—
Total average assets	£—

In the renewal by the new province of Canada of the charters granted by the old provinces of Lower and Upper Canada, these restrictions, in addition to most of the provisions to protect the public already mentioned, were observed, and thus the provision for the double liability of shareholders in the event of failure was imposed for the first time on the banks of Lower Canada.

Once more, by a dispatch dated 30th May, 1846, the home authorities furnished “Revised Regulations to be Observed in Incorporating Banking Companies in the Colonies.” In this dispatch, after ineffectually urging, as in 1840, the abolition of the notes of smaller denominations than £1, twenty new regulations were proposed. Although eventually the banking system conformed to most of these regulations, they were not of sufficient importance to be noticed here.

We have now ascertained the principles at the base of banking in the old province of Canada, and which eventually made the foundation of the banking legislation of the confederation of the British North American provinces brought about in 1867. There were, however, two aberrations from sound principles to which I must refer, one of which was of short duration, while the other still exists as the one serious blot on our currency system.

## “FREE BANKING ACT OF 1850.”

The first of these aberrations was the so-called “Free Banking Act of 1850.” Anyone having the opportunity to examine the correspondence of a Canadian bank at this time would at once realize how close were the trading and financial relations of Upper Canada and New York State, relations relatively much more important than now. The leading bankers of many of the large cities of the State were well known individually to leading bankers in Upper Canada, and, apart from the mere routine of business, an extensive correspondence was carried on. In Canada, the experiment was being tried of banks specially chartered, with large capital, and branches, and with a circulation not specially secured. The banks had come through the trying times of 1847-48 without suspension or failure, but they did not open branches fast enough to satisfy the most enterprising of the business community; the Provincial Government was straitened financially, and the people had the common delusion that there was not enough money in circulation. In New York State, the opposite policy of banks with small capital, no branches, and a specially secured circulation was on trial; but the people of that State were so much more prosperous than the people of Canada, that it is not strange that many desired to try the banking system which had apparently contributed toward such good results. In consequence, a measure was passed entitled “An Act to Establish Freedom of Banking in this Province, etc,” having for its object the creation, under a general act and not by special charter, of small banks without branches, with a circulation based upon the securities of the province. It was hoped that this would have the effect of creating a market for such securities. Such privileges as still existed under which in Lower Canada private bankers might issue notes were repealed, and any existing chartered bank might, in part or as a whole, surrender circulation under the unsecured system and issue under the secured system, thus escaping the tax of one per cent. per annum from which the secured notes were exempt. Indeed, by subsequent amendments stronger inducements were offered. Of the chartered banks, the Bank of British North America alone made use of the new act, and only because of a special disability under which it labored. Being established by royal charter, and the British authorities having been at all times opposed to notes of smaller denominations than £1 currency (\$4), it had not, in common with the other banks whose charters were Canadian in origin, the right to issue notes of as low a denomination as five shillings currency (\$1). It was accordingly benefited by taking advantage of the new act to the extent of the notes of small denominations required in its business. Altogether, only five banks with these limited privileges came into existence under this act. The minimum capital required was £25,000 currency (\$100,000), and at the highest point the circulation in notes of small denominations by the Bank of British North America was greater than the entire circulation of the five free banks, while the total was only a little over £300,000 currency. In ten years, the system had practically come to an end, the only bank continuing to issue notes being the Bank of British North America, which, because of the disability already mentioned, issued its small notes under the free banking act until 1870, when the Dominion Government took from all banks the right to issue notes of less denomination than \$4, and subsequently all smaller than \$5, reserving the privilege for its own issues. Of the five banks thus created, two retired their notes and other obligations and went out of business, and three obtained charters, and were thus enabled to issue notes not specially secured. No attempt is here made to explain in

detail the free banking system, because in Canada it left practically no enduring result of its former existence, and the reader can study it to better advantage in its origin and development in the United States. A very full account of the Canadian experiment will be found, however, in the first volume, page 154, of the "Journal of the Canadian Bankers' Association, 1893-94."

## INCREASE OF BANK CAPITAL AUTHORIZED.

Although the free banking experiment did not actually end until some years later, its failure, as early as 1854, was clearly apparent and the demand for increased banking capital had not been satisfied. The Legislature therefore, relaxing somewhat the conditions hitherto imposed, granted permission to six existing banks to increase capital in the aggregate to the extent of about £2,000,000 currency, requiring them, however, to invest one-tenth of the paid-up capital in securities of the province. From this time there has, indeed, always been a disposition, although not to a serious extent, to make the banks, in exchange for their franchise, carry a portion of the public debt. In the same year the treaty for reciprocal relations in trade between Canada and the United States was passed, and the great impetus given thereby to business was naturally accompanied by the granting of several new bank charters. From 1855 to 1866, inclusive, more than twenty-five charters were granted, including the three free banks, which had decided to come under the ordinary system, and of these about fifteen banks actually came into existence. Two or three of them failed or were wound up voluntarily within a few years, and one was absorbed by amalgamation, but the remaining institutions, with two exceptions, are in existence at the present time.

The few years preceding 1857 had been in Canada as elsewhere years of great expansion in trade, while the building of Government-aided railroads and speculation in real estate were carried on at a pace of feverish excitement hitherto unknown in this country of moderate development. The Bank of Upper Canada was still the leading bank in that western portion of the province of Canada which before the Union had been known as Upper Canada. Down to 1857 it had paid large dividends and had apparently enjoyed great prosperity. Through the financial trouble of 1857 the Canadian banks were successful in preserving the strong credit which had always characterized them—they did not suspend specie payments—but the seeds had been sown for trouble of a more momentous nature than any previous experience, or any which Canadian banks have been called upon to suffer since that period. The area served by the Bank of Upper Canada and its branches was the most daring in its enterprise of any portion of Canada. There the railroad-building assumed greatest proportions and land speculation reached its craziest extremes. The Bank of Upper Canada had too freely aided new enterprises and had built up a capital of over \$3,000,000,\* on which even in 1858 it paid a dividend of eight per cent. By 1861 some of its errors had been realized and there was a change of administration in the Bank, in consequence of which the capital was cut down to \$1,900,000. At this time the business of the Government, which it had for many years enjoyed, was transferred to the Bank of Montreal. After these events the Bank of Upper Canada enjoyed still a large measure of respect because of its past history, but maintained only a waning existence. In 1866 it failed. The failure was not only disastrous, but the winding up of the Bank was involved to a certain extent in mystery. The Government, for reasons

not very apparent, did not press the collection of the double liability from the shareholders and paid off creditors at seventy-five cents on the dollar, losing, it is believed, all of its own claim of over a million of dollars. But although the winding up of the Bank was conducted in a manner which would be impossible now, the rude shock to the confidence of the public in banks was sufficiently effective; and this first great disaster was not an unmixed evil.

## A GOVERNMENT BANK OF ISSUE PROPOSED.

We now come to the second aberration from the path of virtue in finance to which reference has been made. In 1859, the Minister of Finance, professing concern regarding the security for bank note issues and the general conduct of banking, but perhaps having quite as much in mind his own difficulties in carrying on provincial finances, instituted an inquiry through a committee on banking and currency, and followed this up by proposing in 1860 the establishment of a provincial bank of issue not unlike that proposed by Lord Sydenham. The issue by the Government of legal-tender notes would create a currency the prompt payment of which on demand, it was pretended, would be more assured than if issued by the banks. He was, however, unsuccessful, his proposal not being acceptable to the Legislature. But in 1866 the needs of the province were of such a nature that a somewhat similar proposal was brought forward, and this time with at least partial success. The Minister did not dare to press strongly for the entire separation of noteissuing from the other functions of banking and the assumption of this particular function by the Government through a mere bank of issue, because it was evident the people were not prepared for such a change. The Government had a floating debt, however, of about \$5,000,000, nearly half of which was owed to its Canadian banker, the Bank of Montreal. The balance, doubtless, was largely due in England and might have to be provided from Canada. Its debentures were at a discount of about fifteen per cent. and it could not afford to consider the principles of finance too closely. The Minister, in language often heard before and since, talked of resuming some of the privileges hitherto deputed to others and of paying the debts of the country with the currency which it had the right to issue, etc., but the condition of the provincial finances was the strongest argument. As a result, power was obtained to issue notes payable in specie at Montreal and Toronto which should be a legal tender. The amount was to be fixed from time to time by authority of the Governor-in-Council, but the maximum was not to exceed \$8,000,000.

Instead of directly forcing the banks to retire their notes in circulation, inducements were offered to cover the period until their charters expired, the intention being to take away the privilege when charters were renewed. To any bank voluntarily resigning its right to circulate notes, the Government offered to pay five per cent. per annum on the amount of its notes outstanding on April 30, 1866, until the date of the expiry of its charter, and the bank was to be allowed until January 1, 1868, to complete the withdrawal of its notes. For the issue and redemption of the Government notes which these banks would use in place of their own, the Government agreed to pay one-quarter of one per cent. every three months on the average amount kept in circulation. Finally, banks giving up their privilege of circulating notes were to be relieved from the requirement, already referred to, of investing ten per cent. of their

capital in provincial bonds, and were at liberty to exchange them for the new provincial notes. The reserve to be held by the Government for its outstanding note issues was as follows: Until the issues exceeded \$5,000,000, twenty per cent. in specie, and the balance in bonds of the province. For circulation in excess of \$5,000,000, the specie reserve to be twenty-five per cent., with a corresponding reduction in the provincial bonds held for the remainder.

The total circulation of all Canadian banks at this time was about \$10,000,000, of which the Bank of Montreal enjoyed over thirty per cent. As we have already stated, the Government was in debt to the Bank for over \$2,000,000 at this time, and the Bank was by law required to hold ten per cent. of its capital in provincial bonds, so that it must have owned at least \$600,000 in these bonds, its capital being at this time \$6,000,000. Had it been practicable for the remaining Canadian banks, and had they been willing, to retire their circulation and accept the commuted profit, the effect upon the finances and trade of the country of the withdrawal of so much capital could only have been general bankruptcy. But the Bank of Montreal was in a position to retire its circulation without disturbing its advances to the public, inasmuch as it would receive from the Government, in exchange for the debt due the Bank, and for the provincial bonds it held, an amount of the new provincial currency in excess of any possible contraction of its own issues for some years to come. It therefore readily accepted the new conditions, while the other banks did not. The Bank of Montreal, already the bankers and now the note-issuing agency of the Government, was thus almost placed in the position of a State bank, and, rightly or wrongly, there was apparently a division of interest between it and the other banks which led to unfortunate results. The country was again experiencing a period of inflation, the circulation of the banks, in consequence, rapidly expanding; and it must have been a source of irritation to the Government and the Bank of Montreal that the aggregate of circulation in 1867 by the remaining banks was about \$1,700,000 higher than in 1866, while that of the Government in actual circulation, added to such notes of the Bank of Montreal as were yet unredeemed, made a total considerably less than the circulation of the Bank of Montreal before the change. On the other hand, the banks circulating their own notes were at a disadvantage at the various points where settlements had to be made with the Bank of Montreal. The former would generally be the debtors, because of the volume of their notes falling into the hands of the Bank of Montreal, and not offset by similar notes of that bank coming into their hands. The Bank of Montreal could demand payment in gold or in the new legal tenders instead of the ordinary method of settlement by draft on some commercial centre. To get over this difficulty the various banks appear to have agreed with the Bank of Montreal to hold at the minimum a certain amount of the new legal tenders, the aggregate of the minima of all the banks being \$1,000,000.

To add to other causes of irritation between the Bank of Montreal and its weaker brethren, a financial panic was brought about by the suspension of one of the most important banks in the western part of Canada, caused by large advances to a railroad company. The bank eventually was amalgamated with another, the shareholders saving a portion of their investment; but, owing to differences of interest and opinion between the Bank of Montreal and the others as to the assistance to be rendered to the institution in trouble, delay and doubt caused runs upon other western banks. The

bank which suspended had a capital of \$4,000,000, and being undoubtedly solvent, should not have been allowed to suspend if it had been at all possible, by harmonious action, to have liquidated its debts with open doors. The failure of the Bank of Upper Canada had caused the public to be extremely sensitive, and had there been unanimity of interest, the suspension of a second large bank, followed by a panic regarding other institutions, would doubtless have been averted.

Without entering into the question of the extent to which the unsound legislation contained in the Provincial Note Act contributed to the disasters of 1867, its passage certainly darkened the general cloud which hung over the history of Canadian finances at this moment. On July 1, 1867, a few months before the suspension of the bank which caused the panic, the Provincial Government of Canada came to an end, merging into that of the present Dominion of Canada.

Note.—The history of joint-stock banking in the provinces previous to confederation contained in chapters 2 and 3 has been compressed as much as possible, not only because the space at the command of the writer is limited, but because the present sketch purports to be a history of development and principles rather than of the incidents of Canadian banking. In the chapter to follow, the writer deals with what has happened in his own time and experience, but for the facts dealt with in chapters 2 and 3 he is almost entirely indebted to the very comprehensive history by Dr. Breckenridge, entitled “The Canadian Banking System,” and published in the second volume of the “Journal of the Canadian Bankers’ Association, 1894-95.” The reader who desires ampler information is referred to that excellent work.

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## CHAPTER IV.

### BANKING UNDER THE DOMINION.

#### THE PRESENT ACT.

IN 1867, the Parliament of Great Britain, by a measure known as the British North America Act, empowered the various political divisions of British North America, or such of them as chose to do so, to confederate under the title of the Dominion of Canada. The province of Canada, which had been formed out of the older provinces of Lower and Upper Canada, was again divided into the present provinces of Quebec (Lower Canada) and Ontario (Upper Canada), and to these the maritime provinces of Nova Scotia and New Brunswick were added. Additions were rapidly made until the Dominion was formed as it now exists. It comprises the provinces of Quebec, Ontario, Nova Scotia, New Brunswick, Prince Edward Island, Manitoba, and British Columbia, and the Northwest Territories, which are divided into five districts.

Under the British North America Act, the Federal Government (the Government of the Dominion as distinguished from those of the various provinces) alone possesses the power of legislating as to coinage, currency, and banking. The situation as to banking which had to be considered by the new government, although rendered serious by the bank failures, was not very complicated. The two maritime provinces were not in their financial ideas very materially out of harmony with old Canada, and instead of being called upon to uproot the pernicious legal-tender system of Nova Scotia, the Dominion Government was, because of the recent act of old Canada, only too likely to continue the policy of borrowing money in such an easy manner. The banking acts passed in 1867, 1868, and 1869 need not detain us. They were in the main merely measures to continue under the authority of the Dominion and extend to its larger area the powers already enjoyed, harmonizing a few inconsistencies, extending until 1870 any charters which were at the point of expiry, and adopting on behalf of the Dominion the terms, with little alteration, of the Provincial Note Act. But although the author of the Provincial Note Act had found it necessary to resign because of its unpopularity and what was deemed to be his share in the bank failures, his successor was evidently possessed with the same mania. Early in 1868, he proposed to the House of Commons the creation of a Committee on Banking and Currency, and he, evidently with the aid of the Government's bankers, strove hard to create a public opinion in favor of a system not essentially different from the old free banking system and its powerful and at that time apparently successful offspring, the National Banking System of the United States. The Committee on Banking and Currency obtained evidence from a large number of bankers and business men, the most valuable result being the recommendations made by them for the improvement of the then existing system, and not the evidence for or against the proposed scheme. And although the Minister of Finance offered his measure in Parliament, the opposition was of such a character that it was not thought expedient to press the matter at that time. Within a few months the new Minister of Finance also resigned.

The task of framing a general bank act for the Dominion now fell to a Minister who, although he had strong predilections in favor of the English Bank Act of 1844, was wise enough to realize that the practical bankers of the country, in their desire to curb their own weaker members, if for no other reason, were probably the best guides as to the wisest course to be followed. Conferences were held with them, and in the Minister's remarks in introducing and debating the measure which he finally proposed, he admitted the inexpediency of adopting either the United States National Banking System or the older idea of a Government bank of issue; and in doing so he also admitted that the system of note issues not specially secured must be continued. But the act for the issuance of Government notes through banks, whose profits on their own issues, thus relinquished, had been replaced by a sum paid periodically by the Government in commutation thereof, created a difficulty which must first be disposed of. The Government's bankers had alone been willing to enter into this arrangement, and it was therefore now terminated by a compromise. The banks were thereafter prohibited from issuing notes smaller than \$4 (subsequently fixed at \$5), being at the same time released from the tax on circulation of one per cent. per annum, and the attempt was made to force them to hold a minimum cash reserve against their liabilities, of which a certain percentage must be in legal-tender notes. The principle of a fixed reserve could not be carried, but the banks were required thereafter to hold in legal tenders a certain percentage of whatever reserve they did maintain.

With the power to provide all of the change-making notes of the country, and with the conviction that the banks must steadily hold in their reserves a considerable proportion of the issue, the Government felt safe in fixing the maximum of legal tenders, for the time being, at \$9,000,000—an increase of \$1,000,000 over the old provincial issue. The regulations with regard to reserves to be held by the Government were slightly altered. The portion covered by debentures was not to exceed eighty per cent., and specie must be held to cover the balance, with a provision that the proportion of specie must not go below fifteen per cent. Issues above \$9,000,000 were to be covered entirely by specie.

There were other important discussions and some minor changes in principle, but, in the main, the way was paved for the adoption, pretty much as they stood, of the body of banking laws hitherto in force in the old province of Canada. In 1870, such an act was passed, but permitting the charter of a bank to be renewed by the Governor-in-Council on a report from the Minister of Justice and the Treasury Board assenting thereto. This was not regarded favorably by the banks, who preferred that Parliament should deal with the renewals as well as with the granting of charters. They also desired that regulations for the internal management of banks should be made uniform, and the Act of 1871, covering and thus extending the Act of 1870, was the result. It provided that all banks working under provincial charters might, when such charters expired, come under the Dominion Act, and that all charters under the Dominion Act should expire in 1881. Several special provisions had to be made to cover the few banks whose constitutions were not in accord with the majority of the provincial banks, but, as far as possible, an harmonious system was established. The practice was thus fairly settled, although not, we believe, asserted as a principle, of a decennial revision of the Bank Act accompanying decennial renewals of charters, and



in 1880 and 1890 these revisions have taken place. In the interval, Parliament has made such changes as seemed expedient, although the implied agreement with the banks may be presumed to be that no radical changes will be made except at these decennial revisions.

Hitherto it has been convenient to follow events pretty much in their chronological sequence. But, since confederation in 1867, the growth of banking in volume, and the incidents of success and failure connected therewith, are not only quite beyond the scope of the present history, but have no special relation to its purpose, except in so far as they affect the principles with which it deals. The simplest plan, and that, we think, most agreeable to the reader, will therefore be to direct, without further remarks, his careful attention to the subjoined abstract of the present Dominion Bank Act, that of 1890. Every effort has been made to condense the matter and to avoid technical language, and it is hoped that, in connection with the explanatory pages which follow, it will set forth the principles of the act more clearly than a direct examination of the act itself.

## ABSTRACT OF THE BANK ACT.

53 Victoria, Chapter 31, Assented to May 16, 1890, to Come in Force July 1, 1891.

### *STATUTE OF DOMINION OF CANADA.*

Sections 1, 2. Title and Interpretation Clauses.

Application of Act.

Secs. 3, 4. Apply to thirty-six banks enumerated in Schedule A, and any banks incorporated in future, continuing all such charters until July 1, 1901, subject to provisions of this General Bank Act.

Secs. 5, 6, 7, 8. Special provisions for three banks, included in the thirty-six, whose charters differ materially from all other Canadian banks, and for one, not included in the thirty-six, the provincial charter of which, granted before confederation, had not at this time expired. (This bank is now working under the act.)

Incorporation and Organization.

Sec. 9. Act of Incorporation, for which form is supplied (Schedule B), must declare the name of bank, capital stock, place of chief office, and names of provisional directors.

Sec. 10. The capital stock of any bank hereafter must be not less than \$500,000, with shares divided into \$100 each.

Sec. 11. There must be not less than five nor more than ten provisional directors, who are to hold office until subscribers elect directors in accordance with act.

Sec. 12. Provisional directors may, after public notice, open stock-books for subscription of shares.

Sec. 13. When \$500,000 has been *bona fide* subscribed, and not less than \$250,000 actually paid to the Minister of Finance and Receiver-General, the provisional directors may, after four weeks' public notice, hold first meeting of subscribers, at which meeting the subscribers shall elect qualified directors to the number of not less than five nor more than ten, replacing provisional directors, and name the date of annual meetings.

Sec. 14. Nothing in the nature of the business of banking shall be transacted until the regular board of directors shall have applied for and obtained a certificate from the Treasury Board permitting the bank to commence business. Breach of this constitutes an offence against the act. (See later as to punishment for offences against the act.)

Secs. 15, 16. Treasury Board shall not issue such certificate until all requirements of this act, and the special Act of Incorporation, have been fulfilled, especially as to the deposit of actual cash, to an amount not less than \$250,000, having been made and still being in the hands of the Minister of Finance and Receiver-General. If certificate not issued before one year after passing of Act of Incorporation, all rights lapse.

Sec. 17. Upon issue of certificate, Minister of Finance and Receiver-General pays back all moneys deposited.

Internal Regulations.

Sec. 18. The shareholders may (instead of the directors) pass by-laws regarding the following matters:

Date of Annual General Meeting at which shareholders elect directors.

Regulations (subject to limitations mentioned in act) as to proxies, number, quorum, qualification, remuneration, etc., of directors.

Limit of loans or discounts to directors, or to any one person, firm, corporation, or to shareholders.

Authority to establish and contribute to guarantee and pension funds.

Secs. 19, 20. Affairs of bank intrusted to board of directors, eligible for re-election, who are elected annually by shareholders, subject to provisions regarding the minimum qualification in stock-holding, the proportion to be British subjects and the manner of election.

Secs. 21, 22, 23. Provide for chairmanship of board, by-laws by directors, employment of bank officers, and that these shall give security for faithful performance of duties.

Sec. 24. Provides for special general meetings, removal of president or director, etc.

Sec. 25. As to manner of voting by shareholders.

Capital Stock.

Secs. 26, 27. Manner of increasing capital stock and allotting shares.

Sec. 28. Manner of reducing capital stock.

Secs. 29 to 34 inclusive. Manner of subscribing for shares, making calls thereupon, etc.

Secs. 35 to 44 inclusive. Manner of transfer and transmission of shares.

Annual Statement.

Sec. 45. At annual meeting directors must submit clear and full statement of affairs (see act for details).

Sec. 46. Books, correspondence, funds, etc., at all times subject to inspection by directors.

Dividends. (Profits.)

Sec. 47. Dividends, unless not earned, to be declared not less often than half-yearly.

Sec. 48. Directors who knowingly join in declaring dividend or bonus which impairs paid-up capital shall be jointly and severally liable therefor.

If capital is impaired directors shall make calls upon shareholders to make good such impairment. Net profits must be applied for same purpose.

Sec. 49. No dividend or bonus, or both combined, exceeding eight per cent. per annum shall be paid unless the net rest fund, or surplus profit reserved, exceeds thirty per cent. of the paid-up capital.

Reserves.

Sec. 50. Of the cash reserves held by a bank (the proportion of such reserves to liabilities being entirely at the bank's discretion) not less than forty per cent. shall be in legal-tender notes of the Dominion of Canada. Penalty for non-compliance \$500 for each violation.

Note Issues.

Sec. 51. Banks may issue notes payable to bearer, on demand, and intended for circulation. No note smaller than \$5, and all notes to be multiples of \$5. Total issue shall not exceed the unimpaired paid-up capital. (A sub-section further limits the issues of two of the banks referred to in sections 5 to 8 inclusive.)

The following are the penalties for issues in excess of the amount authorized by this act:

Excess not over \$1,000. Penalty equal to excess.

Over \$ 1,000 but not over \$ 20,000. Penalty \$ 1,000.

Over 20,000 but not over 100,000. Penalty 10,000

Over 100,000 but not over 200,000. Penalty 50,000.

Over 200,000 Penalty 100,000.

Sec. 52. Bank shall not pledge its notes, and no loan thereon shall be recoverable from a bank. Any director or officer concerned in the pledging of a bank's notes, and any person receiving such notes as security, shall be liable to fine, not less than \$400 nor more than \$2000, or imprisonment for not more than two years, or both.

Similar clause regarding fraudulent issue of notes, penalty being imprisonment for term not exceeding seven years, or fine not exceeding \$2000, or both.

Sec. 53. Note issues are a first charge on the assets of the bank in case of insolvency; any debt due to the Dominion Government a second charge; and any debt to the Government of any province a third charge. Any debt due the Dominion Government at the time of insolvency for penalties under the act not payable until all other liabilities are paid.

The Bank Circulation Redemption Fund.

Sec. 54. Each bank shall maintain with the Minister of Finance and Receiver-General a deposit "equal to five per cent. of the average amount of its notes in circulation" for the twelve months prior to the preceding 1st July.

These deposits shall constitute "The Bank Circulation Redemption Fund," which shall be held only for the purpose of redeeming the notes of banks which fail to redeem their issues in specie or legal tenders, and any interest due thereon. For all notes so redeemed the fund shall have the same rights against the estate of the failed bank as any other holder. The Government shall allow interest on the fund at three per cent. per annum. (A sub-section provides the manner of ascertaining the average circulation of each bank.)

If a bank suspends payment of its notes, interest accrues thereafter at six per cent. per annum, until a day named for their redemption, of which public notice must be given by the liquidator or other officer in charge; after which, so long as redemption of all issues presented is maintained, further interest on notes outstanding ceases. If, after the expiration of two months from date of suspension, the liquidator is not prepared to redeem, the Minister of Finance and Receiver-General may redeem out of the fund, after notice, whereupon interest ceases.

If payments made from the fund exceed the contributions of the particular bank whose notes are so redeemed, the remaining contributors shall recoup the fund *pro rata* to the amount at credit of each with the fund, for such excess, recoveries from the estate

of the failed bank being of course distributed among such contributors in like proportion. Provided that no bank shall be required to pay in any one year more than one per cent. calculated on its average circulation.

In the winding up of a bank and upon satisfactory arrangements being made for the redemption of all outstanding notes with interest, the Treasury Board may return the sum at credit of the bank with the fund, or such part of it as may seem expedient.

The Treasury Board may make rules and regulations for the management of the fund.

The Minister of Finance and Receiver-General may take legal action to enforce payment of any sum due by a bank under this section.

Sec. 55. Banks are required to ensure the circulation of their notes at par in every part of Canada. This is at present effected by requiring each bank to have known redemption agents in the cities of chief commercial importance in each province, of which seven are named in the act.

Sec. 56. Although the notes of a bank are almost invariably payable only at its head office, its notes must be received in payment of debts at any of its establishments.

Sec. 57. In making a payment, a bank must, if required, provide Dominion legal tenders in denominations of one, two, and four dollars, not exceeding one hundred dollars in any one payment. No payment in legal tender or bank notes shall be made in torn or partially defaced notes.

Sec. 58. Provides that obligations under seal of the bank may be assignable by the indorsement of the person to whom made payable. Notes of issue to be binding without the seal of the bank, and may be assigned without indorsement. Proviso as to who may be authorized to sign notes of issue for the directors.

Sec. 59. Authorizes engraved signatures, provided there is at least one authorized written signature on each note.

Sec. 60. Penalty for issue of notes to pass as money except by a bank, and as to what shall be deemed such notes.

Sec. 61. Penalty for defacing legal tenders or bank notes.

Sec. 62. Instructions to officers receiving public moneys and to bank officers and bankers' employees to stamp or write on fraudulent legal tenders or bank notes, such words as "counterfeit," "altered," or "worthless," in accordance with the fact.

Sec. 63. Penalty for issuing advertisements in the form of legal tenders or bank notes.

Business and Powers of the Bank.

Sec. 64. The bank may open *branches*, *agencies* and *offices*, and may engage in and carry on business as a dealer in gold and silver coin and bullion, and it may deal in,

discount and lend money and make advances upon the security of, and may take as collateral security for any loan made by it, bills of exchange, promissory notes and other negotiable securities, or the stock, bonds, debentures and obligations of municipal and other corporations, whether secured by mortgage or otherwise, or Dominion, Provincial, British, foreign and other public securities, and it may engage in and carry on such business generally as appertains to the business of banking; but, except as authorized by this act, it shall not, either directly or indirectly, deal in the buying, or selling, or bartering of goods, wares and merchandise, or engage or be engaged in any trade or business whatsoever; and it shall not, either directly or indirectly, purchase, or deal in, or lend money, or make advances upon the security or pledge of any share of its own capital stock, or of the capital stock of any bank; and it shall not, either directly or indirectly, lend money or make advances upon the security, mortgage or hypothecation of any land, tenements or immovable property, or of any ships or other vessels, or upon the security of any goods, wares and merchandise. (Quoted in full.)

Sec. 65. A bank has a privileged lien on shares of its own stock held by a debtor, or on dividends thereon, for any debt or liability of shareholder. Provision as to when bank may sell after default, and how to transfer title.

Sec. 66. Similar provision for sale of collateral securities when no agreement as to power of sale has been made.

Sec. 67. Bank may hold real property for its own use and occupation.

Sec. 68. Bank may take for a debt already contracted additional security by mortgage on real or personal property.

Sec. 69. Bank may purchase real property sold under execution, etc., provided it already has a lien thereon as security for a debt.

Sec. 70. Bank may acquire title to real property on which it has a lien as security, by acquiring equity or by foreclosure. But no bank shall hold real property, except for its own use and occupation, longer than seven years.

Sec. 71. General clause confirming right of banks to hold real property and to convey same.

Sec. 72. Gives power to advance money for building ships and to take such security thereon as private individuals are permitted to take.

Sec. 73. Gives power to advance on ordinary warehouse receipts and bills of lading.

Sec. 74. (1) The bank may lend money to any person engaged in business as a wholesale manufacturer of any goods, wares, and merchandise upon the security of the goods, wares, and merchandise manufactured by him or procured for such manufacture;

(2) The bank may also lend money to any wholesale purchaser or shipper of products of agriculture, the forest and mine, or the sea, lakes and rivers, or to any wholesale purchaser or shipper of live stock or dead stock, and the products thereof, upon the security of such products, or of such live stock or dead stock, and the products thereof;

(3) Such security may be given by the owner and may be taken in the form set forth in Schedule C to this act, or to the like effect; and by virtue of such security, the bank shall acquire the same rights and powers in respect to the goods, wares, and merchandise, stock or products covered thereby, as if it had acquired the same by virtue of a warehouse receipt. (Quoted in full.)

Sec. 75. Bank may not hold warehouse receipt or bill of lading under Section 73, or pledge under Section 74, unless acquired at time of making loan, or unless a promise to give same was acquired or held at time of making loan. May exchange warehouse receipt, bill of lading or pledge for any other form of lien on the same goods. Penalty for false statement in warehouse receipt, bill of lading or pledge, or for alienating or removing goods covered by warehouse receipt, bill of lading or pledge, imprisonment not exceeding two years.

Sec. 76. Material or goods on which bank has a lien by warehouse receipt or pledge may be converted by manufacture without the bank losing its lien.

Sec. 77. All advances so secured under Sections 73 and 74 shall have priority to the claim of an unpaid vendor, unless he had a lien on such goods of which the bank was aware.

Sec. 78. How power of sale, in case of default, shall be exercised.

Sec. 79. Penalty to a bank violating any of Sections 64 to 78 inclusive, a sum not exceeding \$500.

Sec. 80. Bank not liable to any penalty or forfeiture for usury. May stipulate for and recover, or may take in advance, any rate not over seven per cent.

Sec. 81. No negotiable instrument to be void on ground of usury.

Sec. 82. Bank in discounting bills payable at its own branches may not take commission in addition to interest beyond the following rates: Bills under thirty days, one-eighth of one per cent; thirty or over, but under sixty, one-fourth of one per cent.; sixty or over, but under ninety, three-eighths of one per cent.; ninety days and over, one-half of one per cent.

Sec. 83. Bank in discounting bills payable at points where it has no branches may charge a commission, not exceeding in any case one-half of one per cent.

Sec. 84. Bank may receive deposits from any person, whether qualified by law to contract or not, and may repay unless the money is lawfully claimed by another. Proviso that deposits under this authority shall not in any one case exceed \$500.

Bank shall not be bound to see to the execution of any trust in relation to such deposits.

Returns by Banks to Government.

Sec. 85. *Monthly Returns*: Banks must send to the Minister of Finance and Receiver-General a statement to the close of each month. (This return, the form of which will be found at Schedule D of the act, covers a very full statement of assets and liabilities under uniform headings, and is published in the Government Gazette.) Penalty, \$50 per day for each day's delay after 15th of subsequent month.

Sec. 86. *Special Returns*: The Minister of Finance and Receiver-General may call for special returns at any time. Penalty, after thirty days, \$500 per day, unless the Minister of Finance extends the time.

Sec. 87. *List of Shareholders*: At the close of the calendar year each bank must supply to the Minister of Finance and Receiver-General a list of shareholders, with addresses and number of shares held. Penalty, \$50 a day after twenty days.

Sec. 88. *Unclaimed Moneys*: At the close of the calendar year banks must make to the Minister of Finance and Receiver-General a statement of dividends and all other amounts which have been unclaimed, or regarding which there have been no transactions for five years, giving names and addresses in full. Penalty, \$50 per day after twenty days.

The liquidator of a bank, after three years, shall pay over to the Minister of Finance and Receiver-General all such amounts remaining unclaimed, together with all interest due, and the Government shall hold these in trust for the owners, continuing interest, where this was contracted for by the bank, at three per cent. per annum.

The liquidator of a bank shall, also, after three years, pay to the Minister of Finance and Receiver-General an amount equal to the outstanding circulation to be held by the Government in trust for the holders of such notes.

Insolvency.

Sec. 89. If the assets are insufficient to meet the liabilities, shareholders, in addition to their liability upon unpaid shares, are liable for further payments to an amount equal to the par value of shares held.

Sec. 90. The liability of a bank for any moneys deposited, or dividends declared, continues notwithstanding any statute of limitations.

Sec. 91. Suspension for ninety days, either consecutively or at intervals during twelve months, constitutes insolvency, and forfeits charter, except for purposes of liquidation.

Secs. 92, 93, and 94. Manner of making and enforcing calls authorized by Section 89.



Sec. 95. As to liabilities of directors in event of failure.

Sec. 96. Shareholders do not escape liability under Section 89, unless shares transferred more than sixty days prior to suspension of payment.

Offences and Penalties.

Sec. 97. Any director or officer giving undue preference in any manner to any creditor of a bank is subject to imprisonment for term not exceeding two years.

Sec. 98. All penalties collected for violation of this act shall be for public uses of Canada, with power to Governor-in-Council to make exceptions.

Sec. 99. Any director or officer willfully making or signing a false return or statement of bank's affairs is subject to imprisonment for term not exceeding five years, unless the offence is more serious than a misdemeanor under the act.

Sec. 100. Forbidding the use of the title "bank," "banking company," "banking house," "banking association," or "banking institution," unless authorized by this act.

Sec. 101. Everything declared to be an "offence against this act" liable to fine not exceeding \$1000, or imprisonment not exceeding five years, or both.

Public Notices.

Sec. 102. All public notices required by act shall, unless otherwise specified, be advertised in one or more newspapers where head office is situated, and in "Canada Gazette."

Sec. 103. Banks must cash at par all official cheques of any department of the Dominion Government.

Sec. 104. Declares that act shall come into force July 1, 1891, and repeals other acts.

Schedule A. Names of thirty-six banks whose charters are continued.

Schedule B. Form of Act of Incorporation of new banks.

Schedule C. Form of Security under section 74.

Schedule D. Form of Monthly return to Government.

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## CHAPTER V.

### SCOPE OF EXISTING LAWS.

#### TERM OF CHARTER—INTERNAL REGULATIONS—CIRCULATION—BUSINESS AND POWERS—PENALTIES, Etc.

BY Section 4 of the Banking Act, the charters of all banks existing at the time of its enactment are extended for ten years, or until July 1, 1901, while the charter of any new bank created during the period expires at the same time. Thus the life of a bank, apparently, is only ten years, and as all charters come to an end at the same time, it might be possible for the country to be suddenly left without any authorized banks. Practically, the results are in every way beneficial. Bankers, as a rule, think the period too short; and now that the principles of Canadian banking appear to be firmly settled, the period might reasonably be extended to twenty years. It is the effect of all charters expiring together to which the reader's attention is asked. This arrangement ensures a complete review of the principles underlying the act, and of the details connected with the working of it, once in ten years. In the interval the banks are almost free from attempts by demagogues or ambitious but ill-informed legislators to interfere with the details of the system; but during the session of Parliament preceding the date of the expiry of the charters they must defend the system against the demagogue, the bank-hater, the honest but inexperienced citizen who writes letters to the press, sometimes the press itself—indeed, against all the kinds of attack to which institutions possessing a franchise granted by the people are subject when they come before the public to answer for their stewardship. But while resisting the attacks of ignorance, they are, of course, called upon to answer such just criticism as may arise from the existence of defects in their system made evident by the experiences of time. Or, perhaps, as when the act was under discussion in 1890, they may see the defects even more clearly than the public, and may themselves suggest the remedies. Whatever may be said for or against these decennial contests, the product of each discussion is a banking act improved in many respects by the exchange of opinion between the bankers and the public. The banking system is thus brought at each period of renewal to a higher degree of perfection through having been subjected to unsparing analysis by an unusually enlightened people—perhaps too democratic in tendency and too jealous of every privilege granted, but anxious to build rather than to destroy.

### INCORPORATION.

There is a peculiar charm in the ownership of a corporation which owes its existence and its privileges to a special Act of Legislature, and if its privileges cover anything in the nature of a monopoly the charm is heightened. In Canada, we have had one section of the people who have been so enamored of freedom that they have desired to see banking as well as other privileges reduced to the mere necessity of applying for

incorporation under a general act, together with the subscription of the smallest amount of capital which it seemed possible to propose. But, as a rule, people of British origin want merely all the liberty which is compatible with freedom from license. So that while, in the main, Parliament has clung to its prerogative of refusing a charter if it chose to do so, during fifty years at least, it would not have dared to exercise the power except in the event of a clearly fraudulent application for a charter. Nor would it dare, although it has the power, to give special privileges to any one bank. In the United States, a certain number of individuals having complied with certain requirements—more numerous and complicated, by the way, than the Canadian requirements—become thereby an incorporated bank, if we regard the consent of the Comptroller of Currency as a matter of form. In Canada, when a certain number of individuals have complied with certain requirements, they are supposed to have applied for a charter, which Parliament theoretically might refuse, but which, as a matter of fact, would not be refused unless doubt existed as to the *bona fide* character of the proposed bank. Then, as in the United States, on complying with certain other requirements and obtaining consent of the Treasury Board (performing in this case the same function as the Comptroller of Currency in the United States), the bank is ready for business.

What has given Canadians more concern than the manner of incorporation is the means of determining that each proposed bank is a genuine business venture, with enough capital at the back of it to ensure this fact, and to warrant the extension to it of the franchise of issuing notes against its general estate. As early as 1834, a New Brunswick act, adopting the recommendations of the Committee for Trade, already referred to, required that public commissioners should count the cash in the possession of a proposed bank in order to ascertain if the actual capital had been paid in, and that no notes should be issued until one-half of the capital was actually paid in. But there was no requirement as to a minimum capital, and in the case of the particular bank to which the act applied the amount paid up was very small indeed. Nor was there any time fixed for the payment of the remainder of the subscribed capital. In the report of the first committee on banking and currency appointed after the union of Lower and Upper Canada in 1841, it was recommended that the amount of capital be fixed (Parliament presumably to judge in each case as to what was sufficient), and the whole to be subscribed within eighteen months from the date of the charter; the bank was not to begin business until the whole was subscribed and one-half paid up, and the whole must be paid up within two years from date of charter. In the year after confederation, that is, in 1868, the committee on banking and currency received, it will be remembered, certain advice from prominent bankers and others. One of the recommendations was that a minimum of capital to be subscribed be named, and that whatever portion had by law to be paid up before business was commenced should be certified to by a Government official as held in specie. When in 1870 the first discussion of the principles of an act took place, the Minister of Finance wished this minimum to be placed at \$1,000,000, with at least \$200,000 paid in before business was transacted, the balance to be paid at the rate of twenty per cent. each year. After discussion the minimum was fixed at \$500,000, of which \$200,000 should be paid before business was transacted. But this was modified next year to a requirement that only \$100,000 be paid up at the commencement and another \$100,000 within two years. It was about this time that the three largest banks

increased their capital to \$12,000,000, \$9,000,000, and \$6,000,000, respectively; and while these were figures quite unnecessarily large, the contrast with some of the banks, which had been allowed to come into existence under provincial charters with a capital of \$100,000 or \$200,000, was very great indeed. It will be seen that in the Act of 1890 (Sections 10, 13, 15, and 16) the conditions are more stringent than at any previous time; and notwithstanding the rapid growth of democratic sentiment, the disposition of the country appears to be now pretty much settled against the creation of small banks. The *bona fide* subscription of \$500,000 of stock must be secured, and of this \$250,000 must be at once paid up, and the actual cash placed temporarily with the Minister of Finance and Receiver-General, before the final certificate is obtained to the effect that all the conditions required by law have been complied with. In the history of Canada, as in other new countries, the placing of the capital stock of new banks has been accompanied by all sorts of abuses. The so-called “cash” with which a bank has begun business has sometimes turned out to be largely composed of shareholders’ notes of hand, or any one of many other devices has been resorted to to make a “brave outside” for the public to look at. No restrictions will altogether prevent the occurrence of some form of deception; but, without doubt, the present conditions are most carefully devised in order that it may be reasonably certain that each new bank authorized by Parliament will be an honest business venture.

## INTERNAL REGULATIONS.

The regulations concerning the relations between the shareholders and the directors set forth in Sections 18 to 25, inclusive, are, with a few exceptions, such as might be adopted in the management of any large corporation, and have therefore little value in connection with a study of the practice of banking. That the directors should not have power to remunerate themselves, except under authority of the shareholders (Sec. 18), was a provision of the earliest charter in old Canada—that granted to the Bank of Montreal in 1821, several years after it commenced business. That the directors, or a majority, shall be British subjects (Sec. 19), and that directors shall be responsible for the employment of bank officers, and shall require them to give security for faithful service (Sec. 23), were also features of the same charter. The matter of loans to directors has always been, and still is, a difficult question, for which no more satisfactory solution has been found than to permit comparative freedom, except that in the monthly return the aggregate of loans to directors must be shown. In the recommendations of the Committee for Trade, it was provided that directors were not to borrow more than one-third of the total amount lent by the bank. This was adopted by New Brunswick as early as 1834, with the proportion applied to the capital of the bank instead of to the total amount lent. But as one bank has \$12,000,000 of capital while another may have \$500,000, such an attempt at limitation would now be worse than useless. We have not got further than to empower shareholders, by passing a by-law to such effect, to restrain the board of directors to the extent that they see fit in making such loans. Two points in this connection are clear. If a bank has a board consisting entirely of directors who do not borrow, it runs great risk of not being in touch with the active business community; because, until Canada is a much richer country, the business men still in the prime of life are likely to be borrowers. On the other hand, as long as directors are allowed to borrow from the bank at whose board they have a seat, there will be losses, and, occasionally, losses not justifiable.

Under Section 18, banks may establish and contribute to funds in order to insure the fidelity and provide for the superannuation of their officers, or otherwise assist the families of their officers. In the majority of banks, officers are no longer permitted to secure their fidelity by bonds of private individuals, and instead of purchasing insurance from the ordinary fidelity or guarantee companies, several banks have funds of their own, created by contributions from both bank and officers. This might not be practicable in a very small bank, but it has proved absolutely successful for many years past in some of the large banks. Pension funds, based generally upon the system in use in the British and Canadian Civil Services, are in operation in several banks.

Section 19 opens by stating that “The stock, property, affairs, and concerns of the bank shall be managed by a board of directors, etc.” Management “by a board of directors” is, of course, a phrase of very variable meaning; and in Canada it ranges from the practice of a large English or Scotch bank, where the oversight of the board is very general indeed, to that of some American banks where the board really may be said to manage the bank directly and where the president is actually the chief executive officer. There are no longer in Canada special “discount days” on which the board sits and discusses the bills offered. It is necessary now to empower the agent at the smallest branch, by instructions given in advance, to transact the business of his established customers. New customers, if proposing important business, must await the decision of the board, but old ones, if in good standing, are not usually willing to do so. The board, as a rule, sits once a week, and is asked to approve of the more important lines of credit. The president may be in such close touch that he knows the business almost as well as the general manager; but this, as a rule, he cannot be, and the latter is the real chief executive officer. The president, however, is in daily contact with the general management, and is fully able to judge as to whether the bank is being soundly and honestly managed, while the board, by the nature of the business discussed every week, should also be in a position to know whether the affairs of the bank are prospering or not. More than this is impossible on the part of a board of directors in the present complicated nature of the business of a large bank.

Section 25 contains six sub-sections covering elaborate provisions as to voting at shareholders’ meetings, for information regarding which we must refer readers to the actual text of the act. In the earliest acts, voting was arranged by a scale, so that while one share gave one vote, ten shares gave only five and thirty shares only ten, while no holding gave more than twenty votes. This practice was considered fair, and was followed in many charters; but in granting new charters in 1855, the Legislature of old Canada changed this to the practice which has been followed since—of one vote for each share.

## CAPITAL STOCK.

Sections 26 and 27 deal with the manner of increasing and allotting capital stock, and 28 with the reduction of capital. The capital can neither be increased nor decreased except by the consent of a majority of the shareholders, obtained at an annual or special meeting, and the subsequent consent of the Treasury Board. New or unsubscribed stock (Sec. 27) must be allotted *pro rata*, and any premium fixed thereon must not exceed the percentage which the reserve fund (surplus) bears to the

paid-up capital stock. The consent of the Treasury Board cannot be obtained to a reduction of the capital until statements of the condition of the bank setting forth “the reasons and causes why such reduction is sought” are submitted. The reduction of the capital stock in the manner indicated does not diminish the liability of the shareholders to the creditors of the bank existing before such reduction is formally legalized. The capital stock cannot be reduced, if the bank remains in business, below the sum of \$250,000.

Sections 29 to 44, inclusive, deal with the following subjects: subscription for shares (29); payment of calls on new shares (30 and 31); enforcement of same (32, 33, and 34); conditions under which shares may be transferred (35); provision that a list of transfers shall be made daily and exhibited for information of shareholders (36); provision to prevent the selling of stock by others than the actual owners, such as the sale of shares not owned, with the expectation of purchasing later at a lower price (37); manner of transferring shares sold under execution (38); in cases of death, bankruptcy, insolvency, or marriage of female shareholder (39, 40, 41, and 42); provision that bank is not bound to see to the execution of trusts (43); provision that executors and trustees shall not, when the real owner is indicated in the books of the bank, be subject personally to liability on the shares so standing in their names as executors or trustees;—(if the actual owner is living and competent, he is liable as if the shares stood in his name, and if dead or incompetent, his estate is liable (44). The sixteen sections here referred to are very lengthy and are elaborately worked out, but have little to do with the study of banking. One provision, however, may interest bankers in the United States. It is imperative, under Section 35, that the transferee of shares shall actually accept the same on the books of the bank, in person or by attorney, and thus formally admit his double liability.

## ANNUAL STATEMENT—DIVIDENDS.

The very natural provisions in Sections 45 to 49, inclusive, call for little comment. Sections 45, 46, 47, and 48 were substantially included in the first charter granted (1821), while the principle of Section 49 was covered by the recommendations of the bankers made to the committee on banking and currency (1868-69).

## CASH RESERVES.

When the Government abandoned hope of creating a bank of issue or a national currency, it imposed, as will be remembered, upon the banks the condition that they must carry in their reserves a certain percentage of legal tender notes of the Dominion. This is a distinct blot upon the Banking Act; but as the banks carry much more than the percentage required, it probably might now be removed from the act without causing the Government inconvenience. In its early years, the Dominion had its credit to establish, and was called upon to make expenditures in public works, at a very heavy cost, for a new and sparsely settled country, and it was obliged to resort to several financial expedients which with its present high credit would be not only unnecessary but very unwise.

It will also be remembered that, in proposing this feature, the Minister of Finance coupled with it the requirement that banks should hold a minimum cash reserve against all liabilities. This was strenuously objected to by the bankers and was not insisted upon. In the revision of the act in 1890, the Government again proposed the principle of a minimum reserve, and again the bankers were able by their arguments to demonstrate the unsoundness of such a requirement.

The mere statement of the reserve in cash held by a particular bank, or the average held by the banks of an entire country, conveys little idea as to whether prudence is observed or not. In Canada, the average, for some years, of actual cash held in gold and legal tenders as against all liabilities to the public, is about ten per cent. But, owing to the system of bank note issues, very little of this is required for daily use, the tills of bank offices being filled with the bank's own notes, which do not appear in its statements as cash because they are not in circulation. Practically, the business across the counter, when not transacted with other paper instruments, is served by this till money; the settlements of balances with other banks are made in legal tenders, or by drafts on the chief commercial centres; while the main reserve may be, in the case of small banks, represented by their loans at call or short date on stocks and bonds and by their balances in the hands of correspondents at Montreal and New York. In addition to such sources of strength, the more important banks have agencies in the United States, and the bulk of the capital employed there can be made available without any delay, while practically all can be liquidated within a few months at most.

The Canadian bankers have always been ready to discuss the relative merits of a minimum reserve fixed by law as against perfect freedom to banks in the management of their reserves, the overwhelming majority being in favor of the latter course as the only practicable system if stringency and panic are to be averted.

## NOTE ISSUES.

To the foreign reader, Sections 51 to 63, inclusive, are, doubtless, the most interesting in the act. In Canada, we began with the very simple and obvious theory that, without the existence of laws to the contrary, an individual had the right to issue his promise to pay in any form, the only deterrent to the exercise of such a luxury being the difficulty of inducing anyone to accept it in payment. We have seen that, for a considerable period, the law did not interfere with the exercise of this power, and in collections devoted to historical objects many curious specimens of money issued by private business as well as private banking firms may be found. Indeed, in refusing for such a long time to grant the privilege to an incorporated bank, the first Legislature of Lower Canada was, doubtless, moved only by the fear that, because of the express authority of law, the bank might be able to float an undue amount of such money. In the present act, the mere right, apart from subsequent qualifications, is expressed in a few simple words: "The bank may issue and reissue notes payable to bearer on demand and intended for circulation" (Sec. 51).

The first qualification (Sec. 51) is that it must not issue notes of smaller denominations than five dollars, and must issue all notes in multiples of five dollars. The history of this restriction has been given. The Government desired to provide, out

of its legal-tender issues, the entire change-making paper currency of the country, and first fixed the lowest note issuable by a bank at \$4 (the old currency pound), and subsequently at \$5.

Section 51 also provides that the entire circulation of a bank shall not exceed its unimpaired paid-up capital, imposing enormous fines for breaches of the provision; and further limiting to seventy-five per cent. of the capital the notes of two banks having special charters, because in both cases the shareholders are not subject to the double liability. These banks may issue up to the full unimpaired paid-up capital by depositing cash or Government bonds for the amount issued over the seventy-five per cent. In the early banking of a new country, few deposits can be obtained, and the main object of organizing a bank is to secure the privilege of note-issuing, the profit on lending the capital, plus the notes in circulation, being at such a time a sufficient inducement. The first charter (1821), so often referred to, contained no other restriction upon the volume of note issues than that the total of all liabilities to the public must not exceed three times the capital stock actually paid in, the directors being personally liable if they permitted an excess. For many years, this was the general principle followed, although it was varied somewhat in its application and modified in some of the provinces as time went on. We find the bankers who offered suggestions to the banking and currency committee of 1868-69, asking that the power to issue be limited to the paid-up capital, plus Government securities and specie held, but in the legislation which followed it was limited as in Section 51; no limit being placed, however, upon the total liabilities of a bank.

Section 53 makes the note issues a prior lien upon the estate of the bank, prior even to a debt due to the Crown. This was one of the recommendations of the bankers to the banking and currency committee of 1868-69, and it is very much to be regretted that it was not embodied in the first general bank act of the Dominion. But the Minister of Finance failed to recognize the difference between an involuntary holder receiving a note in the course of business and a depositor who selects a particular bank to which he gives credit in the form of his deposit. Between 1874 and 1879 there were serious bank troubles, in some cases ending in failure, and in one case, a particularly discreditable failure, the creditors—note-holders as well as depositors—recovering, after exhausting the double liability, only fifty-seven and one-half cents in the dollar. The bank was of little importance directly, having few notes in circulation, but the result of the liquidation was a great shock. As a consequence, at the revision of 1880 the principle of Section 53 found a place in the act. Thus, while it will always be a matter of regret that any note issued under the laws of the Dominion should not have been eventually paid in full, it is to be remembered that if the views of the bankers expressed in 1869 had been acceded to, the record to-day would show that, without further security than that of being a prior lien upon the general estate, the note issues had been always redeemed in full.

But there were still two minor though serious defects in the system. It was frequently alleged by those who admired the National Bank Act of the United States, that while the currency created by it might not be elastic, the notes could not for any reason fail to be paid in full, and to circulate throughout the entire area of the United States, while in Canada no similar boast could be made. The area of Canada is enormous



relatively to population, and the notes of banks in one province certainly passed at a discount in some of the others, a recurrence in a less aggravated form of the defect in the old State-bank issues of the United States. And while it might be confidently asserted that all bank issues secured by being a first lien on the estate of the banks would be eventually paid in full, it was nevertheless true that because of doubt and delay the notes of a suspended bank always fell to a discount for the time being. To meet these two defects, the bankers, in the revision of 1890, proposed the principles set forth in Sections 54 and 55, borrowing their ideas once more from the larger experience of banking in the United States.

The distinctive features, therefore, of the bank note issues of Canada are: They are not secured by the pledge or special deposit with the Government of bonds or other securities, but are simply credit instruments based upon the general assets of the bank issuing them. But in order that they may be not less secure than notes issued against bonds deposited with the Government, they are made a first charge upon the assets (Sec. 53).

To avoid discount at the moment of the suspension of a bank, either because of delay in payment of note issues by the liquidator or of doubt as to ultimate payment, each bank is obliged to keep in the hands of the Government a deposit equal to five per cent. on its average circulation, the average being taken from the maximum circulation of each bank in each month of the year. This is called the Bank Circulation Redemption Fund, and should any liquidator fail to redeem the note of a failed bank, recourse may be had to the entire fund if necessary. As a matter of fact, liquidators are almost invariably able to redeem the note issues as they are presented, but in order that all solvent banks may accept without loss the notes of an insolvent bank, these notes bear six per cent. interest from the date of suspension to the date of the liquidator's announcement that he is ready to redeem (Sec. 54).

To avoid discount, for geographical reasons each bank is obliged to arrange for the redemption of its notes in the commercial centres throughout the Dominion (Sec. 55).

The remaining sections, 52 and 56 to 63, inclusive, require no comment.

## BUSINESS AND POWERS OF THE BANK.

Under this heading there are twenty-one sections in the act, containing about 330 lines, as compared with a few lines in the first charter. The disposition of Canadian bankers in earlier times was to assume that they had power to do anything in the nature of banking not prohibited by their charter or by the general Bank Act, if there was one. Now, however, the act is broad enough to leave no doubt. In Section 64 it expressly permits branches and agencies, without any condition as to whether they are to be confined to Canada or not, and while it tries to describe fully the business of banking, it ends the description with a phrase wide enough to include any species of banking not directly prohibited in the act itself. The section covers three prohibitions, two of which appear in the first charter (1821). A bank must not engage in any species of business except banking, and it must not lend money on the security of real estate or other real property. The third provision, to the effect that a bank must not lend on

its own stock, was one of the recommendations of the Committee for Trade, and was adopted by New Brunswick in a charter granted in 1832. For a few years, this provision was relaxed under Dominion legislation, but it was again enforced, and is now regarded as a principle firmly fixed in the act.

Section 65 gives a bank a first lien on shares of its own stock, or any dividend due thereon, when the stock is owned by a debtor. This also appeared in the first charter (1821). With the system of transferring shares in the United States such a lien might work unjustly, but in Canada it is a very natural provision which cannot operate unfairly to any third party. No stock certificate, as the phrase is understood in the United States, is ever given by a bank. A holder may obtain, if he so desires, a certificate which is generally called a "stock certificate," but which simply asserts that he owns so many shares transferable only on the books of the bank. Under no circumstance is he called upon to return this document. It is a mere letter of advice upon which no one would lend anything.

Section 67 contains the usual provision that a bank may hold real property for its own use; and 68, that although it cannot lend on real property, it may take such to secure a debt already contracted. It cannot, however, through the medium of Section 78, practically secure real estate for a new advance, the decisions being quite clear that there must have been no agreement or understanding when the loan was made that the real estate was to be given as security for it.

Sections 66, 69, 70, and 71 merely enable banks to realize on securities pledged to them or to complete their title to same.

Section 72 came into operation at a time when it was thought desirable to facilitate ship-building, but to the writer it seems very doubtful banking. In any event, it is probably not of much avail in these days, iron ship-building having nearly ended wooden ship-building in our maritime provinces.

Section 73 confers the ordinary power of lending on warehouse receipts and bills of lading. A warehouse receipt upon which a bank in Canada is allowed to lend money, must be given by someone other than the owner of the goods.

Sections 74 to 79, inclusive, give facilities to banks not enjoyed by private money-lenders. In early days, when banks were called upon to lend large sums for the moving to market of raw products, the manufacture of lumber, etc., it was strongly felt that there was the need of some simple means by which the title in the property thus purchased or manufactured with its money could be held by the bank. In 1859, in old Canada, a banking bill was passed mainly to facilitate commercial transactions and giving the powers indicated above. While the principle has been extended since, the main features of the present act are not essentially different. The courts having decided that the warehouseman giving a receipt upon which a bank might lend money must be a bailee and not the owner of the goods warehoused, the principle was extended in 1861 so as to cover certain cases in which the warehouseman was also the owner. The Dominion Act adopted this legislation with little change, but the last act, that of 1890, alters the form of procedure when advances are being made upon the

security of goods in the owner's possession, and banks are given power in such cases to take a direct pledge upon raw and manufactured products to the extent set forth in Section 74, which is quoted without abbreviation.

The reader who desires to study fully these sections is referred to a paper entitled "Warehouse Receipts, Bills of Lading, and Securities under Section 74 of the Bank Act," read by Mr. Z. A. Lash, counsel for the Canadian Bankers' Association, at its annual meeting in 1894, and published in the journal of the association, volume ii, page 54.

Sections 80 to 83, inclusive, are certainly not very creditable. Prior to 1858, usury laws existed in Canada, and these sections are an inheritance from that period. For all practical purposes, they might as well be stricken from the act. In 1853, while the law only permitted the collection of six per cent. per annum interest, the penalty for receiving more was removed; but this did not apply to banks or land mortgage companies. In 1858, the right to contract for any rate was given, but again not to banks, except that they might take seven instead of six per cent., with such provisions as are indicated in Sections 82 and 83 as to commissions.

The Dominion Act repeats these provisions with little change, except the important one that all banks are now free from penalty for usury (Secs. 80 and 81). For fuller information regarding the history of Canadian usury laws and of the present legal rate of interest where no contract has been made, the reader is referred to an article in the third volume of the "Journal of the Canadian Bankers' Association," page 277, entitled "The Legal Rate of Interest."

## STATEMENTS BY BANKS TO GOVERNMENT.

From the simple provision in the first charter that the Government might at any time require for the protection of the public a statement under oath of the position of a bank to the last revision in 1890, there has been a steady amplification of the information given by banks to the public. The nature of the present monthly returns (Sec. 85) cannot be better indicated than by the subjoined list giving the forms of the headings of the various columns:

### ASSETS.

Specie.

Dominion Notes.

Deposits with Dominion Government for security of note circulation.

Notes of and cheques on other banks.

Loans to other banks in Canada, secured.

Deposits, payable on demand or after notice, or on a fixed day, made with other banks in Canada.

Balances due from other banks in Canada in daily exchanges.

Balances due from agencies of the bank, or from other banks or agencies in foreign countries.

Balances due from agencies of the bank, or from other banks or agencies in the United Kingdom.

Dominion Government debentures or stocks.

Canadian municipal securities, and British, provincial, or foreign, or colonial, public securities (other than Dominion).

Canadian, British, and other railway securities.

Call loans on bonds and stocks.

Current loans.

Loans to the Government of Canada.

Loans to provincial governments.

Overdue debts.

Real estate, the property of the bank (other than the bank premises).

Mortgages on real estate sold by the bank.

Bank premises.

Other assets not included under the foregoing heads.

Aggregate amount of loans to directors and firms of which they are partners.

Average amount of specie held during the month.

Average amount of Dominion notes held during the month.

Greatest amount of notes in circulation at any time during the month.

## LIABILITIES.

To the Public.

Notes in circulation.

Balance due to Dominion Government, after deducting advances for credits, pay-lists, etc.

Balance due to provincial governments.

Deposits by the public, payable on demand.

Deposits by the public, payable after notice or on a fixed day.

Loans from other banks in Canada, secured.

Deposits, payable on demand or after notice, or on a fixed day, made by other banks in Canada.

Balances due to other banks in Canada in daily exchanges.

Balances due to agencies of the bank, or to other banks or agencies in foreign countries.

Balances due to agencies of the bank, or to other banks or agencies in United Kingdom.

Liabilities not included under foregoing heads.

To the Shareholders.

Capital authorized.

Capital subscribed.

Capital paid up.

Amount of rest or reserve fund.

Rate per cent. of last dividend declared.

The publication of the statement first appears in the official gazette and it is immediately thereafter republished, in whole or in part, by almost all the financial journals, while the changes indicating the conditions of finance and trade are commented on by all important daily newspapers. As the banks are few in number and possess extended interests both as to geographical territory and capital employed, they live at all times in the keen sunlight of publicity. In any event, with the information given in such a manner that comparison between one bank and another may be made without effort, it would be hopeless to expect to conceal general weakness, no matter how much it might be concealed in detail.

Under Section 86 the Minister of Finance is given wide powers in order that he may obtain any information he desires from a bank should he suspect weakness in its position or inaccuracy in its monthly returns.

The list of shareholders required under Section 87 is not by any means a perfunctory matter. The information when obtained from all banks is published in a blue-book and is at least examined by many investors who try to judge by the changes from year to year as to the estimation in which certain banks are held.

In accordance with a policy gradually being recognized throughout the world, an addition was made in the act of 1890 by which banks are required to report to Government the unclaimed moneys in their hands (Section 88). These statements also appear in a blue-book for the information of the public.

## INSOLVENCY OF BANKS.

The first of the insolvency clauses is that fixing the double liability (Section 89), while Sections 92, 93, 94, and 96 are devoted to elaborate provisions for enforcing it. It will be remembered that the early banks in old Canada had no provision for a double liability of shareholders, but that the charter of the Bank of Nova Scotia (1832) contained the provision, while the Committee for Trade recommended its adoption by old Canada, and long before confederation (1867) it was recognized as a principle.

There was a time when many doubted the practical value of the power to call on shareholders in the event of failure for a second payment to the extent of the face value of their shares. Questionable things were done without hesitation to avoid paying, and many in earlier days could not pay. Shares were transferred by the knowing ones just before failure to others who were, perhaps, incompetent to contract or from whom money could not be collected. Or it was found that the real holder was already a debtor to the bank and could not meet this in addition to his other liabilities. But we have, of late years, had failures in which every species of bad management and misrepresentation has occurred, yet the percentage of the double liability collected has prevented the creditors from suffering. Indeed the conditions laid down by the act make it almost impossible to avoid payment for any reason except inability. Section 90 was inserted in the act of 1890 in order to make it clear that the statute of limitation does not run in favor of a bank in the matter of dividends and deposits. The principle of Section 91 was suggested by the Committee for Trade owing to the difficulty of determining what constituted insolvency in a bank; otherwise, a bank might remain for an indefinite time in the state of suspension.

## OFFENCES AND PENALTIES.

A careful perusal of the actual text of the act will show that it bristles with penalties, both in the shape of fines and imprisonment. In enforcing promptitude in making returns they are certainly effective, and the enormous fines under Section 51 for over-issues of circulation will doubtless be sufficient for the purpose.

Section 100, the principle of which was introduced in 1880, is intended to prevent private bankers from using titles which might convey the idea of incorporation. In common with many other details of the act, it was borrowed from the United States. The remaining sections of the act are likely to be without interest to the reader.

## GENERAL REMARKS ON THE ACT.

In dealing with the features of the act which are not disclosed in merely commenting upon its main sections, the Author feels that he cannot do better than repeat, with little alteration, portions of an address to the Congress of Bankers at Chicago, delivered in June, 1893; which was itself based largely upon a pamphlet by the writer, published in 1890, as a defence of the Canadian banking system, regarding which it was feared attempts would be made to assimilate it to the National Banking System of the United States.

What is necessary in a banking system in order that it may answer the requirements of a rapidly growing country and yet be safe and profitable?

1. It should create a currency free from doubt as to value, readily convertible into specie, and answering in volume to the requirements of trade.
2. It should possess the machinery necessary to distribute money over the whole area of the country, so that the smallest possible inequalities in the rate of interest may be the result.
3. It should supply the legitimate wants of the borrower, not merely under ordinary circumstances, but in times of financial stress, at least without that curtailment which leads to abnormal rates of interest and to failures.
4. It should afford the greatest possible measure of safety to the depositor.

## NOTE ISSUES.

In Canada, as in the United States, the resulting difference in business transactions, after cheques and all other modern instruments of credit have been used, is almost entirely paid in paper money. It is therefore of the greatest importance that the amount of this paper money existing at any one time shall be as nearly as possible just sufficient for the purpose. That is, that there shall be a power to issue such money when it is required, and also a power to force it back for redemption when it is not required.

It may therefore, we think, be safely asserted that: (1) There should be as complete a relation as possible between the currency requirements of trade and whatever are the causes which bring about the issue of paper money; (2) and, as it is quite as necessary that no over-issue should be possible as that the supply of currency should be adequate, there should be a similar relation between the requirements of trade and the causes which *force notes back* for redemption.

Now, certainly, one of the *causes* of the issue of bank notes is the profit to be derived therefrom, and it is clear that an amount sufficient for the needs of trade will not be issued unless it is profitable to issue. Likewise it is clear that it should not be possible to keep notes out for the sake of the profit if they are not needed.

In Canada, bank notes, as we have seen, are secured by a first lien upon the entire assets of the bank, including the double liability, the security being general and not special—not, for instance, by the deposit of Government bonds. Therefore it is clear that it will always pay Canadian banks to issue currency when trade demands it. Because bank notes in Canada are issued against the general estate of the bank, they are subject to *actual* daily redemption; and no bank dares to issue notes without reference to its power to redeem, any more than a solvent merchant dares to give promissory notes without reference to his ability to pay. The presentation for actual redemption of every note not required for purposes of trade is assured by the fact that every bank seeks by the activity of its own business to keep out its own notes, and therefore sends back daily for redemption the notes of all other banks. This great feature in the Canadian system, as compared with the National Banking System, is generally overlooked, but it is because of this actual daily redemption that there has never been any serious inflation of the currency, if indeed there has ever been inflation at all. Trade, of course, becomes inflated, and the currency will follow trade, but that is a very different thing from the existence in a country of a great volume of paper money not required by trade. It is hardly necessary to discuss at length this quality of elasticity in the system, because it is generally admitted. But some critic may endeavor to show that a similar quality might be given to a currency secured by Government bonds, and it may be well to make it clear that such elasticity as is required in North America is impossible with a currency secured by Government bonds. In the older countries of the world it may be sufficient if the volume of currency rises and falls with the general course of trade over a series of years, and without reference to the fluctuations within the twelve months of the year. In North America it is not enough that the volume of currency should rise and fall from year to year. In Canada we find that between the low average of the circulation during about eight months of each year and the maximum attained at the busiest period of the autumn and winter there is a difference of twenty per cent., the movement upward in the autumn and downward in the spring being so sudden, that without the power in the banks to issue, in the autumn serious stringency must result, and without the force which brings about redemption in the spring there must be plethora. As a matter of fact, it works automatically, and there is always enough and never too much.

If the currency were secured by Government bonds, the volume in existence at any one time would be determined by the profit to be gained by the issue of such bond-secured currency. It would, therefore, be necessary to fix a maximum beyond which no currency could be issued, but as such an arbitrary limit would be mere legislative guess-work, it would be productive of the evils incident to all efforts to curb natural laws by legislation. As we know, when the National Bank charters were offered by the Federal Government to the State banks, the bonds of the United States bore five to six per cent. interest, and the business of issuing currency against such bonds was so profitable that a maximum such as that referred to was fixed, with an elaborate provision stating how the banking charters were to be distributed as to area, in order that each State or section of country might have a fair share. This was followed by several adjustments, the last limit fixed was \$354,000,000, all who wished the privilege were dissatisfied with the limitation of issues, and the cry of monopoly was frequently heard. Subsequently the attempt to fix a maximum was abandoned; indeed,



the business of issuing notes against Government bonds had become unprofitable, and there was no longer any fear of inflation.

The condition in the United States under which the issue of currency was unduly profitable, and the fear of inflation was present, did not actually last many years, but it lasted long enough to create in the people a hatred of banks which does not seem yet to have passed away. The condition which followed showed conclusively, it seems to us, the unsoundness of the system in the matter of providing an elastic currency—a currency *at all times* adequate in volume. The currency wants of the country increased with the great increase in business and population, but the volume of National Bank currency decreased, because by the repayment of the national debt and the improvement in the national credit the bonds which remained outstanding yielded so low a rate of interest as to make the issue of National Bank notes unprofitable.

The writer hopes he has made it clear that if the business of issuing currency against Government bonds were profitable, too much currency would be the result; and if it were unprofitable, too little would be issued. We would require to have a condition of things under which the profit of issuing notes would at all times bear an exact relation to the amount of currency required by the country, the profit therefore changing not only as the currency rises and falls over a series of years, but at the time of the sharp fluctuations within each year, already referred to. No such relation, however, could very well exist with an issue based upon Government bonds.

The next quality in a currency to be considered is that it should be readily convertible into specie. We do not propose to discuss this at length. The assurance of convertibility lies in the actual daily redemption to which we have referred. This is the best possible safeguard against suspension of specie payments.

## THE BORROWER AND THE BRANCH SYSTEM.

In the banking systems of older countries, the borrower is not often considered. Men must borrow where and how they can, and pay as much or as little for the money as circumstances require. We believe too strongly in the necessity for an absolute performance of engagements to think it necessary that any banking system should render the path of the debtor easy. But in America the debtor class is apt to make itself heard, and the writer wishes to show what the branch system, as compared with the United States National Banking System, does for the worthy borrower.

In a country where the money accumulated each year by the people's savings does not exceed the money required for new business ventures, it is plain that that system of banking is the best which most completely gathers up these savings and places them at the disposal of the borrower. This practically means that the savings of slow-going communities are applied to other communities where the enterprise is out of proportion to the money at their own command. In Canada, with its banks with forty and fifty branches, we see the deposits of the saving communities applied directly to the country's new enterprises in a manner nearly perfect. One bank borrows money from depositors at Halifax and many points in the maritime provinces, where the savings largely exceed the new enterprises, and it lends money in Vancouver or in the

Northwest, where the new enterprises far exceed the savings. Another in the same manner gathers deposits in the unenterprising parts of Ontario, and lends the money in the enterprising localities of the same. The result is that forty or fifty business centres, in no case having an exact equilibrium of deposits and loans, are able to adjust the excess or deficiency of capital, the depositor obtaining a fair rate of interest, and the borrower obtaining money at a lower rate than borrowers in any of the colonies of Great Britain, and a lower average rate than in the United States, except in the very great cities in the East. So perfectly is this distribution of capital made, that as between the highest class borrower in Montréal or Toronto and the merchant in the Northwest, the difference in interest paid is not more than one to two per cent.

In the United States, banks have no branches. There are banks in New York and the East seeking investment for their money, and refusing to allow any interest because there are not sufficient borrowers to take up their deposits; and there are banks in the West and South which cannot begin to supply their borrowing customers, because they have only the money of the immediate locality at their command, and have no direct access to the money in the East. To avoid a difficulty which would otherwise be unbearable, the Western and Southern banks sometimes rediscount their customers' notes with banks in the East, while many of their customers, not being able to rely upon them for assistance, are forced to float paper through Eastern note-brokers. But the Western and Southern banks wanting money, and the Eastern banks having it, cannot come together by chance, and there is no satisfactory machinery for bringing them together. So it follows that a Boston bank may be anxiously looking for investments at four or five per cent., while in some rich Western State ten and even twelve per cent. is being paid. These are extreme cases, but we have quoted an extreme case in Canada, where the capital marches automatically across the continent to find the borrower, and the extra interest obtained scarcely pays the loss of time it would take to send it so far were the machinery not so perfect.

As we have indicated, it should be the object of every country to so distribute loanable capital that every borrower with adequate security can be reached by someone able to lend, and the machinery for doing this has always been recognized in the banks. That is surely not a good system of banking under which the surplus money in every unenterprising community has a tendency to stay there, while the surplus money required by an enterprising community has to be sought at a distance. If by paying a higher rate of interest, and seeking diligently, it could always be found, the position would not be so bad. The fact is that when it is most wanted, distrust is at its height, and the cautious banker buttons up his pocket. When there is no inducement to avert trouble to a community by supplying its wants in time of financial stress, there is no inclination to do so. Banks with small capital and no branches are not apt to have a very large sense of responsibility for the welfare of the country as a whole, or for any considerable portion of it. But the banks in Canada, with thirty, forty, or fifty branches, with interests which it is no exaggeration to describe as national, cannot be idle or indifferent in time of trouble, cannot turn a deaf ear to the legitimate wants of the farmer in the prairie provinces, any more than to the wealthy merchant or manufacturer in the East. Their business is to gather up the wealth of a nation, not of a town or city, and to supply the borrowing wants of a nation.

There was a time in Canada, about twenty years ago, when some people thought that in every town, a bank, no matter how small, provided it had no branches, and had its owners resident in the neighborhood, was a greater help to the town than the branch of a large and powerful bank. In those days, perhaps, the great banks were too autocratic, had not been taught by competition to respect fully the wants of each community. If this feeling existed to any extent, it has passed away. We are, in fact, in danger of the results of over-competition. There are, indeed, few countries in the world so well supplied with banking facilities as Canada. The branch system not only enables every town of 1000 or 1200 people to have a joint-stock bank, but to have a bank with a power behind it generally twenty to fifty times greater than a bank would have such as is found in towns of similar size in the United States.

## THE DEPOSITOR.

The legal position of the depositor is about the same in Canada as it is in the United States. The note-holder's claim is preferred to his. We must not, however, expect that any government will relieve a depositor from the necessity of using discretion as to where he places his money. Governments never have done and never can do that. Men must use their intelligence, and after measuring the security offered, judge where they should intrust their money. It is perhaps easier for a man with limited intelligence to make a selection if the banks have large capital and are of semi-national importance, provided, of course, the basis of the system is not unsound, as it is, for example, in Italy and Australia. In Canada, we do not obtain deposits from abroad, although we might not object to do so if money could be obtained at low enough rates of interest; and we do not lend on real estate, as banks do in Australia. The Government statement of March 31, 1896, shows that before depositors having claims amounting to \$187,000,000 can suffer, shareholders must lose in paid-up stock and double liability as much as \$125,000,000, and \$26,000,000 of surplus funds; in all, \$151,000,000. There are probably few countries in the world where greater security is offered to depositors.

When the bank charters were under discussion in 1890, the writer had occasion to make publicly a statement which, in view of the several failures of branch banks in Australia since, might now excite more criticism than it did then. In making a comparison between individual banks with small capital and banks with branches and large capital, it was urged that "the probability of loss to the depositors in one bank with several millions of capital is less than the probability of loss to some of the depositors in ten or twenty small banks having in the aggregate the same capital and deposits as the large bank."

The retort will be quickly made, "But if the large bank fails, the ruin will be just so much the more widespread."

This is quite true, but it is not an answer to the point, although it may appear to be so. If the conditions of two countries are about the same, and the ability of the bankers and the principles of the banking system are in other respects equally excellent, it must still remain true that the probability of loss to some of the depositors in the ten

or twenty small banks is greater than the probability of loss to any of the depositors in the one large bank.

In the closing chapter, a statement of the failures of banks in Canada since confederation in 1867 is given, and from this the loss to depositors may be estimated.

## BANK INSPECTION.

We have in Canada no public bank examiner as in the United States, nor are the annual statements of banks audited as in Australia. When the audit system was proposed by the Government, the bankers resisted because they felt that it pretended to protect the shareholders and creditors, but did not really do so. If an audit would not really protect the shareholders and creditors, it seemed better that they should not be lulled by imaginary safeguards, but be kept alert by the constant exercise of their own judgment. So far as the bankers have ever discussed with the Government the question of public bank examiners, they have confined their arguments to pointing out the impracticability when banks have many branches. This may, in the minds of some, constitute an argument against branch banking. We simply state the facts. But bankers say that while it might be very well to have public examiners for the protection of the people—if it really would lessen bank failures—it is much more necessary with branch banking to have bank examiners, or, as they are called, inspectors, on behalf of the executive of the bank. When it comes to the quality of the work done by such trained inspectors, it would not be too much to assert that it is almost certain to be better than that of a public official. In the larger banks the inspection staff consists of several men who are actively engaged for the whole year in completing one tour of the branches. Some of these officers devote themselves to the routine of the branches, verifying the cash, securities, bills, accounts, etc., testing the compliance of officers with the regulations of the bank, reporting on the skill and character of officers, etc., while the chiefs devote themselves to the higher matters, such as the quality of the bills under discount, loans against securities—indeed, the quality and value of *every* asset at the branch. They also deal with the growth and profitableness of the branch, its prospects, etc. These matters have already passed the judgment of the branch manager, and the more important have been referred to and approved by the executive, so that it may be said that three different judgments are passed upon the business of the branch. But it will be said that the chief inspector may be under the sway of the executive and his reports a mere echo of the opinion of the latter. This is quite true—the reports may be dishonest. Our bankers do not tell the public that the inspector is specially employed for its protection. He, like the general manager, is merely a part of the bank's machinery for conducting its business, and the public is left to judge of the bank by its chief officers, its record in the past, its *entourage*.

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## CHAPTER VI.

### LAND BANKS—LOAN COMPANIES.

### SAVINGS-BANKS—DOMINION NOTES—BANK FAILURES.

NO account of the joint-stock banks alone would constitute an adequate study of the banking of a country, yet it is impossible in this work to make more than the briefest mention of the land banks or building and loan companies and the savings-banks of Canada. A very complete account has, however, just been published in the third volume of the "Journal of the Canadian Bankers' Association," page 227, entitled "The Land Mortgage Companies, Government Savings-Banks, and Private Bankers of Canada," by Massey Morris. From this we learn that the total banking assets of Canada, excluding private bankers, at the nearest date convenient for Mr. Morris' purposes, were as follows:

Chartered banks—Total assets (1893)	\$304,363,580
Loan companies—Total assets (1893)	133,250,285
	1893.
Government—Legal-tender notes in circulation	\$18,448,494
Government—Savings-bank deposits	41,849,658
	60,298,152
Quebec savings-bank—Total assets (April, 1895)	15,307,637
Total	\$513,219,654

### LAND MORTGAGE COMPANIES.

The history of land mortgage companies in Canada dates back a little more than fifty years, the first legislation occurring apparently in Upper Canada (Ontario), in which province alone the system has largely developed. It is, however, clearly destined to have a large development in the new provinces of the Northwest. That the growth of this form of money-lending has been rapid is indicated by the fact that while the total loans in 1874 were only about \$15,000,000, in 1893 they had reached \$115,000,000. By a statement given later it will be seen that this growth is almost entirely in Ontario. Unfortunately, there is no general act, as in commercial banking, to which all must conform, and no single source of authority. Charters are granted both by the Dominion and Provincial Governments, while there are five companies working under Imperial charters, there being nothing to prevent foreign corporations from doing business in the country. As a consequence, complete statements are not yet placed before the public, although great efforts are made by the Dominion Government and that of the province of Ontario to obtain returns showing the operations of the companies. When Mr. Morris wrote the article referred to, he had

before him a return to the Dominion Government covering the names of eighty-two companies, while another to the province of Ontario covered eighty-six. There are doubtless altogether not as many as one hundred companies, counting every variety, doing business in the Dominion. For the reasons given, there is considerable incongruity in the powers accorded to the various companies, and it is not easy to state the principles which actuated the different governments in granting charters. A few leading features, however, may be indicated. Loans must be confined to real property and bonds, stocks, and similar collaterals. There is a limit in proportion to capital to the amount of liability which may be incurred, although no settled rule prevails. There is no double liability resting upon the stockholders. The weakest feature is the permission to many companies to accept deposits which are practically repayable on demand. It must be clear that if a commercial bank whose deposits are repayable on demand, or on short notice, is restrained by law from lending on real property, a company lending on real property should be restrained from accepting deposits repayable on demand. Public opinion is moving rapidly in this direction, and many companies have as a matter of policy and wisdom withdrawn from acquiring deposits except in exchange for the time debentures of the company.

Thus far, the record of the land mortgage companies in Canada is excellent. Very few have failed, and in no instance have the creditors not been paid in full.

A statement taken from the article referred to is appended, to show the volume of business as far as it is disclosed by the imperfect returns at the Author's disposal. The reader's attention is drawn to the fact that while the deposits of Canadian banks are all practically made by Canadians, the land mortgage companies have, out of deposits amounting to about \$80,000,000, borrowed about \$50,000,000 in foreign countries, which, in the main, means Scotland.

PROVINCES.	Number of Companies.	Capital Stock Subscribed.	Capital Stock Fully Paid Up.	Amount		Accumulating Reserve Stock.	Dividends Declared and Unpaid.	Pro Ac Sto
				Paid on Capital Stock Not Fully Paid Up.	Stock.	Fund.		
Ontario	72	\$87,345,402	\$18,985,228	\$13,980,683	\$690,732	\$10,397,000	\$989,488	\$4
Quebec	8	6,220,249	955,960	1,422,880	86,057	523,855	47,265	19
Nova Scotia	2	201,000		100,500	616,548	10,000	2,512	
Grand Total	82	\$93,766,651	\$19,941,188	\$15,504,063	\$1,393,337	\$10,930,856	\$1,039,266	\$6
Liabilities of the Scottish-American Investment Company (Limited) not included.								

#### A—CURRENT LOANS SECURED ON.

PROVINCES.	Number of Companies.	Real Estate.	Dominion Securities.	County or City Securities.	Township, Town, or Village Securities.	School Section Securities.	Loan Companies' Debentures.	Loans to Shareholders on their Stock.
Ontario	72	\$100,782,388		\$276,478	\$232,163	\$8,493	\$17,174	\$671,214
Quebec	8	9,152,712			1,000			82,934
Nova Scotia	2	981,458						
Total	82	\$110,916,559		\$276,478	\$233,163	\$8,493	\$17,174	\$754,149

#### SAVINGS-BANKS.

In considering the savings-banks of Canada it is first necessary to bear in mind that they represent the savings to a moderate extent only of those who have money upon which they desire to earn interest, but which they prefer to intrust to a bank rather than invest in a specific security; in other words, the savings-bank class of depositors. Upon deposits of this class, no matter how small in amount, the ordinary Canadian banks are prepared to pay interest, and the banks, with few exceptions, have what are called savings-bank departments. Without estimating what proportion of the total deposits in the ordinary banks is of this character, it would be impossible to make use of the figures as evidence of the saving habits of the people.

Before confederation there were a few incorporated savings-banks in Lower Canada (Quebec) and Upper Canada (Ontario), but in the maritime provinces Government savings-banks had been established; not, however, on the plan of the post-office savings-banks of Great Britain. When the first Finance Ministers of the new Dominion came to face their financial difficulties, one of the expedients resorted to, in addition to the issue of legal tenders, was the establishment of post-office savings-banks, in the main following the plan in force in Great Britain. The Government also took over the provincial savings-banks already in operation in the maritime provinces, and it still carries on the two systems of savings-banks, although they are gradually being merged into a uniform post-office system. The incorporated savings-banks in the meantime have either taken on the powers of land mortgage banks or have practically disappeared, with the exception of two powerful institutions in Quebec, one at Montreal and one at Quebec City. We append a table taken from Mr. Morris' article, which shows at once the growth since confederation and the division between the three classes of savings-banks. The third column consists almost entirely of the deposits of the two incorporated savings-banks in the province of Quebec already mentioned:

Year Ended June 30th.	Post-office Savings-banks.	Other Government Savings-banks.	Special Savings-banks.	Totals.
1868	\$204,589	\$1,683,219	\$3,369,799	\$5,057,607
1869	856,814	1,694,525	3,960,818	6,412,157
1870	1,588,849	1,822,570	5,369,103	8,780,522
1871	2,497,260	2,072,037	5,766,712	10,336,009
1872	3,096,500	2,154,233	5,557,126	10,807,859
1873	3,207,052	2,958,170	6,768,662	12,933,884
1874	3,204,965	4,005,296	6,811,009	14,021,270
1875	2,926,090	4,245,091	6,611,416	13,782,579
1876	2,740,952	4,303,166	6,519,229	13,563,347
1877	2,639,937	4,830,694	6,054,456	13,525,087
1878	2,754,484	5,742,529	5,631,172	14,128,185
1879	3,105,191	6,102,492	5,494,164	14,701,847
1880	3,945,669	7,107,287	6,681,025	17,733,981
1881	6,208,227	9,628,445	7,685,888	23,522,560
1882	9,473,661	12,295,001	8,658,435	30,427,096
1883	11,976,237	14,242,870	8,791,045	35,010,152
1884	13,245,553	15,971,983	8,851,142	38,068,679
1885	15,090,540	17,888,536	9,191,895	42,170,971
1886	17,159,372	20,014,442	9,177,132	46,350,946
1887	19,497,750	21,334,525	10,092,143	50,924,418
1888	20,689,033	20,682,025	10,475,292	51,846,350
1889	23,011,423	19,944,934	10,761,061	53,717,419
1890	21,990,653	19,021,812	10,908,987	51,921,452
1891	21,738,648	17,661,378	10,982,232	50,382,258
1892	22,298,402	17,231,146	12,236,100	51,765,648
1893	24,153,194	17,696,464	12,823,836	54,673,494

Whether the plan is destined to be permanent which was first adopted in Great Britain, and which has now spread to so many countries, of the Government taking the money of the people and allowing interest thereon, is beyond the scope of our inquiry. It has involved Great Britain in many very serious difficulties, and it cannot fail to cause considerable trouble to any government which endeavors by such means to occupy the place of bankers. But in Canada the reason moving the Finance Minister in 1867 was not philanthropical—he merely wanted money—and for many years it was a means of borrowing from the people—the rate of interest being higher than first-class banks could afford to pay. Even now, the rate paid is three and a half per cent. per annum, which is higher than the rate ordinarily paid by banks. For this rate no justification can be found. The Government is now in the highest grade of credit among British dependencies, and only two or three nations in the world can borrow at lower rates of interest, so that when to three and a half per cent. per annum is added the cost of maintaining about forty special offices and of gathering money at over 700 post-offices, the rate cannot be justified by any argument based upon the mere value of money. Theoretically, the intelligent and well-to-do are not supposed to take



advantage of this species of public bonus given to encourage habits of saving, and of this paternal care intended to avert loss to depositors who lack intelligence. Therefore there is a limit (\$1000) to the amount to be deposited in any single year, and another limit (\$3000) to the total, which may stand at the credit of any one name. When this maximum is reached, however, if the depositor is not clever enough to adopt expedients for depositing his money in the name of another, he can convert his deposit into some other form of Government obligation, such as inscribed stock, and begin to deposit in the savings-bank again.

## DOMINION NOTE ISSUES.

It will be remembered that when legal-tender notes were authorized, under the Dominion Note Act, to replace those formerly issued under the Provincial Note Act, the limit was placed at \$9,000,000, issues in excess being permitted if an equal amount of gold was reserved. From time to time, however, the Government extended the limit of these notes, secured only in part by gold (with a minimum requirement of fifteen per cent. and Government bonds for the balance), until it was fixed at \$20,000,000. But while these later issues were partly the result of the increase of the requirements of the country in change-making notes (those of smaller denominations than five dollars), they were mainly caused by the requirements of the banks in notes of large denominations used for making settlements, and therefore the Government found it expedient to keep much larger gold reserves than those named in the act. Now that the issues are likely to exceed considerably the limit of \$20,000,000, the act has been amended and the Government has definitely avowed its purpose of keeping an equal amount of gold for all issues in excess of the limit named. With the growth of the change-making notes, which cannot well be presented for redemption on the one hand, and the increasing stock of gold as the issues reach higher figures, almost all danger from this bad system of financing will pass away, and Section 50 will, we hope, some day be removed from the Bank Act.

The statement below shows the amount of notes in circulation at the close of each of the months ending with March 31, 1896. It will be observed that about two-thirds of the entire issue is in large notes used almost alone by banks for settlement purposes. At the request of the banks the Government has consented to issue a special form of legal-tender note, negotiable only between chartered banks, in order to lessen the risk of loss by carrying large amounts to and from the clearing-houses or from bank to bank, and the danger of robbery or fraud in any other manner, always incident to notes payable to bearer. If, as it is hoped by many, this results in the conversion of the major part of the notes of high denominations now payable to bearer into notes only negotiable between banks, it will be made evident to all that the functions of the Dominion Note Act are sharply separated under two heads.

1st. To provide for the community, including the banks, the change-making notes required for the transaction of the business operations of the country, of which at any one time no considerable proportion could be presented for redemption.

2d. To issue notes of large denominations, almost all of which are held by the banks.

	1895. 31st October.	1895. 30th November.	1895. 31st December.	1896. 31st January.	1896. 29th February.	1896. 31st March.
Fractionals	\$222,211 25	\$222,276 25	\$221,855 25	\$221,437 25	\$222,096 75	\$223,616 75
\$1 and \$2	7,312,917 00	7,325,053 00	7,217,448 00	6,739,916 00	6,653,935 50	6,606,965 50
\$4	375,186 00	375,176 00	354,664 00	330,828 00	337,236 00	344,682 00
\$5, \$10, and \$20	8,845 37	8,845 37	8,845 37	8,845 37	8,840 37	8,835 37
\$50 and \$100	228,100 00	242,450 00	252,150 00	235,250 00	210,250 00	209,150 00
\$500 and \$1000	14,746,000 00	14,704,500 00	14,358,500 00	12,148,000 00	11,440,000 00	11,398,500 00
Total	\$22,893,259 62	\$22,878,300 62	\$22,413,462 62	\$19,684,276 62	\$18,872,358 62	\$18,791,749 62
Fractional notes	\$223,616 75	Specie held by the several Assistant Receivers-General on the 31st March, 1896				\$7,049,897 33
Provincial notes	29,512 87	Guaranteed sterling debentures, £400,000 sterling				1,946,666 67
Dominion ones and twos	6,589,438 00					
Dominion fours	344,682 00	Total				\$8,996,564 00
Montreal large notes	5,970,100 00					4,697,937 40
Toronto large notes	3,346,400 00	Specie and guaranteed debentures to be held under the Revised Statutes of Canada, cap. 31, as amended by 58-59 Vic, cap. 16—25 per cent. on				
Halifax large notes	659,500 00	\$18,791,749 62				4,697,937 40
St. John large notes	1,089,500 00					
Winnipeg large notes	177,000 00	Excess of specie and guaranteed debentures				\$4,298,626 60
Charlottetown large notes	146,000 00					
Victoria large notes	216,000 00					
Total	\$18,791,749 62	Unguaranteed debentures				\$17,250,000 00
		Unguaranteed debentures to be held under the Revised Statutes of Canada, cap. 31, as amended by 58-59 Vic., cap. 16—75 per cent. on				14,093,812 22
		\$18,791,749 62				
		Excess of unguaranteed debentures				\$3,156,187 78
		SUMMARY.				

Excess of specie and guaranteed	\$4,298,626
sterling debentures	60
Excess of unguaranteed	3,156,187
debentures	78
Total excess	\$7,454,814
	38

Insolvent Banks and those having gone into Liquidation since Confederation, 1867.

Name of Bank and Place of Head Office	Date of Charter.	Date of Suspension	Capital Stock at Date of Suspension. Capital Subscribed.	Capital Paid Up.	Total Assets at date of Suspension	Total Liabilities at date of Suspension	Dividends Paid. Note-holders. Per cent.	Depositors. Per cent.
1. Commercial Bank of New Brunswick, St. John	Local, before confederation	Last ret'n July, '68	\$600,000	\$600,000	\$1,222,454	\$671,420	In full.	In full.
2. Bank of Acadia, Liverpool, N. S.	35 Vic., ch. 55, June 14, 1872	April, 1873	500,000	100,000	213,340	106,914		
3. Metropolitan Bank, Montreal	34 Vic., ch. 39, April 14, 1871 {	Winding-up Act passed 40 Vic., ch. 56 (1877), ret'n Oct. 1876 }	1,000,000	800,170	779,225	293,379	In full.	In full.
4. Mechanics' Bank, Montreal	Before confederation	May, 1879	243,374	194,794	721,155	547,238	57½	57½
5. Consolidated Bank, Montreal {	Sept. 18, 1875, by amalgamation of City Bank and Royal Canadian, 69 Vic., ch. 44 }	August, 1879	2,091,900	2,080,920	3,077,202	1,794,249	In full.	In full.
6. Bank of Liverpool, Liverpool, N. S.	34 Vic., ch. 42, April 14, 1871	October, 1879	500,000	470,548	207,877	136,480	In full.	In full.
7. Stadacona Bank, Quebec	35 Vic., ch. 58, June 14, 1872 {	Voluntary liquidation July, '79 Winding-up Act, 43 Vic., ch.	1,000,000	991,890	1,335,675	341,500	In full.	In full.

\* The figures for the Banque du Peuple are as at July 31, 1895, sixteen days after actual date of suspension. The notes in circulation at the time of preparing this statement (May, 1896) had been reduced below the sum (\$41,090) held by the Government as the share of the Bank Circulation Redemption Fund deposited by the Banque du Peuple, and which will be returnable to the failed bank proportionately as the remaining notes are redeemed. For this reason we have referred to the bank in the above statement as having paid its note-holders in full.

		48 (1880)							
		}							
8. Exchange Bank of Canada, Montreal	34 Vic., ch. 42, April 14, 1871	September, 1883	500,000	500,000	3,335,907	2,431,935	In full.	In full.	
9. Maritime Bank of the Dominion of Canada, St. John, N. B.	35 Vic., ch. 58, June 14, 1872	March, 1887	321,900	321,900	1,825,993	1,409,482	In full.	10 6-10	
10. Pictou Bank, Pictou, N. S.	36 Vic., ch. 76, May 23, 1873 {	Under Act 50 Vic. ch. 54, Sep. '87 }	500,000	200,000	277,017	74,364	In full.	In full.	
11. Bank of London in Canada, London, Ont.	46 Vic., ch. 52, May 25, 1883	August, 1887	1,000,000	241,101	1,132,118	838,339	In full.	In full.	
12. Central Bank of Canada, Toronto	46 Vic., ch. 50, May 25, 1883	November, 1887	500,000	500,000	3,231,518	2,631,378	In full.	99?	
13. Federal Bank of Canada, Toronto; changed from the "Superior Bank of Canada" {	35 Vic., ch. 59, 36 Vic., ch. 5, 37 Vic., ch. 57, May 26, '74 {	Vol'tary liquidation Jany. 1888 }	1,250,000	1,250,000	4,869,113	3,449,499	In full.	In full.	
14. Bank of Prince Ed. Island, Charlottetown, P.E.I.	Local charter by Provincial Gov.	November, 1881							
15. Commercial Bank of Manitoba	47 Vic., ch. 50, April 19, 1894	June 30, 1893	740,700	552,650	1,951,151	1,341,251	In full.	80 to date	

\* The figures for the Banque du Peuple are as at July 31, 1895, sixteen days after actual date of suspension. The notes in circulation at the time of preparing this statement (May, 1896) had been reduced below the sum (\$41,090) held by the Government as the share of the Bank Circulation Redemption Fund deposited by the Banque du Peuple, and which will be returnable to the failed bank proportionately as the remaining notes are redeemed. For this reason we have referred to the bank in the above statement as having paid its note-holders in full.

16. Banque du 7 Vic., ch. 66, July 15, \*1,200,000 1,200,000 8,663,308 6,820,450 In full.  
Peuple June 27, 1844 1895

\* The figures for the Banque du Peuple are as at July 31, 1895, sixteen days after actual date of suspension. The notes in circulation at the time of preparing this statement (May, 1896) had been reduced below the sum (\$41,090) held by the Government as the share of the Bank Circulation Redemption Fund deposited by the Banque du Peuple, and which will be returnable to the failed bank proportionately as the remaining notes are redeemed. For this reason we have referred to the bank in the above statement as having paid its note-holders in full.

## BANK FAILURES.

Although we have not been able to follow in detail the incidents showing the growth and fortunes of banking since confederation, we present in the preceding table a statement of the bank failures during the period 1867 to 1896.

Leaving out of consideration the Bank of Prince Edward Island, the provincial charter of which had not expired when it suspended, and which was not therefore a bank doing business under the Dominion Act, we find that out of fifteen failures, nine banks paid both note-holders and ordinary creditors in full, and four more paid note-holders in full. Of the four who paid note-holders in full but not ordinary creditors, one, the Commercial Bank of Manitoba, has paid eighty per cent. to ordinary creditors, and is still in process of liquidation. Another, the Central Bank of Canada, paid to ordinary creditors all but one-third of one cent in the dollar, and would certainly have paid all claims in full had not the liquidators been allowed quite too large fees for their services. A third, the Banque du Peuple, is now being liquidated, and it would not be proper for the writer to express at the present time an opinion as to the dividend the ordinary creditors are likely to receive. The point to be observed is, that it is a bank with an abnormal charter, under which there is no double liability on the part of the stockholders, although there is an unlimited liability on the part of the directors, and the results of its failure do not concern us in estimating the value of the present system. The remaining bank, which paid its note-holders but not its ordinary creditors, was the Maritime Bank of St. John, N. B. Its record is very bad. The claims of the Dominion and Provincial Governments, which rank next to the note-holders', were paid in full, but the ordinary creditors received only 10.60 per cent. of their claims. The double liability failed to produce one-half of the face value of the shares at the time of suspension.

We have now left for consideration two banks which have paid neither note-holders nor ordinary creditors in full, and the fact that note-holders were not paid is, of course, of prime importance. Whatever care it may be possible for the State to take for the protection of depositors, no system, so far as the writer is aware, professes to do so absolutely, while it may be asserted that no system approaches perfection which does not absolutely protect the note-holder. The two failures referred to took place at a time when the notes were not a first lien on the estate of the bank, although it will be remembered that the bankers had suggested that the law be so made. When the Mechanics' Bank was wound up, only fifty-seven and one-half per cent. was paid to note-holders and other creditors, and at the next revision of the act the change referred to was made. The other, the Bank of Acadia, has been described as a fraudulent affair,

and it stands out conspicuously as an evidence of the value of two features of the present act—that a new bank shall have a sufficiently large capital to make it reasonably clear that it is a *bona fide* venture, and that the capital in actual cash shall be paid into the office of the Finance Minister before permission to begin business is granted. This bank had nominally a capital of \$500,000 subscribed, and \$100,000 paid up, but there appears to have been no real capital, or practically none. It existed for four or five months, paying a commission to float its notes, and then failed. Its notes had been redeemed by a bank correspondent, but to what extent they were in circulation at the moment of failure, or whether any dividend was paid, the writer, after several efforts, cannot learn.

To sum up the evidence from the foregoing facts, it appears that if the Bank Act had assumed its present shape at the time of confederation no holder of a Canadian bank note would have suffered loss.

## RETURNS TO GOVERNMENT.

We will now close this study of Canadian Banking by appending a copy of the latest Government return, in the form in which it is condensed for the readers of the “Journal of the Canadian Bankers’ Association.” The writer once more expresses the hope that the comparatively unimportant scope of Canadian banking will not cause any reader to lay less stress upon the principles set forth. It does not, however, follow that a system of banking which suits admirably the environment in which it is placed can be transplanted. In banking, the most cherished dogma of one country may be rank heresy in another. The main point is that the Canadian banker has spent his energy to make perfect that which he had, rather than to

“Seek painted trifles and fantastic toys,  
And eagerly pursue imaginary joys,”

and that the people of Canada are satisfied that the result is good.

*Statement of Banks Acting Under Dominion Government Charter for the Month ending March 31, 1896.*

LIABILITIES.

	March, 1895.	March, 1896.
Capital authorized	\$73,458,685	\$73,458,685
Capital paid up	61,688,839	62,196,536
Reserve fund	27,350,674	26,458,799
Notes in circulation	\$ 29,414,796	\$ 30,789,457
Dominion and Provincial Government deposits	9,543,430	6,316,801
Public deposits on demand	63,452,044	59,874,493
Public deposits after notice	114,417,688	120,699,562
Bank loans or deposits from other banks, secured	80,153	20,500
Bank loans or deposits from other banks, unsecured	2,791,222	2,502,104
Due other banks in Canada in daily exchanges	180,815	83,321
Due other banks in foreign countries	167,965	135,817
Due other banks in Great Britain	4,137,789	5,052,394
Other liabilities	366,165	596,296
Total liabilities	\$224,552,151*	\$226,070,832

ASSETS.

Specie	\$8,058,599	\$7,797,099
Dominion notes	15,071,091	12,737,996
Deposits to secure note circulation	1,810,736	1,816,011
Notes and cheques of other banks	6,056,477	6,341,636
Loans to other banks, secured	80,153	15,500
Deposits made with other banks	3,284,390	3,273,695
Due from other banks in foreign countries	21,214,061	16,400,267
Due from other banks in Great Britain	4,113,422	4,417,380
Dominion Government debentures or stock	2,685,139	2,991,549
Public municipal and railway securities	18,736,605	19,877,893
Call loans on bonds and stocks	17,279,287	13,849,628
Loans to Dominion and Provincial Governments	1,479,932	462,743
Current loans and discounts	199,086,112	211,603,718
Due from other banks in Canada in daily exchanges	136,754	107,153
Overdue debts	3,042,985	4,344,192
Real estate	1,062,473	1,485,358
Mortgages on real estate sold	560,788	582,288
Bank premises	5,510,838	5,655,524
Other assets	2,019,553	1,931,452
Total assets	\$311,289,599	\$315,691,276
Average amount of specie held during the month	\$ 8,050,859	\$ 7,780,843
Average Dominion notes held during the month	15,296,161	12,787,159
Loans to directors or their firms	7,653,882	7,936,789

\* In this statement the cents are omitted.



Greatest amount of notes in circulation during month 30,312,847      31,521,232

\* In this statement the cents are omitted.

[\*] Other money-dealers, who seem to have speculated principally in exchange and in coins, the Templars, were, like the Jews, and to even a greater extent, victims of their wealth. The tragic end of their Grand-Master, Jacques de Molai, and his companions is a familiar story the world over.

[\*] Victor de Swarte, "Samuel Bernard Sa Vie, Sa Correspondance."

[†] M. de Swarte has found among the correspondence of Samuel Bernard a very interesting document, rates of exchange dating from 1732, which we reproduce: Paris exchange, on Brussels, 54 per cent.; London, 75 5-8, Amsterdam, 72 1-8; Hamburg, 65; Copenhagen, 64 7-8; Stockholm, 35 3-4; St. Petersburg, 84 11-16; Dantzic, 46 1-2; Berlin, 44; Brunswick, 42; Munich, 37 2-3; Vienna, 40 2-3; Ratisbonne, 42 1-4; Mayence, 43; Geneva, 78; Turin, 25 1-8; Genoa, 80 3-8; Venice, 64 1-4; Rome, 66 1-3; Milan, 70 1-8; Florence, 70 1-8. Nothing could exhibit in a stronger light the wretched state of monetary circulation in France at that time than a simple quotation of these rates of exchange. In our day we could not find such premiums short of the Argentine Republic. These rates cannot have been stable, and bankers must have made large sums from arbitrage transactions, of which only they held the key.

[\*] This practice of calling him Lass arose from the fact that people in France spoke continually of Law's System, which finally became corrupted into Lass System.

[\*] "*Law, Son Système et Son Époque.*"

[\*] "Each share of the Caisse d'Escompte is registered in the great book (grand livre) of the Republic for 154 livres (francs) annual income, representing a total of 3080 livres. These shares are an item in the pending settlement, which makes them practically worth about 3200 livres each. By the plan proposed, shareholders of the Caisse d'Escompte will transfer this entire value to the bank, with running interest owed by the Treasury, and 200 livres in coin besides. Each share of the Caisse d'Escompte will represent five shares of the bank, but these old shares will constitute a special class enjoying only assured semi-annual interest at the Treasury rate, and are not to participate in the dividends of the bank until after the new subscribers shall have received four per cent. annual dividends, to be distributed among them as a first obligation of the bank's."

[†] The properties to be transferred by the Government and sold by the bank were the "public domains" already alluded to—chiefly the confiscated estates of the Royalists.—Editor.

[\*] Comparing this amount with the 93,000,000 francs mentioned in the foregoing paragraph, it is to be inferred that the 93 millions includes paper rediscounted, while the 98 millions is exclusive of rediscounted bills.—Editor.

[\*] Most of the foregoing data have been taken from a pamphlet published by the Comptoir National d'Escompte.

[\*] Paper admitted to discount must have the signatures of two persons known as solvent, of whom at least one must be a resident of Algeria. Paper must not be of longer maturity than 100 days. One of the signatures asked for may be supplied by the remittance of a bill of lading for merchandise shipped to Algeria, or by a public warehouse receipt. In such cases the paper cannot have more than 60 days to run.

[\*] The business year of the colonial banks runs from July 1st to June 30th, only the Bank of Indo-China's business year runs from January 1st to December 31st. The figures given for this bank refer to the year 1881 and forward.

[\*] "*Documenti storici concernenti il Banco di Napoli.*"

[\*] Mr. Wirth is the author of the treatises in this work on the History of Banking in Germany and in Austria-Hungary.—Editor.

[\*] The *lei*, or *leu*, is the monetary unit of Roumania; equal in value to the franc. The monetary standard of the country is gold.—Editor.

[\*] *Directeur du Mouvement des Fonds.*

[\*] See end of Essay.

[\*] See chart at the end of this Essay.

[\*] The substance of this admirable Essay originally appeared in the "*Revue des Deux Mondes.*" In the form in which it is here presented, the brochure has been extended and amended by M. Raffalovich.—Editor.

[\*] "*Die Entwicklung des Bankwesens In Elsass Lothringen seit der Annexion,*" von Dr. K. von Lumm. Jena, 1891.

[\*] The purchase of securities is an important item in Alsace-Lorraine, for the newcomers into the country prefer to transact their dealings in these with the Reichsbank, especially as the native bankers have little acquaintance with German securities.

[\*] 4 thalers = 7 florins = 15 francs.

[\*] The 2776 million loan was made on July 27, 1871.

[†] An arbitrage broker, for example, would turn in 8000 thalers in five-franc pieces at the rate of 3.75 at the branch of the Bank at Strasburg, and have them transferred to a Berlin banker. These 30,000 francs in French silver at the rate of 77¾ were worth only 7775 thalers; there remained, therefore, a profit of about 222 thalers on the transaction.

[\*] Small tradesmen at first refused to keep their accounts in marks, but they have become accustomed to this course since it has been obligatory that the prices ticketed upon goods in the shops should be in marks. They begin to see that it is puerile to reckon the mark at 1 fr. 25.

[†] These provinces took an important part in the subscription to the five per cent. French loan.

[\*] To obtain the opening of an account current it is necessary merely to address a formal demand to the directors, upon which they pass, and upon their approval the depositor receives a copy of the rules and a pass-book to contain a statement of the sums paid in and drawn out, as well as an entry of the credits arising from the discount or collection of bills. The Bank accepts deposits in specie from persons having no accounts current to the credit of those who have such.

[\*] In Alsace-Lorraine, the following had accounts current on December 31, 1890. 2 civil authorities, 35 military authorities, 44 individuals, 141 industrial establishments and commercial houses, 37 money-brokers, 27 sutlers, making 286 in all. The deposits and payments upon accounts current were 318 millions of marks in 1876, and 1467 millions in 1889, whereas for the whole Empire the increase was from 16,611 millions to 75,676 millions. The proportion then was about the same.

[\*] They were the houses of Ed. Klose & Co., L. Grouvel & Co., Léon Blum Auscher, and F. Bastien & Co., which had been intrusted with the payment of arrearages of French rentes and pensions for Government account.

[\*] On December 31, 1891, the Crédit Foncier held bills and acceptances to the amount of 6,000,000 marks, it had also 7,000,000 marks in public securities—loans to the Empire and the German States, and city bonds.

[\*] The historical statement is true.

[\*] The first monograph on the card money in England with which I am acquainted is that of the late James Stevenson, "Currency, with Reference to Card Money in Canada During the French Domination," Transactions Literary and Historical Society of Quebec, 1875. To it is subjoined a copy of the convention of 1766 for the liquidation of the Canada paper money. A much more exhaustive monograph appeared in 1893, by Mr. R. M. Breckenridge, entitled "The Paper Currencies of New France," *Journal of Political Economy*, Chicago. In it references are made to all French and English sources of information.

[\*] As a matter of fact it did issue notes, specimens of which the writer has seen, but they doubtless had a very limited use.

[\*] Readers desirous of studying more exhaustively the period during which the country was without paper money and the coins of several foreign countries were a legal tender should consult the second monograph by the late James Stevenson, entitled "The Currency of Canada after the Capitulation," Transactions of the Literary and Historical Society of Quebec, 1877; and for the army-bill issues the third

historical monograph by the same gentleman, entitled “The War of 1812 in Connection with the Army-bill Act,” published by W. Foster Brown & Co., Montreal, 1892.

[\*] In 1857 the decimal currency was adopted in Canada, and hereafter sums of Canadian money are expressed in dollars.