

PRACTICES OF WORLD'S BANKS

Redemption of Notes—As to Reserves—Value of the Branch System

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III.—REDEMPTION OF NOTES.

(a) Bank of England.

In accordance with Peel's Act an arbitrary amount of notes was issued against Government securities in the custody of the bank. The remainder of the circulation is just what it would be if it were composed of gold exclusively, and there is, therefore, no need for a special provision for redemption.

(b) The Banks of Scotland.

There is a frequent redemption of notes through the Edinburgh clearing-house, and settlements are made between banks by drafts on London. No deposited security for bank notes has ever been required in Scotland, but note holders have a prior lien on the assets. Moreover, in some cases the liability of shareholders for note issues is unlimited.

The branches pay out only the circulating notes of the bank, which are redeemable at the Head Office.

(c) The Bank of France.

There is no special provision for redemption of notes.

(d) The Reichsbank of Germany.

The Reichsbank redeems its notes at Head Office or at any of its branches, there being no special provision for redemption.

(e) The National Banks of United States.

Each bank must maintain in the United States Treasury a redemption fund of "lawful money" equal to 5 per cent. of its note issue. Thus the Treasury is the sole redeeming agency outside of the bank itself.

(f) Canadian Banks.

All banks are required by law to make arrangements to insure the par value of their circulation in any and every part of Canada, and for this purpose to establish redemption agencies at the chief city of each of the seven provinces and at such other places as may be determined by the treasury board.

In practice the notes of the different banks are exchanged daily at the clearing houses in the larger cities. At other places they are exchanged between the nearest branches, and balances are paid either in Dominion notes or by drafts on the commercial centres. The notes remain in circulation on the average 30 days after each issue, the whole circulation being redeemed twelve times each year.

IV.—RESERVES.

(a) Bank of England.

The Bank of England is not required by law to keep any fixed percentage of reserve, but keeps such proportion as experience shows to be needful. It has found that its line of safety ranges between 33 and 47 per cent.

(b) Banks of Scotland.

The Scotch banks, as is the case with those of England, are not required by law to keep any fixed percentage of reserve. As the branches pay out only the notes of the parent bank, it is necessary to have real money only in one place. Thus the maximum of business is done with the minimum of gold, and usually the gold held by the banks is not more than 5 per cent. of their deposits.

(c) The Bank of France.

The cash reserve to be held is fixed by the bank itself. Conant says: "By the force of circumstances, rather than by positive legislation, the Bank of France has been made the storehouse for a vast mass of specie, conveniently represented in circulation by bank notes, and thus holds in its charge a large part of the currency of the country. As a specie thus held becomes in fact a reserve protecting all the cash liabilities of the bank, it is clear that it is an effective safeguard against ordinary chances of an insufficient banking reserve, and that the Bank of France thus secures great steadiness of movement in its ordinary operations in compensation for the heavy responsibility thrown upon it. Demands which would otherwise be a serious drain upon its banking resources make no sensible impression upon a reserve so greatly disproportionate, and the bank can often afford to wait for the tide to turn in its favor under circumstances which would compel its neighbors in England or Germany to use every effort for immediate self-protection."

(d) The Reichsbank of Germany.

As I said above, there is a limit fixed to the amount of notes which can be issued and not covered by cash—all in excess of this limit being taxed 5 per cent. But it is also required that the cash held (exclusive of the notes of other banks) shall in any cases be equal to at least one-third of the total circulation, and that the remainder shall be protected by discounted paper, having not more than three months to run. The notes issued under this system thus rest upon a solid basis of specie; but in addition, the presence of an ample specie circulation in the country is secured by a provision prohibiting the issue of any notes of lower denomination than 100 marks.

(e) The National Banks of United States.

Banks in "Central Reserve" cities (New York, Chicago, St. Louis) are required to maintain a "lawful money reserve" equal to 25 per cent. of deposits. Banks in other "reserve cities" must also maintain 25 per cent., but their deposits in the national banks of the central reserve cities may be counted as one-half this amount. In all other places the banks are required to hold a 15 per cent. reserve, three-fifths of which may consist of deposit accounts in banks in central reserve cities or other reserve cities. In all cases the funds kept by the banks with the United States treasurer for the redemption of their notes are counted as part of their legal reserves.

"Whenever the reserve falls below the prescribed limit, the bank shall neither increase its liabilities by making any new loans or discounts otherwise than by the purchase of sight bills of exchange, nor shall it make any dividend until the reserve has been restored to its due proportion."

(f) Canadian Banks.

Canadian banks are required by law to keep 40 per cent. of their cash reserves in Dominion notes, but this law, while obligatory, is now practically of no consequence, since the banks, as a matter of convenience, hold much more than 40 per cent. in this form.

V.—BRANCH SYSTEM OR OTHERWISE.

(a) The Bank of England.

Dunbar, referring to the English system, says: "The private banking houses have steadily declined in number."

On the other hand, the joint stock and limited companies have grown rapidly in the last two generations, both in relative and absolute importance. They have felt the strong tendency to concentration which marks the closing years of the century, and by consolidations have even diminished their number, but with a vast increase, not only of individual, but of aggregate importance. At the same time, by the establishment of branches they have everywhere brought themselves into close contact with the general commercial life of the country, so that most of the banking of English trade and commerce is now carried on by their agency.

"The Bank of England, on the other hand, having established eleven branches before the year 1830, has gone no further in that direction. It enters into little competition with its younger neighbors for the business which is offered by the growing industry and wealth of the nation, but is satisfied with the scope which its position as the head of the banking hierarchy affords for employing its capital and the energies of its managers."

(b) The Banks of Scotland.

White, in his "Money and Banking," says: "One feature of the Scotch banking is its remarkable development of the branch system by which deposits are secured from every nook and corner of the country and by which capital is transferred easily and quickly to the places where the demand for it is greatest. There are twelve banks in Scotland, and they have 1,065 branches. The system has been so developed and extended that banking facilities reach every town and hamlet in the land. Whatever assistance banks can give to industry is available to the poor and to the rich on equal terms. In no other country has the principle of equality in bank favors been carried further. In no other has greater pains been taken to bring them to the poor man's door."

(c) The Bank of France.

The law requires the Bank of France to maintain at least one branch in each department of France. In many places too small to support a branch with the usual complement of officers and employers, the bank maintains subsidiary offices.

The branches of the Bank of France are very ill adapted to local wants. Dunbar says: "A branch of the Bank of France has a capital allotted to it by the bank, and is then required to carry on its business strictly under the supervision of the latter, and without engaging in any operation with other branches, except by special leave, so that its business, even to the rate of discount, is directed by a policy settled at Paris and not with reference to local wants. It has a board of directors selected by the governor of the bank, from a list of candidates in some cases made up at Paris and in some by local stockholders, where the latter represent half