

BANKS AND BANKING.

(Written for THE CONSERVATIVE by John W. Steinhart, cashier of the Otoe County National Bank of Nebraska City).

The word "bank" is supposed to be derived from the Italian word "banco" for "bench," the Lombard Jews having benches in the market place where they exchanged money and bills. When a banker failed, his bench was broken by the people and he was called bankrupt.

A banker, says Gilbart, "is a dealer in capital, or more properly, a dealer in money." He is an intermediate party between the borrower and the lender. The difference between the rate received by the banker for the use of money loaned by him and the rate he has to pay for it is his profit. In saying a dealer in "money" a broad definition is given to money. It does not mean what is actually called money, that is, what is issued by the government, or the banks, but the money also that is made from day to day serving the purpose for which it was created and then passing away. It is created by the banker in his drafts and bills of exchange, the shipper, the manufacturer and the merchants by their sight drafts, acceptances and checks; thus my meaning is to include everything that does the work of money, be it coin, banknote, draft, bill of exchange or checks. All of which except coin are titles to property.

Banks must have an origin. They are not creatures of instantaneous growth, neither schemes of the rich to oppress the poor, as was largely preached in our past campaign. They are surely born of necessity and it may be interesting to go backward and trace the process from its early crude beginning to its present almost perfect condition.

The middle ages were commercially dead. Feudalism was the only form of government, the isolated group was its main feature and carried out to its fullest extent, little intercourse was allowed or desired. Such a condition would not call forth any plans for the exchange of products. Gradually as the system died away, gradually did the freer exchange of products occur first between landed estates, then neighboring towns and cities, later on between different countries.

At this time the Jews were the ostracised people. They had no standing with any nation in Europe and it was but natural with the hands of all against them, that they should look to themselves for help and support, and band themselves together for survival against the universal fight against them.

The force of circumstances made them also the first money lenders. The Christian church forbade the taking of interest on a loan of money. The Jewish scripture forbade the taking of interest from a Jew, but did not forbid taking interest from a Gentile, so in a short time there grew up an extensive system of money loaning by the Jew to

the Gentile, and thus we trace to the Jew the beginning of the modern system of credit and banking. The course of business at this time was from the East to the West, from Italy to German towns, to Holland and England. Merchants found it much safer to send their payments by letter of credit than by the transmission of actual money. The first letter of credit was merely a request for payment from one friend to another. Finally, with increased business, regular systems were inaugurated as early as A. D. 808. Lombard Jews settled in Lombard street, London, where many bankers still have their place of business.

The crusade was the cause of a great development of business of the East with the West. The crusader found the Saracen was not the brute he imagined. He found much to learn. He purchased of his goods and products and in turn sold him the products of the West; this interchange made great developments in the system of commercial credits. With the cutting off of the trade of the East and the discovery of the New World, we find business drifting into Spain, Holland and finally England.

The earliest public bank in Europe was that founded in Venice in 1171. When first founded it was merely a transfer office. The state was forced to make a levy on its citizens, every citizen contributing a hundredth part of his possessions and receiving interest at 5 per cent thereon. This transfer office attended to the recording of said loans, assigning and paying interest on the same. Gradually, however, it drifted into the business of receiving the coins of the government and issuing certificates or receipts for the same, they passing at par and oftentimes at a premium. This bank continued in existence until the invasion of France in 1797. Florence, Italy, was prominent in banking as early as the twelfth century, at one time having over 80 private bankers, but not a public bank.

The first public bank in Holland was organized in Amsterdam in 1607. At this time Holland had the trade supremacy of the world. All kinds of coin were in circulation and the merchants were greatly handicapped, as also under great tribute to the money changer; so the Bank of Amsterdam was organized by the city to correct this evil. All merchants were obliged to keep an account with the banks. It received coins from the depositors giving them credit at their bullion value. It kept the coins in their vaults issuing depositors' certificates of deposit, which certificates passed current.

A peculiar feature of this bank was that it kept all money received, being merely a bank of deposit; such a thing as loaning its funds not occurring to them.

The dates of the starting of state and government banks are almost a mile-

stone along the road of time, marking the steady and sure advance of civilization. First in the East, Venice, 1171; Geneva, 1345; Barcelona, 1401; Genoa, 1407; Amsterdam, 1607; Hamburg, 1619; Rotterdam, 1635; Stockholm, 1688; Bank of England, 1694; Scotland, 1695; Copenhagen, 1736; Berlin, 1765; United States, 1780; St. Petersburg, 1780; Ireland, 1783; France, 1800.

How they mark progress in commerce and civilization! England took its place in line in 1694. Previous to that time, banking was carried on by the Jews and goldsmiths. The goldsmiths carried on business on much more liberal lines than the Jews, and their new business was severely attacked by their competitors. The following passage will show the feeling towards them.

"The goldsmiths received the money, loaned the same at low rates of interest and made serious inroads in the business of the Jews. They issued promissory notes, payable on demand, or at certain dates, and they passed current in trade, they working up to the present system of banknotes.

"The goldsmiths deposited their surplus funds in the mint at the Royal Tower until Charles I seized the amount, some £30,000. This act almost wiped them out, but later on they again gathered strength, depositing their funds this time with the Royal Exchequer, and in 1672, Charles II being in want of money, seized the deposits, some £1,500,000 and never, until much later, repaying any of the amount, the amount that was paid being the first of the present debt of England. This last "forced" loan put an end to the goldsmiths' banking."*

At this time Holland was the commercial nation of the world, and England was planning in many ways to wrest the supremacy from her. Many arguments were advanced for a bank, showing how Holland prospered under one, and how England was handicapped. This agitation was continued for years.

To Wm. Paterson, a Scotchman, educated for the ministry, must be given the credit for the plan of the Bank of England. It was founded in 1694; at this time England was in sore financial straits; was much distressed for money; was paying interest at from 20 to 40 per cent and Paterson conceived the idea of loaning the government £1,200,000. Thus the Bank of England was organized; for England's need of money, as we will see later on, was the prime factor in the organization of the national bank system. England paid the bank 8 per cent on the £1,200,000 and £4,000 a year as reimbursement of the expense of handling the debt, the payment in all being £100,000. Such was the start of the Bank of England, today the most extensive

*See page 21 "Bank of England."